

Tyson Foods

First Quarter 2023 Conference Call

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CORPORATE PARTICIPANTS

Sean Cornett – *Vice President, Investor Relations*

Donnie King – *President, Chief Executive Officer*

John Tyson – *Executive Vice President, Chief Financial Officer*

Brady Stewart – *Group President, Fresh Meats*

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Wes Morris – *Group President, Poultry*

Amy Tu – *President, International & Chief Administrative Officer*

PRESENTATION

Operator

Good morning and welcome to the Tyson Foods First Quarter 2023 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 questions. 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 today's event is being recorded.

I would now like to turn the conference over to Sean Cornett, Vice President, Investor Relations. Please go ahead, sir.

Sean Cornett

Good morning and welcome to Tyson Foods' Fiscal First Quarter 2023 Earnings Conference call. Prepared remarks today will be provided by Donnie King, President and Chief Executive Officer and John R. Tyson, Executive Vice President and Chief Financial Officer. Additionally, Brady Stewart, Group President, Fresh Meats; Stewart Glendinning, Group President, Prepared Foods; Wes Morris, Group President, Poultry; and Amy Tu, President, International and Chief Administrative Officer, 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 on our webcast.

During today's call, we will make forward-looking statements regarding our expectations for the future. These forward-looking statements made during this call are provided pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include comments reflecting our expectations, assumptions or beliefs about future events or performance but do not relate solely to historical periods. These forward-looking 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 statements 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. We assume no obligation to update any forward-looking statements. 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.

Now, I will turn the call over to Donnie.

Donnie King

Thank you, Sean and thank you to everyone on the call for joining.

Earlier today, we announced our first quarter 2023 results. We delivered solid top line results with year-over-year revenue and volume growth and continued strength in our share position, providing momentum for the remainder of the fiscal year. Compared to record performance in the prior year, first quarter earnings decline was driven by weaker results in chicken, pork and beef, which more than offset strong performance in Prepared Foods.

It's important for you to know that we are uniquely positioned to win in an attractive global protein market. We have market leading brands across diverse portfolio that resonate with consumers as

proven by our year-over-year sales and volume growth. We serve an estimated one-fifth of US protein consumption and we are well positioned to meet consumer demand, which remains steady despite a challenging macroeconomic environment with ongoing elevated levels of inflation. As we navigate a complex and dynamic operating environment, I am grateful for our team members whose hard work and dedication make our business operations possible.

Five key pillars of our strategy are: transforming our team member experience, growing with our customers to service demand, investing in digital and automation to drive operational excellence, restoring competitiveness in our chicken segment and leveraging our financial strength to invest in the business and return cash to shareholders. In service of these long-term strategic imperatives, I'd like to emphasize that we continue to deliver on our commitments of growing volume by filling up our footprint, solving labor problems, investing in automation, and building inventory to meet customer demand with improved fill rates all while maintaining a focus on liquidity and financial health. We are confident these investments will pay dividends over the long run and we remain committed to methodically executing our growth strategy driving long-term value creation for our shareholders.

Now, let me take a moment to discuss our results and shed some light on some of the challenges and outlook. We went into Q1 with a good plan, but our overall results were impacted by a confluence of factors, including consumer and customer demand dynamics and the curve of the beef cycle, among other things. Allow me to touch on each segment.

As we have previously mentioned to you, we have been expecting beef to come under pressure for some time. With higher cattle prices, we expected overall harvest to slow down, but that hasn't happened yet. As such, we continue to draw on the herd, which continues to decline. This is putting pressure on spread margin in the business. We tightened our outlook range for the year.

For pork, when you account for mark-to-market derivatives in the number, we flip back to breakeven as expected, but given continued supply and demand dynamics, we lowered our outlook for the year by 200 basis points.

For chicken, when compared to expectations from last quarter, a few different things didn't go as planned. Most notably, demand didn't appear in the parts of the market where we had expected. As a result, we had to move things around and we experienced higher cost, a lower price environment and knock-on effects from a network standpoint.

And last, it's worth emphasizing our Prepared Foods segment, which delivered a great result for the quarter. We said we were going to grow dollar share and volume share with the strongest portfolio of brands in the categories where we compete and we have done just that. We are feeling good about the outlook for the balance of the year.

And our international business continues to build momentum in terms of volume and sales growth. With the end of COVID lockdowns, particularly in China, we expect good year-over-year comps. We will dive deeper into this during the discussion of segment results and the Q&A portion of the call.

Now, let's turn to our growth numbers. Sales improved 2.5% year-over-year. And as we delivered record first quarter revenue for a total company and individually in chicken, Prepared Foods and International Other, we are focused on driving growth in these segments, which will enhance our margin profile over time. We continue to see benefits of our efforts to optimize our existing footprint, add new capacity, adjust our product mix by plant, and match our portfolio more closely with customer and consumer needs.

