

Tyson Foods

Third Quarter 2022 Earnings

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CORPORATE PARTICIPANTS

Brandon Tucker – *Senior Manager*

Donnie King – *President and Chief Executive Officer*

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David Bray – *Group President, Poultry*

Shane Miller – *Group President, Fresh Meats*

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

PRESENTATION

Operator

Good morning, everyone, and welcome to the Tyson Foods Third Quarter 2022 Earnings conference call. All participants will be in a 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 questions. To ask a question, you may press star then one using a touchtone telephone. To withdraw your questions you may press star and two. Please also note, today's event is being recorded.

At this time, I'd like to turn the floor over to Brandon Tucker, Senior Manager. Sir, please go ahead.

Brandon Tucker

Hello, and welcome to the third 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, Shane Miller, Group President, Fresh Meats; Noelle O'Mara, Group President, Prepared Foods; David Bray, Group President, Poultry; and Chris Langholz, Group President, International, will join the live Q&A session. 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 will 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 the 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 will now turn the call over to Donnie.

Donnie King

Thank you, Brandon, and thank you to everyone for joining us for the call. Earlier today, we reported solid third quarter and year-to-date results. We continue to navigate through a complex and dynamic operating environment, and I'm grateful for the hard work and dedication of our team members. Our results would not have been possible without them.

At our Investor Day last year we shared three priorities with you: winning with team members, winning with customers and consumers, and winning with execution. And I'm pleased to say that we're making progress. For team members, our continuing investments are reducing turnover and improving staffing levels. For customers, our service levels are improving. Our execution, we're getting stronger, driving substantial savings and improving business results. I'm confident we're on the right track and recognize that there is more work to do.

Let me cover some highlights from the quarter. Our multi-protein portfolio enabled our business results. In the third quarter versus last year, we delivered substantially improved earnings in our chicken segment as well as higher earnings in prepared foods, which partially offset a decline in beef and pork earnings, and we continue to accelerate our productivity actions to improve efficiency across all segments. With our iconic retail brands, Tyson, Jimmy Dean, Hillshire Farms, and Ball Park, Tyson's core business lines outpaced total food and beverage, up 13% in

the last 13 weeks compared to pre-pandemic levels. We continue to be the market share leader in the majority of the retail core categories in which we compete.

While gaining share in both bacon and breakfast sausage, in six of the nine core business lines we grew share versus our second quarter. I was also pleased to see continued growth in our e-commerce channel, where approximately one in five US households bought a Tyson product during the past quarter, with e-commerce sales growing 15% versus last year. We're seeing some recovery in the foodservice channel with continued gains in quarterly sales.

In broadline distribution, we have seen specific strength in branded value-added chicken, breakfast sausage, and bacon. In this challenging economic environment, where our cost of goods has continued to increase, consumer demand for protein remains relatively steady. Our diverse portfolio allows us to meet customer and consumer needs across a broad range of products and price points, even as consumers shift between proteins and products.

Our balance sheet grew stronger, providing optionality to invest in growth across our portfolio and return cash to shareholders. We have a disciplined approach to deploying capital, with a focus on total shareholder return. Our year-to-date results clearly demonstrate that our diverse portfolio supports our growth objectives are growing faster than the overall market, improving operating margins, and driving strong returns for our shareholders.

Now for highlights from our financial performance. Sales improved 8% for the third quarter and 16% year-to-date compared to the prior period. Our sales gains were largely driven by higher average sales price in chicken and prepared foods. Average sales price increased in these segments in response to persistent increase in the cost of goods. Prices were lower in beef—in line with expectations—and pork segment versus the same quarter last year.

We delivered solid operating income of nearly \$1 billion because of our diversified portfolio. Year-to-date, we are up 15% over prior year. As expected, year-over-year third quarter earnings were lower as beef margins declined relative to a year ago, but still performed well in comparison to historical results. Overall, earnings per share came in at \$1.94 for the third quarter and \$7.10 year-to-date.

We remain confident our actions will improve our long-term volume performance. However, our total volume was down both for the quarter and year-to-date. We are focused on overcoming the supply chain challenges, running our plants full, and reducing our costs. Chicken volume is up year-to-date, driven by demand and operational improvements, but down for the quarter.

Lower quarterly volumes were driven by the fiscal year '21 fire at our rendering plant in Hanceville, Alabama as well as lower outside purchases of meat, chicks, and eggs. This was partially offset by increased levels of internal harvest versus the same quarter last year, and we expect internal growth to continue as we ramp up our bird supply. For the full year, we expect chicken to deliver 1% to 2% volume growth. In prepared foods, volumes are down 5.5% year-to-date due to supply chain challenges, uneven food service recovery, and the impact of increased pricing.

Note also that the divestiture of our pet treats business last year drives 1.2% of the total decline. Although retail volume is down, we maintained our market leadership positions. While the foodservice channel continues to recover, volume growth remains strong in the broadline distribution led by breakfast sausage and bacon.

In beef, volumes are down year-to-date but were up 1.3% versus the same quarter last year, and we continued to increase quarter over quarter due to higher head throughput and carcass weights.