Prepared Foods revenues increased 8.8% for the quarter driven by both volume growth and pricing actions implemented in the prior year. Positive momentum continues to build in Prepared Foods, as it delivered sequential quarterly improvement in revenue since the fiscal fourth quarter of 2021, driven primarily by the strength of our retail brands.

Beef revenue was down 5.6% compared to prior year. Lower average sales price driven by the decreased value of beef cutout more than offset the increased volume from higher headcount throughput.

Compared to prior year, pork revenue was down 6% for the quarter. This was driven by decreased volume due to balancing supply with customer demand, partly offset by an increase in average sales price.

Chicken revenue increased 9.6% compared to prior year driven by volume growth from increased domestic production and pricing initiatives and an elevated inflationary cost environment.

In international, revenue growth remained strong, up 11.3% compared to prior year quarter. This was driven by our investment in capacity, innovation and brand to support market share growth.

In the next few slides, we will detail our success winning in retail marketplace with our advantaged brands in advantaged categories. The retail categories in which we participate are highly consumer relevant with the vast majority remaining elevated relative to pre-pandemic and demonstrating growth over the prior year. With our iconic retail brands, Tyson, Jimmy Dean, Hillshire Farm, and BallPark, Tyson Core business lines outpaced total food and beverage and our peers in volume growth, up 9% relative to a year ago per Nielsen.

Tyson Core business lines also grew pound share by 2 points this quarter relative to year ago per Nielsen, continued to be market share leader in most of the retail core categories in which we compete. We delivered both dollar and pound share growth in both the aggregate and across day parts compared to a year ago, most notably in the morning meal occasion. Our brands continue to perform well as we see elasticities below historical levels. Additionally, Tyson, Jimmy Dean, Hillshire Farm, and BallPark, all hold favorite brand status with consumers in the categories in which we compete, highlighting our brand strength relative to our peers.

Consumers spend on relevant categories and brands they know and trust. The trajectory of our Tyson Core business lines volume share growth shows the recovery we have seen since April and the momentum we now have. We have improved fill rates and on-shelf availability. Price gaps relative to competitors have narrowed while we continue to invest in merchandising and advertising to support our brands. These factors, along with other strong business fundamentals, resulted in sequential quarterly share growth in Tyson Core business lines commanding a 5-year record high market share of nearly 28%. It is evident we are delivering the brands and products that consumers desire.

While the foodservice industry is yet to recover to pre-pandemic traffic levels, the Tyson Focus 6 Group is outperforming pre-pandemic volume sales, up 2.7 and 1.7 share points in the latest 52 weeks according to NPD SupplyTrack data. The Tyson Focus 6 Group is also outpacing both total broadband and its respective categories, up 11.7% in volume sales and 0.6 share points in the latest 52 weeks compared to last year per NPD. We believe strongly in our foodservice portfolio and are confident in the path to continue to grow this business as we align with key growing customers to build momentum for the future.

Our team members are essential to providing the products our customers and consumers demand. We are seeing business results from making significant investments to become the most sought after place to work by investing in our team members' experience. Recent highlights include expanding access to benefits with Day 1 eligibility, enhanced parental leave policies, expanding mental health benefits and citizenship support at no cost to our U.S. team members. In November, as recognition for our Tyson immigration program's commitment to improving the lives of immigrant team members, we received the prestigious Keeper of the American Dream award from the National Immigration Forum. We also just completed what we have been calling Project Next Frontier. We are setting the foundation for an HR shared service model focused on process and system efficacy and better overall HR service delivery for our team members, setting us up for savings in the future.

I am pleased to report we are also progressing as expected with our North American headquarters consolidation focused on building our OneTyson culture. In addition to realizing savings, we are collaborating, innovating and working with greater speed and agility to serve our customers. I would also like to thank our team members for their dedication that led to Tyson Foods number one ranking on *Fortune Magazine's* list of the world's most admired companies in food production category for the seventh consecutive year.

Following the strong outperformance of expectation in fiscal 2022, the productivity program is on track to meet expectations this fiscal year and to deliver the \$1 billion of recurring savings commitment a year earlier than originally promised. We expect this program to translate from a onetime initiative to sustained year-on-year productivity improvements, supporting our bottom line on a continued basis.

Examples of initiatives in our productivity program include leveraging data analytics to improve inventory visibility, mitigating distressed pounds; a direct plant shipment program, which continues to bring on new customers and categories; removing miles from the roads and driving efficiency in our distribution network. This is an example of how our scale drives competitive advantage.