In pork, volumes were down year-to-date by 2.1% because of limited hog supply and lower export demand. We expect tightness in live hog inventories and declining export demand to continue to impact volumes in the fourth quarter.

In the international/other segment, volumes are up 11.7% year-to-date and 21.9% versus the same quarter last year. Investments in capacity, innovation, and brands are supporting our market share growth. Volume growth was driven by our strengthening QSR and retail performance. Overall, our International business is growing both organically and inorganically. During Q4, we signed a joint venture agreement with Tanmiah Food Company in Saudi Arabia. This partnership will enable us to better serve our large global customers as well as expand our reach to new customers in the Middle East.

We're investing in new plants and expanding existing capacity across our global network. Eight plants are being constructed, with two expected to begin operation this fiscal year and six more by the end of fiscal year '23. This additional capacity will enable our team to address capacity constraints, accelerate our value-added growth and better serve growing consumer demand for protein.

We continue to make significant investments to attract and retain team members, including child care, citizenship support, transportation, free technical and college education, on-site health clinics, maternity and paternity leave, and other health benefits. Our nearside health centers in rural communities are seeing increased usage. These clinics provide team members, spouses, and dependents comprehensive healthcare services at little to no cost. Investment in team members are making an impact, as higher pay and enhanced benefit offerings have led to lower turnover and absenteeism in our plants, which positions Tyson for future growth. We are committed to creating a differentiated work experience for our team members.

These investments we're making in our people are part of our broader effort to evolve our business from an ESG standpoint. Over the past several years, we have made many investments to these ends. Today, we are focused on three core pillars of our ESG framework, the formula to feed the future. Those three pillars are reimagined people and community impact, drive product responsibility from farm to table and working toward achieving net zero.

Earlier this quarter, we released our sustainability report for 2021, which highlights our ambition and commitments to become the world's most sustainable and transparent protein company. In addition to the investments in people I mentioned a few moments ago, we also highlighted in our report our efforts around animal welfare, sustainable packaging, minimizing waste, water stewardship, and working within our operations and supply chain to reduce emissions. We're setting aggressive ESG goals and working to meet them.

As we run our business better, we are making process improvements, digitalizing the supply chain, increasing automation and aggressively managing SG&A across our operations. Our productivity program continues to deliver at the upper range of our initial projections and we'll realize more than \$1 billion in recurring productivity savings by the end of fiscal year 2024. We're continuing to accelerate digitalization across Tyson through supply chain planning and executional processes to better serve our customer. Automation remains a top priority for our business, and I'm very pleased with the aggressive rollout of automation technologies. And given the macroeconomic environment, we are taking action to cut costs, reduce spend and reassess every role across the business to ensure that the work we do is value added for our customers and consumers.

Finally, as we look for new and innovative ideas that can have the greatest impact on Tyson's productivity and sustainability objectives, we held the first-ever Tyson Demo Day. More than 100

companies were considered as presenters for the Demo Day, 20 were selected to make their pitch and ultimately, 6 companies were chosen for partnership. We are committed to strengthening our position as a global protein leader, and driving value creation for our shareholders. At our Investor Day, we outlined five imperatives for strengthening our position as a global protein leader.

I've spoken about transforming our team member experience, increasing capacity, investing in digital and automation, and the strength of our balance sheet. Chicken remains a key focus for our long-term success, and we are executing against our road map to restore top quartile performance for this segment. This quarter, we surpassed a 6% adjusted operating margin. We expect to reach 40 million head per week by the end of this fiscal year, and to continue to grow after that, enabling us to maximize our fixed cost leverage and grow our value-added business.

We are optimizing our plant network by adding fully cooked capacity, converting plants for value-added production, implementing plant flexibility, and optimizing our portfolio mix. We have come a long way and have more work to do, but I'm pleased with the progress that we are making in chicken. As we look to address projected demand growth over the next decade, we're using our financial strength to invest in our business. We will have invested nearly \$1.9 billion in fiscal year '22, focused primarily on new capacity and automation objectives. Year-to-date, we returned to shareholders approximately \$1.2 billion in dividends and share repurchases, as we continue to prioritize shareholder return.

I will now turn the call over to Stewart to walk us through more detail on our financial results for the third quarter.

Stewart Glendinning

Thank you, Donnie. Let me turn first to a summary of our total company financial performance. We're pleased to report solid results in the third quarter and year-to-date. Sales were up for both the third quarter and year-to-date, benefiting from our pricing initiatives to offset the increase in cost of goods. Volumes were down both for the third quarter and year-to-date due to supply constraints and a challenging macroeconomic environment impacting consumer demand.

Looking at our sales results by channel, retail drove \$173 million of top-line improvement in the third quarter relative to the same quarter last year. In the third quarter, the ongoing recovery in the foodservice channel drove an increase of \$165 million. Sales to international markets, including both domestically and internationally produced products were \$339 million greater than the prior-year period as we leveraged our global scale to grow our business. Donnie covered our earnings and EPS results.

Slide 11 bridges operating income for the third quarter, which was \$374 million lower than fiscal 2021. Volumes were down 1.9% in the quarter. Our pricing actions, which partially offset the higher input costs, led to higher sales during the quarter. We saw continued increases in cost of goods across the business, in some instances up to 15%. Notable examples were labor, feed ingredients, live animals, and freight costs.

SG&A was \$20 million unfavorable to the same period last year due to increased investment in advertising and promotional spend and technology-related costs, partially offset by lower commission costs incurred by selling direct to customers rather than via brokers. As Donnie said, we are assessing all of our SG&A expenses across the business to identify non-value-added spend. Savings from our productivity program initiatives continued to have a positive impact on margins.

Moving to the beef segment. Sales were approximately \$5 billion for the third quarter, flat versus the same period last year, but up 15% year-to-date at nearly \$15 billion. Sales in the quarter

remained strong, supported by higher volume but offset by lower average sales price driven by softer consumer demand for premium cuts of beef. Global consumer demand for beef products remains strong, and we expect volume to continue to improve in the fourth quarter as improved labor participation supports higher plant productivity.

On expenses, we incurred greater costs during the third quarter versus the comparable prior-year period, as live cattle costs increased approximately \$480 million in the quarter. We had sufficient livestock available in the quarter, driven by higher herd liquidation due to drought conditions.

We delivered segment operating income of \$506 million in the quarter, down 55% versus the prior-year comparable period. Our operating margin of 10.2% was lower than the same quarter last year but remains a strong performance. We expect to see beef margins return closer to an expected long-term 5% to 7% average.

Looking next to the pork segment, sales were approximately \$1.6 billion for the quarter, down 6% versus the same period last year, but up 4% year-to-date at \$4.8 billion. Global demand is being impacted domestically by high retail prices and internationally by the strong dollar, making US pork relatively expensive as compared to alternative sources globally. For the quarter, the average sales price decreased 3.9%.

Segment operating income was \$25 million and \$248 million for the quarter and year-to-date, respectively. While down 63% versus the comparable prior-year quarter, operating income is down less than 1% year-to-date. Overall operating margins for the segment declined to 1.5% for the quarter. The operating income deterioration was driven by compressed pork margins, with rising hog costs and a constrained cutout.

Moving now to prepared foods. Sales were approximately \$2.4 billion for the quarter, up 5% relative to the same period last year and up 9% year-to-date at \$7.2 billion. Sales increased despite a volume decline driven by higher average sales prices. Note, part of the volume decline in the quarter was driven by the sale of our pet treats business.

Our brand strength and category relevance has enabled continued strong performance across multiple categories. Operating margin for the segment was 7.6% or \$186 million for the quarter, up versus last year. Year-to-date, operating margin is 8.9% and flat, compared to the prior year at \$635 million. Cost of goods continues to increase, pressuring our cost of production. To offset higher costs we've executed productivity initiatives, revenue management and optimized our spend. To support our growth aspirations, we continue to invest in marketing and trade to increase the market share of our brands.

Moving into the chicken segment's results, sales were \$4.4 billion for the quarter, up 26%. Year-to-date sales are up 25% at \$12.3 billion. Average sales price increased in the quarter compared to the same period last year. Our shift in pricing mechanisms to more variable structures has reduced risk by allowing us to be more agile in response to increasing cost of goods. Chicken delivered adjusted operating income of \$269 million in the third quarter, representing an operating margin of 6.2%.

Quarterly operating income increased over the same quarter last year due to higher average sales price and efficiency improvements, partially offset by increased cost of goods. For the third quarter, we experienced \$145 million in higher feed ingredient costs versus prior year, and we recognized \$23 million in net derivative losses, compared to \$56 million of net derivative gains in the prior year.

Turning to slide 16, our healthy cash flows and improved balance sheet have continued to

support our disciplined capital allocation approach. We remain focused on building financial strength, investing in our team members and business, and returning cash to shareholders. We produced \$1.9 billion of operating cash flow so far during fiscal year '22, and that's after funding a \$1.9 billion increase in our working capital. Our leverage ratio at 1.2 times net debt to adjusted EBITDA demonstrates our powerful balance sheet and our continued capital allocation optionality. Investing in our business for both organic and inorganic growth and operational efficiency will continue to be an important priority and will help Tyson increase production capacity, market capabilities, and profitability. This will support return on capital generation above the market for our shareholders.

Finally, we remain committed to returning cash to shareholders through both dividends and share buybacks. Year-to-date, we've returned \$491 million in dividends and repurchased \$693 million of shares, including \$170 million of shares during the third quarter. Let's now discuss the financial outlook for the remainder of the fiscal year.

Based on the strong results year-to-date, we're maintaining our total company sales guidance at a range of \$52 billion to \$54 billion. We now expect total volume growth to be flat on a year-over-year basis. Looking at AOI margin target ranges for our segments, in chicken our operational turnaround is on track, and we expect full year margins to be between 5% and 7%, but at the lower end. Based on the current trends in retail and foodservice, we expect the full year margin in prepared foods to be at the lower end of the 8% to 10% range. In beef, we expect margins to move toward our expected 5% to 7% range as the live cattle to cutout price spread continues to decline. However, we still expect to deliver a full year AOI margin of 11% to 13%. In pork, due to margin compression from hog costs and global demand headwinds, we're reducing our full year AOI margin outlook to be in the range of 3% to 5%.