Investing heavily in automation, we recently rolled out automated sandwich hand wrap and burrito assembly capabilities as well as an automated line to serve snacking production. We have also continued to scale our chicken debone automation across multiple facilities and we are piloting a robotic tray pack machine that is showing promising results, expanding our smart factory program to digitize our plants to new sites as well as exploring opportunities to digitize our processes. Our progress displays how Tyson remains focused on optimizing our business processes, digitalizing the supply chain, increasing automation and aggressively managing SG&A across our operations.

Before I turn the call over to John to walk us through more detail on our financial results for the quarter some final comments. Our segments individually and in aggregate have clear and compelling roles within Tyson's portfolio strategy to deliver sustainable, high-quality growth at good value. We have a powerful and diverse portfolio across proteins and channels around the world. We have products for consumers across proteins and price points, delivering performance that supports the company's long-term earnings objectives and desirable return for shareholders. We are modernizing our operations with our productivity program and are building a team positioned to take advantage of the opportunities in front of us. Again, we entered Q1 with a good plan to execute our strategy. That led to solid top line growth and strong performance in Prepared Foods.

Market dynamics and some operational inefficiencies impacted our profitability. We see opportunities to become more agile and efficient, which will further improve our operational execution. We remain committed to executing our growth strategy and are confident we will grow volume, revenue and operating income in the back half of fiscal year 2023 and have a long runway of growth ahead of us.

With that, I will turn the call over to John.

John Tyson

Thanks, Donnie. First, let's review a summary of our total company financial performance, then we can dive deeper into the detail for the individual segments. As Donnie stated, sales were up year-over-year for the first quarter, benefiting from both volume growth and disciplined revenue management to offset elevated inflationary increases in our cost of goods.

Looking at our sales results by channel, retail drove \$324 million of top line improvement led by Chicken and Prepared Foods. Our industrial and other channel sales increased by \$108 million, led by beef and chicken and this was offset by slight decreases in sales to the foodservice and international channels. As expected, given the record strength of beef a year ago, we delivered lower adjusted operating income in the prior year of \$453 million. This translated to an adjusted earnings per share of \$0.85.

Now, turning to the adjusted operating income bridge, we significantly grew Prepared Foods earnings in the quarter, but underperformance in chicken, pork and beef led to \$979 million lower operating income compared to the prior year. While pricing actions led to an improvement of \$222 million, higher input costs per pound increased cost of goods sold by \$1.3 billion. About two-thirds of this increase was driven by inflationary impacts on raw material and supply chain costs. The remainder was primarily due to a shift to producing more value-added mix, higher labor costs and unfavorable derivative impact.

Excluding the impact of restructuring, SG&A expenses as a percentage of sales was down to 3.7% from 4.3% in the prior fiscal year as we continue to eliminate non-value-added spend across our business while investing to support the future growth of our brands. Our productivity program continues to play a critical role in the long-term improvement of our margin profile.

Now to the individual segment results. Starting with the Beef segment, sales in the quarter remained strong at more than \$4.7 billion, but were down 5.6% compared to record high sales in the prior year. Volume gains of 2.9% were supported by improved staffing for higher throughput, while the average sales price was down 8.5% due to softer domestic demand for beef. Live cattle costs increased approximately \$530 million in the quarter as cattle supplies continue to tighten. Net-net, segment operating income for beef was \$129 million for an operating margin of 2.7% off the previous year's historical record first quarter margin of 19%. We saw higher cattle prices as beef herd numbers continue to decline.

We will continue to monitor the beef cutout value and balance our supply with customer demand during a period of margin compression while pushing volume growth in case-ready and premium branded products. Although the near-term operating environment remains challenging, we have reasons to believe in our long-term outlook for beef. This outlook is supported by our investment in strategic supplier relationships that provide higher quality beef, a growing global demand, specifically in Asia, and the strengthening drop credit as well as opportunities to shift our beef products up the value pyramid.

Now, let's look at the Pork segment. Sales were approximately \$1.5 billion for the quarter, down 6% for the record high in the prior year. Average sales price gains of 1.4%, mostly driven by higher value specialty products were offset by volume decreases of 7.4%. International demand for U.S. pork products continues to be impacted by the strong U.S. dollar, while domestic demand is being affected by high retail prices despite the cutout realigning to historical norms. However, we are optimistic that when these factors normalize, demand will improve. We expect to see continued industry supply challenges in the fiscal year as the producer navigates herd health issues and higher input costs.

On expenses, we incurred greater cost as lean hog costs increased approximately \$55 million over the prior year. We also experienced an unfavorable year-over-year derivative impact of \$35 million. Segment operating income was lower than expected at a loss of \$19 million for the quarter, down from a profit of \$160 million in the prior year. As we move forward, pork margins should be supported over time with the normalization and the strength of the U.S. dollar aiding future export demand, a strengthening drop credit and additional opportunity to shift pork products up the value pyramid, especially into our case-ready business.