In international/other, we anticipate slightly lower results from our foreign operations in fiscal '22 due to supply chain disruptions and other impacts related to COVID-19. Our expectations for capex and net interest expense are lowered to \$1.9 billion and \$350 million, respectively. Our tax rate expectation is lowered from approximately 23% to approximately 22.5%. Our net leverage is expected to remain well below two times net debt to adjusted EBITDA, providing optionality for inorganic investment and additional return of cash to shareholders for the remainder of the year.

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

Brandon Tucker

Thanks, Stewart. We will now move on 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.

QUESTIONS AND ANSWERS

Operator

We'll now begin the Q&A session. To ask a question you may press star and then one on your touchtone phones. If you are using a speakerphone, we do ask that you please pick up the handset prior to pressing the keys. To withdraw your questions you may press star then two. We do ask that you please limit yourselves to one question and one follow up. If you do have additional questions, you may re-enter the question queue. At this time we will pause momentarily to assemble the roster.

Our first question today comes from Ben Theurer from Barclays. Please go ahead with your question.

Ben Theurer

Yes. Good morning and thank you very much for taking the questions. The first one, I wanted to understand a little bit your commentary around the chicken segment, obviously the, on one side improvement that you have within your operations, but then at the same time there seems to be a few headwinds arising on the industry side.

So help us frame a little bit into the final quarter, but also maybe bridging into next year, how you think about the chicken segment, and what's your competitive advantage on the pricing side and how you think your investments into labor, better hedgeability, as well as better pricing is going to basically bring you to that 5% to 7% range, which you're almost there already on a year-to-date basis, but how should we think about next year? Thank you.

Donnie King

Thank you, Ben, for that question. The turnaround that we've talked about for the last year now continues. And I'm pleased with the progress that we've made, and I said that in the script. We still have work to do. Grain, and the volatility around grain, supply, demand, so forth, still exists out there.

But the demand for chicken is extremely strong, demand for ready-to-eat chicken, for example, is very strong, and we're at capacity as it relates to that. We are investing and have a new asset coming online early next year, and that will obviously be a help.

But the business did grow. And there was a lot of noise in this particular quarter around the Hanceville fire in Q4 of '21 that we'll work through. But the thing I'd want you to hear is that our harvest rates continue to improve, and they'll be \$40 million or so in Q4, and will continue to grow from there.

But I want to stop and pause at that point, and I'm going to pass it to David Bray, and David, if you'd like to add some more color.

David Bray

Yes. Good morning, Ben. Just a little bit of additional color to that. And I think it's important to note that we're doing what we said we would do in chicken. And we are progressing, but we are far from finished. And we know where our opportunities exist. And a large part of that will be uncovered as we can see that our volume grows through the Q4 time frame. The ability for us to process more head through our facilities will help us from a cost standpoint, which will benefit us as we continue to progress through FY '23. And as Donnie stated, we are seeing share gains. Our harvest is up and we will continue to grow share through the Q4 time frame and into FY '23 as well.

Ben Theurer

Okay, perfect. Thank you very much for that. And then just a very technical question maybe for Stewart.

So as we are on a year-to-date basis still down on the volume on a consolidated basis, is the flat guidance really a function of because of 4Q prepared foods you get the easier comp because the divestiture happened last year during 4Q and that's where the volume impact was? Is that the right way how we should think about it?

Stewart Glendinning

Well, I would just say, Ben, there's probably a few more moving parts than that. Of course, you're looking at all parts of the business to get to flat. But of course, you're right, the divestiture is one of those things.

Ben Theurer

Okay, perfect. Thank you. I'll pass it on.

Donnie King

Thank you.

Operator

Our next question comes from Alexia Howard from Bernstein. Please go ahead with your question.

Ms. Howard, your line is open. Please proceed with your question. Is it possible your phone is on mute?

Alexia Howard

Good morning, everyone.

Donnie King

Good morning.

Alexia Howard

Can you hear me okay?

Donnie King

Yes.

Alexia Howard

All right. So first question is around the prepared foods elasticity. I'm wondering if you can talk about which categories were particularly affected this time and whether you expect those kind of trends to continue. I'm wondering whether competitive pricing dynamics are causing some pressure there. Let's start there.

Donnie King

Okay. I'll start, and then I will flip it over to Noelle to add some detail. But I would start with that we are seeing some movements in the marketplace between foodservice to retail. In-home dining continues to increase in this environment, which we would have expected. We're also seeing some movement from quick service chain account type business to more on-premise dining as COVID wanes and people are more adventurous and they get out. And so we're seeing some improvement in that as well. But I would tell you overall, we are starting to see some elasticity, but I would tell you they're below what historical elasticity you would expect. Noelle, anything you'd like to add to that?

Noelle O'Mara

Sure. Thanks for the question, Alexia. As I look at our prepared performance holistically, top line remains strong behind disciplined revenue management actions, and profit is above prior years. Pricing and productivity are partially offset by the cost of good increases. As referenced, our prepared volumes on an organic basis are down about 5.5% year-to-date. And it's really three key focus areas.