Now, let's move on to the Chicken segment's results. Sales were a record first quarter high at \$4.3 billion, up 9.6% from the prior year. The sales increase was attributable to a 2.5% uptick in volume and 7.1% gain in pricing compared to the prior year quarter. Volume gains are due to a combination of strategic choices to maximize our capacity utilization and pursue an optimal mix strategy with products and customers.

Our pricing results, while improved, were lower than expected. We pegged this to a combination of factors that influence chicken prices, mostly related to total protein availability, notably chicken and beef. We anticipate these factors easing in the back half of 2023 as beef availability lessens and total poultry harvest normalizes, providing support for improvement in our chicken prices. The fall in commodity chicken prices driven by heightened protein supply in the market and seasonal demand weakness does not change our strategy. Based on current USDA industry placement data, we are optimistic on our forward-looking supply conditions in the intermediate term.

We intend to grow our domestic production to 42 million head per week during this fiscal year, which should enable us to improve our fixed cost leverage, grow volume and gain market share. We will continue optimizing our plant network and portfolio mix to maximize the profitability of our Chicken segment, particularly by growing our portfolio of value-added products, which remain in high demand.

Operating income in the quarter was negatively impacted by \$225 million of higher feed ingredient costs and an unfavorable year-over-year derivative impact of approximately \$40 million. Net-net, our Chicken segment delivered operating income of \$77 million in the first quarter.

We see significant room for improvement in the long-term operating margin of our Chicken segment as there is still work to do to attain industry leading performance and we are optimistic it can be achieved due to the following: our diversified value-added portfolio with lower margin volatility; our brand strength with the highest consumer awareness and brand loyalty according to Nielsen data; our growth strategy, taking advantage of existing capacity; optimization of our portfolio by shifting from commodity to value-added products; and last, a further implementation of our productivity program as we ramp up more automation.

Last, I want to turn to our Prepared Foods business. In this segment, we had a solid quarter with growth in both revenue and volume. This was driven by strong brands, increased support for our customers and pricing aimed at recovering the continued inflation. Revenue was approximately \$2.5 billion for a record first quarter, up 8.8% compared to the prior year. Volume gains of 1.2% were driven by strength in retail, notably Jimmy Dean, and improved customer fulfillment despite decreased volumes in foodservice. This quarter was our third sequential quarter of volume growth and we saw significant pricing power of our portfolio with a year-over-year increase of 7.6%.

Driven by top line growth and productivity savings, we delivered segment operating income of \$266 million for the quarter. The operating margin of 10.5% was up from 8% in the prior year. We are very

pleased with the performance of this quarter in Prepared Foods, as this segment is critical to drive profitable growth for Tyson by valuing of Beef, Pork and Chicken commodity meat products.

We continue to be optimistic for the outlook of this segment due to the following. Our diversified portfolio meets consumers across meal eating occasions and snacking occasions in all sales channels. We are outperforming our competition in retail with room to grow further market household penetration. Our comprehensive foodservice portfolio has opportunity to grow by regaining lost customers and broadening our customer base. We have got additional operational efficiencies to unlock by increasing plant utilization in addition to the implementation of our various productivity initiatives. And finally, we have an opportunity to innovate, expand and acquire into new spaces through new offerings, the growth of our existing products, and attractive disciplined approach to M&A.

Now, turning to talk about our financial position. Building financial strength, investing in our business and returning cash to shareholders remain the priorities of our capital allocation strategy. We produced operating cash flows of \$762 million for the quarter and our leverage ratio finished the quarter at 1.6x net debt to adjusted EBITDA, demonstrating our commitment to a sound balance sheet. Focused primarily on new capacity and automation objectives, we invested nearly \$600 million into our business in the first quarter to capitalize on projected demand growth over the next decade. Investment in the business, both organically and inorganically, is expected to generate returns at or above our 12% return on invested capital target over time. Our capital allocation priorities are first to invest in growth and productivity in our existing footprint. Then we will employ a disciplined M&A approach by investing in opportunities that fit well with our existing portfolio.

Next, we remain focused on returning cash to shareholders through dividends and share repurchases. Notably, we will continue to support and grow the dividend for our shareholders as evidenced by its continuous payment since 1977 and annual increases each fiscal year since 2013.

Our approach to share buybacks will continue to be managing for dilution and entering the market opportunistically when assessing for multiple factors. We returned nearly \$500 million in cash to shareholders in the quarter through \$169 million in dividends and \$313 million of share repurchases. At Tyson, we utilize a disciplined capital allocation approach to invest in our business for both organic and inorganic growth and we returned cash to shareholders while maintaining a robust balance sheet.