The first is supply. We continue to not be able to fill all of the orders that we have across our portfolio. And as capacity continues to come online and as we improve our supply capabilities, it will allow us to not only improve availability but also merchandising that's been suppressed. And so you'll see as those improvements continue to take shape in Q4, us investing back in merchandising.

The second area is really around pricing. And as Donnie referenced, while elasticities are better than historical lows, they still are impacting the business. And given the macroeconomic

environment, we're ensuring that we provide a breadth of value offerings across our portfolio, and you'll see us launching items focused on opening price points as well as larger sizes that can provide consumers value.

And then the third area is really foodservice recovery. And we're focused on not only getting back volume that we lost during the pandemic but also driving portfolio offerings in many solutions that align to the operator and consumer needs.

So what I feel good about is we have categories that continue to outpace total food and beverage, we have a portfolio of leading brands and a focus on continuing to innovate and meet our consumer and customer needs in an obviously very dynamic environment. And despite the continued market challenges, I'm expecting volume growth in the coming quarters driven by the improved supply, the commercial investments in merchandising and innovation and continued foodservice recovery.

Alexia Howard

Great. Thank you very much for the comprehensive response there. A quick follow-up. Sticking with that part of the business, private label dynamics, it seems as though meat is being particularly affected by private label. I know you make private label, presumably it may be lower margin for you. Just wondering what you're seeing in that area [indiscernible] occurs. Thank you and I'll pass it on.

Noelle O'Mara

Sure. As we look at private label performance, we don't see any acceleration as we look at the past couple of periods. Where we do see share pressure in our portfolio, we also see the availability of merchandising lagging versus prior year. So that's why going back to our focus is on supply, our focus is on driving that volume so we can get back to the availability levels as well as the merchandising performance in the quarters ahead.

Alexia Howard

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

Donnie King

Thank you.

Operator

Our next question comes from Ken Goldman from J.P. Morgan. Please go ahead with your question.

Ken Goldman

Hi. Thank you. I had two on beef and cattle. First is, do you have any additional color on when you expect maybe the turn in the cycle, from the point of, we're still in the liquidation phase to maybe that ending and heading toward a little bit more of a shortage than what's ideal for you? Any more insights into how we should think about modeling that from a timing perspective?

Donnie King

Thanks, Ken, and good morning. We still are maintaining our guidance for the segment of 11% to 13% for the full year. I think our number was 10.2%. The cost increases we're seeing on cattle are certainly impacting the spread. And we've been talking now for a number of periods about the fact that there were going to be fewer cattle. I think we're current now from the cattle that were involved in the backlog of COVID, we're current on that. The prices of those animals have continued to increase, and so there's drought and all those kind of conversations.

But let me flip it over to Shane, and I'll let him give you some color around beef.

Shane Miller

Yes, Ken. Good morning. Thanks for the question. So to Donnie's point earlier, we, as an industry, have moved through the backlog of the COVID impact and the harvest disruptions from COVID. We are still experiencing drought, and I'd say the drought impact is still impacting over 40% of the regions where we grow cattle out in this country. So the drought is real, and it's still having an impact today. I think getting precise and specific on the timing of when it's going to flip is awfully difficult to do because we're dealing with Mother Nature right now.

But I would say, if you look at beef demand in general, we continue to see real robust demand, not just in the United States, but globally. So we feel real good from a demand perspective. The quality of beef that we're still bringing to the marketplace is historically strong, grading continues to maintain a high level. So from a demand perspective and a quality perspective, we feel real good about this. But as to getting precise on the timing of when that's going to flip, I think that's awfully difficult to do.

Ken Goldman

Well, if you don't know, I don't think anyone knows. But thank you for that. I have a quick follow-up. In the prepared remarks, and thank you so much for these, you did provide a little bit more color on the ranges that you expect for the chicken segment margin and the prepared foods margin. It still is a little bit of a wide range in beef. Maybe you purposely left it that way because there's so much uncertainty. But maybe directionally you could send us how to think about that margin for the year, now that the year is getting closer to done in that particular segment, would be helpful, if you can.

Donnie King

Yes. I'll just reiterate what I said before, Ken, is, for the full year, 11% to 13%, we'll see this move to, let's call it, 6% to 8% as we're in Q4, the latter part of Q4. And then over time, let's talk '23, we've been saying for a couple of quarters now that we see that being a 5% to 7% which is lower than where we've been over the last couple of years, but versus the historical level, what we would be seeing there is very much in line with what we've built into our modeling and what we would anticipate.

Ken Goldman

Great. Thanks so much.

Donnie King

You bet. Thanks, Ken.

Operator

Our next question comes from Adam Samuelson from Goldman Sachs. Please go ahead with your question.

Adam Samuelson

Hi. Yes. Thank you. Good morning, everyone.

Donnie King

Good morning, Adam.

Adam Samuelson

My first question, and maybe going back to prepared foods, Stewart, I think I heard you say at the low end of the 8% to 10% range for the full fiscal year, which for the fourth quarter would get you something below 8%. And I'm trying to just make sure I understand some of the key moving pieces around the margins there. I would have thought you were in a better place on the price/

cost side by now given some of the pricing actions in the marketplace.

And the corollary to that is when thinking about the foodservice parts of this business, many of which—the legacy Tyson came from the advance [ph] Pierre acquisition, can you talk about how those have been performing at this juncture? It would seem like the retail brands and [indiscernible] remain quite healthy, and those have, I would think, good better margins than the segment average. And so I'm just trying to get a sense of how the foodservice pieces are performing margin-wise and if there's something that may be more significant needs to happen to that part of the business.

Stewart Glendinning

Well, I'll just pick up the margin point quickly, and then Noelle can expand on some of the other pieces. But look, from a margin perspective, as I said, we are going to come in at the low end of the range. That gives you a little bit of flex. Certainly, that means that we would just mathematically be in the high 7s or low 8 for Q4.

Noelle O'Mara

Just to build on Stewart's comment, so when you look at industry forecasts, they do show a slowdown in '22. However, the industry is still expected to rebound by 2025. And this unevenness of recovery is due to two things, the macroeconomic landscape as well as mix shifting between channels. So we see that, as Donnie referenced, with improved consumer mobility and comfort eating out, we see an increase in on-premise dining and a slowdown in some of the quick service restaurants that had originally led through the recovery. We've specifically seen some slowdown in our tortillas and pepperoni business that indexed against our commercial chain accounts and we gave up some of the volume through the pandemic because of the spike in the demand. And so we're not only focused on getting back volume, but also, as I referenced, innovating and partnering with customers to ensure that we're leading through the overall recovery.

Adam Samuelson

Okay, all right. And then maybe another question for Stewart. If I look at the balance sheet trends in the quarter, net debt to EBITDA, you bought back a little bit of stock in the fiscal third quarter. But looking forward over the next 12 to 24 months, the balance sheet is comfortably below your leverage target, you're already investing quite aggressively on the organic capex side. And so I guess I'm just trying to make sense of the comfort level you have with the balance sheet where it is versus what it would take to [audio drops] a significant releveraging event, but maybe a bigger step-up in share repurchase that there isn't continued excess cash building on the balance sheet from here. So any added color that you could provide just in priority of share repurchase moving forward?

Stewart Glendinning

Sure, of course. Well, look, first, we're very pleased with the strength of our balance sheet. When you look at our leverage levels, we haven't seen leverage levels like these since 2011, that sort of time frame. So we're pleased with having come through COVID and put ourselves in a place where we've got a rock-solid balance sheet.

With respect to the capital allocation, our capital allocation approach, we've had a very good, balanced approach. And that is strengthening our balance sheet, which we've done, and investing in our business, which you pointed out. We have amped up our spend on capex, and that is good spend because it's coming in at strong returns and it's helping to grow our business.

And then of course your question really about why don't we go to the share buyback? Last year at this time we spent about \$50 million on buybacks. This year we've got almost \$700 million. And part of that is catching up on the dilution that we had from last year. So we'll see how that

goes, but we're very pleased with where we are from a balance sheet standpoint.

Adam Samuelson

Okay. I appreciate that. I'll pass it on. Thank you.

Donnie King

Thank you, Adam.

Operator

Our next question comes from Ben Bienvenu from Stephens. Please go ahead with your question.

Ben Bienvenu

Hey. Thanks. Good morning.

Donnie King

Good morning, Ben.

Ben Bienvenu

I want to revisit the chicken segment. And I want to ask, when we think about your new, more dynamic pricing that you have in that business relative to variable costs, how should we think about the factors that create variability in the chicken margin, be they external or internal factors? And how insulated is that margin now relative to cyclical in the industry?

Donnie King

Let me say a couple of things, and then I'll flip it to David to talk about a few things. I feel better about our chicken business than I have in a long time and we're making progress every day. As I mentioned earlier, we're not where we want to be at this point. But if you look at across channels, foodservice, retail, we gained share with branded value-added chicken and foodservice, I think it was 2.6 points or maybe a little more than that in foodservice. We lost a little share because of capacity in retail, the branded portfolio, and we're gaining that back rather quickly.

But as we think about chicken and all these pieces and parts coming together, we're through the whole live animal livability hatch conversation. We now have the supply chain on the ground that's going to continue to grow our supply so that we can service the customers in the way that we'd like. We've got more fully cooked capacity coming online, which helps, which is already sold, so we like that. And so we'll continue to optimize and improve the mix, which helps. And it will be a branded portfolio play as well.

There's still volatility in grain out there, but we like what we're seeing. We like our opportunity going forward. And we think we have the foundation of this business in a good place today, and we look for things to improve over Q4 and into next year. David?

David Bray

Yes. I think one other thing to mention to that, Ben, despite what we're seeing from an inflationary standpoint and despite what we're seeing from an overall grain volatility standpoint, we're continuing to progress as planned. And a large part of that was changing the way that we worked with our great customers across the country and pricing more closer to what's going on within the market as well as inflation. And we're pricing quarterly now versus what we would have done previously from a 52-week standpoint. And so it's given us a lot more flexibility in what we do. But again, there's a lot of other things that we are doing that will put us in a position to win. And again, the volume unlock that we will see coming into this quarter will go a long way to help us build a much more sustainable model.

Stewart Glendinning

Ben, this is Stewart. I just want to add one thing there. Don't overlook in David's model the leverage that you'll get from the increased volume. So you see them going up to 40 million birds this quarter.