Now, let's turn to the fiscal 2023 financial outlook. We are maintaining our total company sales guidance of \$55 (billion) to \$57 billion, which implies a 3% to 7% sales growth for the year. Supported by the factors detailed earlier, we expect future Beef segment margins to be in a normalized range of 5% to 7% in the long-term. However, based on current market dynamics, we now expect to perform between 2% and 4% this fiscal year.

Given the result in pork in the first quarter, we are lowering margin guidance for the year to be between 0% and 2%. Counter to normal seasonality for our pork segment, we expect the back half of the year to outperform the first half of the year.

For our poultry business, we now expect full year margins to be between 2% and 4%, but gaining momentum through the year and exiting the fourth quarter at a margin above this range.

Prepared Foods had a strong first quarter in performance. As this is historically normal seasonality for the segment, we are maintaining our expected full year margin performance to be between 8% and 10%.

In international, we continue to see volume and sales growth year-over-year, and we anticipate improved profitability in fiscal 2023, driven by volume and revenue growth from new facilities ramping up. We remain committed to growing our business internationally, representing the fastest-growing protein consumption markets in the world.

Our expectation for capex for the remainder of the year is unchanged at approximately \$2.5 billion. Our expectations for productivity savings remain unchanged at \$300 (million) to \$400 million. Our net interest expense and tax rate are now expected to be around \$330 million and 24%, respectively. We remain committed to our investment-grade rating and managing our net leverage ratio to be at or below 2x net debt to adjusted EBITDA over the long-term, providing optionality for inorganic investment and additional return of cash to shareholders.

In summary, we had a slower start than expected, but are optimistic on the outlook for the remainder of the fiscal year and long-term. We have a great team, growing demand for our products, strong portfolio diversity and a differentiated asset footprint needed to win in the marketplace. Overall, we see some persistent market factors, some operational challenges, and some expected seasonality influencing our second quarter results. Therefore, we're expecting total company volume, revenue and operating income to be meaningfully stronger in the second half of the year compared to the first half of the year. We remain in a strong financial position to support continued investment in our existing footprint, productivity and the support of our brands as we continue to grow our business and provide desirable returns for our shareholders.

So with all that, I'll turn the call back over to Sean for Q&A instructions.

QUESTIONS AND ANSWERS

Sean Cornett

Thanks, John. We will now move on to your questions. Please recall 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.

Operator

Thank you. We will now begin the question and answer session. To ask a question, you may press star then one on your telephone keypad. If you are using a speakerphone, 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.

Today's first question comes from Alexia Howard with Bernstein. Please go ahead.

Alexia Howard

Good morning, everyone.

Donnie King

Good morning.

John Tyson

Good morning.

Alexia Howard

Okay. we need to focus in on the Chicken segment here. And I know in your prepared remarks, you made some comments about why things came up short this quarter. Can you talk about what was the big negative surprises? Chicken prices, it sounds like there were some operational and executional issues. And also, as we look forward, can you talk about how quickly you expect some of those issues to resolve and what gives you the confidence that they might improve over the remainder of the year? And then I have a follow-up.

Donnie King

Okay. Alexia, thank you and thank you for your question. I'll start out with some broad comments, and we will get a little more tactical as it relates to chicken and then wait for your next question. But I would just simply tell you that Q1 was a very challenging quarter for us. It's the confluence of several external factors across all businesses. We saw market swings across all businesses and they were unpredictable and sizable.

While we have opportunities to perform better, and you would never hear me say anything other than that, this is the first time I've seen all markets work against us all at the same time. It's the first time I remember market impacts being greater than those controllables that we have and the opportunity for improvement of them.

As we think about moving forward, efficiency in our operations and our company will be a focal point for us. There are some places where we need to make decisions faster and, in some cases, better decisions. In some cases, we will need to adjust our business model. And in other cases, the accuracy of our projections has to be better than what we've demonstrated here in Q1.

I'd remind you and everyone else that we're not bigger than the market. And in Q1 and over time, markets will do their job, and we simply have to do ours. Q2 will be seasonally softer than Q1, and the back half will be better than the first half. While the back half will be better than the first half, we feel good about our business outlook. For example, we knew the beef herd is nearing the bottom of the cycle. We knew pork had herd health issues and that there would be incremental packing capacity coming online and it did. We did not expect the incremental beef, pork and chicken in the marketplace domestically in Q1, especially in light of the fact that the cost of animals and the cut out of the pricing was declining.

Our Prepared Foods performed as expected, delivering on operating income. We grew share in both dollars and pounds in the quarter. And I would just remind everyone else before I get into chicken in the details is that we have a strong diversified portfolio, and we have confidence in our multi-protein strategy that it will deliver growth and shareholder value.

Now let me go a little deeper as it relates to chicken, and we perhaps can go even deeper later. In chicken, we have a differentiated model. We have the number one brand in chicken. We've talked often about the fact that our model doesn't get the highs or lows of the commodity markets. This does not mean we're not impacted. For example, we talked a lot about variable pricing models. We have those, but I would remind you that those pricing models have lags as well. As we started this year in chicken in particular, we had a good plan. We still like our chicken business, but there were a lot of moving parts in Q1.

So what happened in Q1? Our volume was up 3% and our harvest pounds were up 15%. This is due to a mix shift from small bird bone-in to more of a boneless product, and it was part of our strategy. Our supply plan is dictated by our demand plan. This is a core tenet of our business. We planned for a strong November and December. If you'll remember, for fresh chicken, if you remember, we shorted

fresh chicken in the last 3 years in a significant way, and we had a plan in place this holiday season to not have that happen again.

November and December were softer than we expected or planned for in retail fresh chicken. This created excess in our retail fresh chicken. Because sales didn't materialize in retail fresh, this triggered a resale or movement of products. The resale price was much lower than modeled for the original sale.

So to help you a little bit, I would say, just to dimensionalize this, that about two-thirds of our miss was market-driven and about a third of the miss was related to labor, yield and spend, some of which was associated with the movement of product because of the miss on fresh chicken. The movement of product from one location to another impacted labor, yield and created incremental freight costs. We also had some knock-on effects of building inventory as a result of this, inventory above our plan.

And as a reminder, avian influenza impacted our pricing and volume on both cost and chicken leg quarters in the quarter. There was more chicken, beef and pork in the market than anticipated.

So it sounds like a lot of excuses there. I get that. So now what, what are we doing? I'd tell you that we still have a great chicken business. We still have a good plan. We are cleaning up and have been cleaning up some issues from Q1 that I've talked about earlier. So as we think about from this since Q1, we have to control the controllables.

I would remind you that we are fully staffed, and we continue to invest in a better workplace experience through automation, etc. We are growing our business, servicing our customers and becoming the most sought-after place to work, and we will compete with the very best in the chicken space. So, let me pause and get a follow-up question and we will go from there.

Alexia Howard

Thank you for that. Just moving quickly to the Beef segment, you've given us a range of 2% to 4% on the operating margin side now. Prior to that, it was more open ended just below your long-term guidance. What has become clearer? What is more certain now about the outlook for this year? And what gives you the confidence that it will come in within that range and not below it? Thank you and I will pass it on.

Donnie King

Alright. Thank you. I'll start out on this, and then I will flip it to Brady for a few comments.

We're moving closer to the bottom or to the trough of the beef cycle. We obviously were surprised at the amount of beef harvested in our Q1. There was a lot more beef on the market than what we had expected, particularly in light of increased cost of cattle and at the same time, a decline in cut out. So that was a bit of a surprise to us. That's a miss for us.

But we are moving closer. We know that there are more heifers being harvested. We know there are more cows being harvested. We know what those signs are that we are looking for in terms of when the herd would rebuild. And it's going to require rain or precipitation. It's going to require the rancher to see more forage in hay availability. Those are some of the things you need to look for. But as we've gotten a quarter closer to answer your question, Alexia, we see a little more clearly than now. We know that the trough is coming, but the number you see is a conservative number for us and making every effort to make sure that we guide you to where we see Q2 and the balance of the year going.

And so, Brady, let me see if you want to add anything to that. Welcome, Brady Stewart.

Brady Stewart

Thank you, Donnie. And certainly, your points relative to cattle availability and the look into the future is spot on. The drought, lack of affordable hay and forage, and higher overall supply chain costs are still driving cow liquidation in parts of the U.S.

As we move out of this cycle of the cow liquidation and start to see some heifer replacements into the future, we will certainly have better visibility to the trough that you mentioned as well, Donnie.

Why I am optimistic about the future is the team has worked diligently and effectively to strategically align ourselves with suppliers to ensure we have the supply required relative to higher grading cattle. We feel good about global demand, specifically on higher-grading beef products from a macro standpoint. We're seeing some appreciation in drop credit values, specifically on specialty products, including fats and oils. And while it is hard to pinpoint the exact bottom based on the current drought and feedstock conditions, we are seeing some moderation and some signs of optimism relative to the drought conditions that we will keep an eye on moving into the future.

Operator

Thank you. And ladies and gentlemen, our next question today comes from Ken Goldman at JPMorgan. Please go ahead.

Ken Goldman

Hi, thank you. I wanted to ask a couple of questions. First, Donnie, you made a change at the top in the Chicken segment. Can you outline a little bit which changes are most important as we think about the next few years that you'd like to see and maybe why the change was made now?