Every time he adds those birds, they're not coming at any increase in fixed costs. That's already been paid for. And that's going to be a help to his P&L.

Ben Bienvenu

Yes. Okay, great. My second question is around beef. And I appreciate the commentary around margins into next year as we navigate through the cycle. I'd be curious, when thinking about that margin commentary for next year, would you characterize those margins as mid-cycle trough cycle margins, as we think about the up versus down in that business line, recognizing it's hard to see exactly where we are in the cycle, that would be helpful to us, I think.

Donnie King

Shane?

Shane Miller

Yes. So, Ben, this is Shane. I think the way I would characterize it is this year we're in the 11% to 13% range for fiscal year '22. And as we transition to less numbers and back to the prior conversation around trying to pinpoint exactly when this has flipped, is like trying to predict the weather right now. So it's awfully difficult to do that. I would say it'd be more of the midterm. We believe over time, to Donnie's earlier point, over time, we're going to be trading somewhere in the 5% to 7% returns in our beef business.

And we think about it in a couple of ways too. As you think about how we're de-commoditizing this business is the quality aspect that I mentioned earlier. We're partnered with some of the best cattle feeders in the world. And when you look at this global demand, it's going to continue. And we're not able to service all of that today because of some of the disruptions at the ports that we're dealing with. And having the ability to value up these components through our case-ready business, through prepared foods and then also through our International business unit is an additional pro that this company has. So we feel like we're going to be scaling into that here as we go through the next 12 to 18 months.

Ben Bienvenu

Okay, very good. Thanks and best of luck with the remainder of the year.

Donnie King

Thank you.

Operator

Our next question comes from Peter Galbo from Bank of America. Please go ahead with your question.

Peter Galbo

Hey, guys. Good morning. Just two really quick ones for me. Shane and Donnie, maybe just to stick on the beef topic, and I know we've covered a lot of ground there, but one of the questions we've gotten, just given the level of liquidation you've seen this year, realizing the 5% to 7% medium-term margin target, what's the possibility though that next year comes in somewhat below that just because you're dealing with such a high level of liquidation this year that's relatively unprecedented?

Shane Miller

Yes. So thanks for the question. Similar to the comments I just made, we are still seeing quite a bit of cattle liquidation. To add a little more color to that, you haven't seen the heifer retention yet really start to build back. So if you think of the time line to building back the calf crop and so forth, it's going to be a two- to three-year cycle.

And then in respect to the 5% to 7% comment, we feel like we're in a good spot. Unfortunately, we can't control Mother Nature in the drought conditions we're dealing with here. But there's still further liquidation I think that's going to occur and trying to pinpoint exactly when that finishes up and we start to see more heifer retention is awfully challenging. The most recent cattle on feed numbers would show the third highest amount here as of July 1. So we have plenty of cattle in EDR [ph] here today that are going to take us through the balance of this quarter, obviously, and then into our fiscal—excuse me, Q1 of fiscal '23. But in respect to overall, the 5% to 7% range, I still feel good about where we're at.

Peter Galbo

Okay. No, that's helpful. Thank you, Shane. And then maybe just a technical one for Stewart and Noelle on prepared's margins. Again, exiting this year at the high sevens, low eights that Stewart mentioned, what's it going to take to build that back to a double digit? I know you had just come out of 2Q at 11%, but now it seems like those margins have taken a step back, and based on some of your commentary, it doesn't feel like there's a lot more pricing that can go through. So what do we need to see to restore those margins back to a double-digit run rate? Thanks very much.

Noelle O'Mara

Sure. I can take that. So our building blocks remain the same. Just taking a step back, we play in attractive categories, we have leading share positions in those categories. Top-line growth will come from the actions that we're taking to increase capacity through investments and innovation and continued equity building. We'll continue to have disciplined revenue management and cost transformation to drive our bottom line. So while I expect a continued dynamic marketplace, I believe we have the right building blocks in place in our path to deliver the sustainable double-digit margins.

Stewart Glendinning

Yes, maybe just to build on that, I think as Noelle focuses on recovering some of that foodservice volume, and gets busy with the merchandising that she was talking about, again, you'll start then to see that she has the potential to gain volume and to start gaining back some of that fixed cost deleverage.

Donnie King

Peter? Operator?

Operator

And we'll go to our next question. Our next question comes from Robert Moskow from Credit Suisse. Please go ahead with your question.

Robert Moskow

Hi. Good morning. A few additional questions on chicken. I think you are guiding to the low end of your margin range for chicken as well. Does that reflect a weaker outlook for 4Q? Or is 4Q pretty much how you thought it would be? And then also, you mentioned you're trying to get to top quartile among your peers. Your peers are, from what I can see, delivering really strong margins. So where are you now versus that top quartile? Are you in top 50% or are you below it?

Shane Miller

So a couple of things there. So first and foremost, within Q4, I would say we are on pace with our expectations. What we've done through the course of FY '22 is make a lot of changes within our business related to mix. And the industry from that standpoint has had strong favorability because it's been tied to a big bird debone breast meat market.