Donnie King

Sure, Ken. I'd be happy to. David Bray was leading our poultry business, and I talked about in Q1 that we had some issues as it related to markets and the amount of protein on the market. The change that we made is a result of some of the controllables that I think we made some good decisions. I'd like to have seen those decisions faster and perhaps some better quality of decisions and there were things in Q1 as it relates to chicken that we could have done better. And I made the change. I went out immediately and recruited Wes Morris, who Wes has run many parts of our Chicken business. He's led our Prepared Foods business, and he's also led our Case-Ready beef and pork business. And had an opportunity to pick up a great talent with many, many years of experience and know-how in this business, and we made the change.

In terms of the overall organization, Shane Miller leaving our beef and pork business, our Fresh Meats business, the relocation got Shane. Shane is still actively engaged in the company. He and Brady are working through a transition. And so when Shane decided he could not move for reasons – By the way, Shane is still trying to figure out how he can get here and be a part of it. There are some personal things that he's got to deal with. But we were fortunate to pick up Brady Stewart, who was the COO of another company, and he's well versed in the pork business and the packaged meats business and could do a number of roles for us going forward. We're very fortunate to be able to pick up both Wes and Brady in our organization, and we look for great things from them. But we've got a lot of upside and runway in the organization because of them.

Recently, we announced Amy Tu leading our international business, along with a few other functions. But we're excited about Amy and what she's doing and her passion for the international market and her passion for growing Tyson in international markets. And I feel really good about where we are from an international perspective. I feel really good about where we are from a chicken perspective and the leadership there. I feel really good about where we are from a beef and pork perspective.

If you click down one level as it relates to beef, that team is largely intact moving here, and some have, in fact, already moved here. So Stewart, you saw the numbers in Prepared Foods. Stewart has done a really nice job of challenging the business and upgrading pork raw material into this branded portfolio that we have.

And then finally, actually today, Melanie Boulden is joining us. And so why Melanie and why a Chief Growth Officer? It was all in an effort to try to get a center of excellence here in Springdale, Arkansas around branding, marketing, communication and innovation. Melanie has got great experience in consumer packaged goods and most recently, chief marketing officer in a food and beverage company.

So I'll pause and take a breath right there, Ken, and wait for a follow-up.

Ken Goldman

No, no, that's helpful. Thank you for that. As my quick follow-up, it's obviously not the largest segment you have, but since you mentioned international, it's never made money. And I'm just curious. I'm not trying to be critical of it because, obviously, in the long run, it's going to be a business that should be very profitable for you and others. But what's the strategy?

Don, you've taken a much stronger tack toward, I think, profitability and margins and just efficiency than perhaps your predecessors have. Between you and Amy, what is the track that we should expect that margin to be going on ahead?

Donnie King

Thanks, Ken. We do appreciate the interest in our International business. I would tell you that we've invested a great deal in plants. And with COVID over the last year, particularly in the foodservice channel, we've had some headwinds with that. Those have lessened and we're in a sweet spot there in terms of our alignment with global customers, many of which are in the food service channel. But we also have launched a branded portfolio across Thailand, Malaysia and China, and we feel good about that. The brands are doing really, really well and provide us not only innovation or outside the U.S., and we also take that innovation and we add that and we bring some of those things back to the U.S.

But we feel good about it. It's been an investment. It's been a long time coming, but I think you will see here in '23, our international business deliver some really nice results in the way of operating income. Amy, anything you would like to add to that?

Amy Tu

Ken, thank you for the question and pointing out profitability, or non-profitability over the last few years. I think Donnie is absolutely right, this is our growth strategy. We've talked about in the past where global population growth will happen and it will happen outside the United States. And so we're taking our existing footprint right now, we're putting in place the kind of execution fundamentals that we need to have. And then we're also discussing with our other segments, the opportunities that lie before us, given the raw materials that we have here in the United States.

But Donnie just put forward exactly what we have outside the United States which are strong brands. We are launching smart factories. We are able to do things more quickly outside the United States which will give us ultimately a benefit for the entire company. So more to come, but we are very excited about what we see right now.

John Tyson

Hey, Ken, this is John. And I think it's just worth pointing out. The business has been profitable over the last few years. And on an EBITDA basis, we look at something in the high single digits for that. So I think there is financial performance to support the continued investment there, but at the right—

Ken Goldman

Yes, there is more to do it. Okay, perfect. Thank you, John.

Operator

And our next question today comes from Ben Bienvenu with Stephens. Please go ahead.

Donnie King

Hi, Ben.

Ben Bienvenu

Hey, good morning. I want to ask a follow-up on chicken. Donnie, I think you characterized the underperformance in the first quarter as two-thirds of the market, one-third Tyson-specific. As you look forward, understanding that your view is and I think we would agree that recovery is underway in commodity chicken fundamentals, what is the critical path from an internal standpoint to improve that business from here? I think last year, the focus was hatchability, that was a big opportunity around growing capacity utilization, what are the focus points as we move through fiscal '23?