As you know, Tyson does not operate in that, and we're continuing to shift toward what is more of a value-added standpoint. As we think about benchmarking versus our competition, we are making progress. And the biggest piece of that, Robert, is us getting our volume back in our facilities. And we've spent a lot of time talking about being at 37 million head, and growing that to 40 million head during the Q4 time frame will put us in a much stronger position as we work to close out this year.

Robert Moskow

Okay. And a follow-up. The USDA for next year is forecasting even less than 1% volume growth for chicken. Do you think that's the right amount of volume for the market given the demand framework? From what you're reporting, pricing is up a lot, but demand has been pretty stable. Do you think that that's in line with how the overall industry will perform?

Shane Miller

So I would tell you, from a chicken standpoint, and especially as we enter into the Q4 time frame, what we're seeing from a demand standpoint in both foodservice and retail continues to be strong. And our customer orders continue to outpace our ability to fill them. And again, with additional volume coming through, we will be in a much better position to service our customers. But we anticipate strong demand in both retail and foodservice to continue.

Robert Moskow

So does that mean that 1% supply growth is not enough to meet the market?

Shane Miller

Well, we will grow in excess of that next year. So we will be driving a lot of share within the industry next year as we continue to increase our head. I think there is an opportunity for chicken to be very strong from a demand standpoint as we go into '23.

Robert Moskow

Got it. Thank you.

Operator

And our next question comes from Ken Zaslow from Bank of Montreal. Please go ahead with your question.

Ken Zaslow

Hey, guys. Good morning.

Donnie King

Morning.

Ken Zaslow

Okay. I just want to follow up on just Rob's question real quick. What do you think chicken production will be in 2022 and what do you think beef production will be in—in 2023, I'm sorry. Where do you think chicken production will be in 2023 and where do you think beef production will be in 2023? Just trying to get a flavor for that.

Donnie King

Based on what was quoted in the prior call, USDA is reporting 1% maybe to flat. I think that's

probably realistic. I think our demand is going to be stronger than that as we go into '23. And from a beef perspective, with the herd liquidation, there's going to be fewer cattle to harvest and you're going to have more and more packers chasing those heads, particularly those which have better genetics, that grade better, that provide additional revenue and margin opportunity. And so that's going to become very tight. And as we move into '23 and even into '24, you're going to see some higher cutouts and higher-priced cattle in the marketplace.

Ken Zaslow

Okay. In the prepared remarks, it was said there was supply chain issues in prepared foods. As you talked about the margin [indiscernible], I don't know if I maybe I missed it a little bit, but is there options for you guys to improve your supply chain? What are you doing there? And does that have a meaningful impact in 2023, 2024? And I'm not talking about pricing or anything like that—and maybe I misheard the prepared remarks. So I just thought there was some opportunity in supply chain. Can you talk about that?

Donnie King

Let me say a couple of things about that, Ken, and then I will flip it to Noelle. What we're talking about there, a big portion of that, for example, is in the first half, particularly in the first quarter, you may remember that we had a resurgence in COVID at that point and so we got a little bit behind as we started the year or in our second quarter. But we've been out of capacity on a few key categories that we're seeing now come online. We've got more capacity coming online next year for prepared foods. The demand, while it's been impacted a little bit in some key categories around the pricing, it's still, let's say, less elastic than maybe you would, or even our models would have indicated, but we're seeing some elasticity.

But we expect the volume to grow. We expect to put forth a great deal of effort in our supply chain, those things that we can control, the productivity program, for example, is huge for us in the way of automation and technology. We've been investing now for over a year, and we're starting to see some of those things bear fruit. And not only for this quarter, but as we move forward. And so those investments are paying off. Some of the things that we've done around autonomous planning and trying to improve forecast accuracy and eliminate distress and those type of things, we're much better today than we were a quarter or two quarters ago, but there's still things to do. But the supply chain is improving. We're running at rate. In many cases, or in most cases, we are staffed completely. But we're looking for opportunities to continue to get better.

Noelle, anything you want to add to that?

Noelle O'Mara

I think you covered it well, Donnie. To your point, we have made significant traction from a labor perspective as we think about automation within our facilities, digitization, the complexity reduction and flexibility that we've created in our network. And so all of those improvements are leading to a better supply picture as we've continued to progress through this year and as we are expected to progress through Q4 next year.

Ken Zaslow

Great, I really appreciate it. Thank you, guys.

Donnie King

Thank you.

Noelle O'Mara

Thank you.

CONCLUSION

Operator

And ladies and gentlemen, with that, we will be concluding today's question-and-answer session. I'd like to turn the floor back over to Donnie King for any closing remarks.

Donnie King

Okay. Thank you. Thank you, everyone, for joining our conference call today. We have a powerful and diverse portfolio across proteins, channels and geographies, improving operational efficiencies and a team that is positioned to take advantage of the opportunities in front of us. For these reasons we're confident we will maintain strong volume and profitability in the short term and have future long-term growth ahead of us. At Tyson, we're focused on making food affordable, accessible, and nutritious for our customers and consumers around the world.

Thanks again for your interest in Tyson Foods. We look forward to speaking to you again soon.

Operator

And ladies and gentlemen, with that, we'll conclude today's conference call and presentation. We thank you for joining. You may now disconnect your lines.