Donnie King

Thanks, Ben. I will make a few remarks, and then I'll pass it to Wes for a little more detail.

As I said in my opening comments, also in the first question, we still feel really good about our chicken business. We think we have a good plan. Yes, we got hit in the mouth in Q1 because of all the protein on the market in Q1. And our tray pack, our fresh chicken business didn't materialize as we had expected. And so we created our own issue with that because of what happened in the market.

But I would tell you, we still have tremendous opportunity and upside as we execute this business. And it's nothing exciting, but it's the fundamentals of labor and yield and spend and just maintaining growing this business to fill up our capacity and service the needs that we have. And I would remind you and everyone else that we place chickens based on what our demand plan looks like. It's in service of our demand plan. So, as we go back and look at what happened in Q1 and think about the future, in Q1 strategically the only thing that went awry was the fact that the demand didn't materialize in the place at retail in which we thought it would. And so that triggered a number of other inefficient moves and activities.

But again, we think Q1, you've seen the numbers, Q2 is seasonally softer. But as we start getting to that Q3 time period, we feel good about it and we don't have something that's broken here like a hatch issue and a genetics issue. The time horizon for fixing this is much shorter than many of those things. Wes, anything you want to add to that?

Wes Morris

Yes. Good morning, Ben, and thanks for the opportunity. First, let me say how excited I am to be a part of Tyson Foods. This is a great chicken company. It's got great people, great brands, great customers. And I want to echo what Donnie said around, we did a lot of foundational work and executed it very well. We said that we would improve our capacity utilization, we would staff our plants and they are at a record staffing level.

We've added automation and got some opportunities as we start up that that negatively impacted our yield in Q1. And then we said we'd rebuild inventory post COVID to better service our customers and our order fill rate indicates that we did that well. And so from a live perspective, we performed very well. The volatility of our hatch numbers are behind us, and we did exactly what we said we were going to do on the live production side.

And so that allows us to focus more of our energy on standing up that automation to its expected results and to make sure we're still meeting the needs of the consumer. But the one thing that's obvious we can do better is understanding the consumer shifts in our business and making sure we got the right amount of birds in the right place at the right time.

Ben Bienvenu

Okay, very good. Thank you. My second question is on the Prepared Foods business, a very strong start to the year. The guidance is unchanged. I know it's early in the year, but implied in the guidance being unchanged is a moderation in the operating margin. So what is it that we would need to see for that to happen? How much of that is it's early in the year and you want to get a little bit more of the fiscal year under your belt to adjust that guidance versus explicit view that things soften from here?

Donnie King

So let me make a comment, and then I'll flip it over to Stewart. In terms of Prepared, we did deliver what we said we would in Q1. We feel good about that on a go-forward basis. With these iconic billion-dollar-plus brands that we have, we feel good about that. Stewart said in the last quarter that retail was really, really good, and we had some work to do as it relates to the food service side. And of course, we're still not back to pre-COVID levels in the food service channel, so there is some upside for that opportunities when that happens, but we need more demand there.

I would tell you, even in all of that we continue to grow our share in the foodservice, prepared and poultry business. But Stewart, why don't you add some color to this?

Stewart Glendinning

Yes. Thanks for that, Donnie. Well, look, foodservice, as I said last quarter, is operating from a very, very strong platform. And investors should expect to see that over the medium-term that, that business continues to grow and the profitability improves.

In the short run, we have got a job to do on foodservice, and I believe we are making progress there as I look at the pipeline that's developing. Very strong performance on retail, but acknowledge that in the first quarter, some of that is seasonal as you look at some of the Sausage Breakfast, Sausage Products that we have and we are taking some of that benefit. I feel good about the guidance we have given for the year. There may be a little bit of variability in some of the quarters, but I am really standing on the fact that this is a solid platform that we can continue to see go from strength-to-strength.

Operator

Thank you. And our next question today comes from Adam Samuelson with Goldman Sachs. Please go ahead.

Adam Samuelson

Good morning. So, coming back to chicken a little bit more deeply, I am trying to just kind of square the point on market demand dynamics were a bit responsible for pretty unfavorable mix. And, Donnie, you talked about your sales volumes in chicken up I think 2.7%, but harvest up 15%. So, clearly when you talked about too much meat in the market, if I think about your own harvest levels up 15%, that would represent a pretty disproportionate amount of the increase in poultry production in the industry in the

fourth quarter. And so I am just trying to get a sense of when you say market was the source of weakness, is it just pricing, is it mix, or is it just – look, we saw the big bird cut up be down, was the commodity market pricing was bad, or is it just demand in your highest value channel or higher value channel in retail tray pack and you had to sell that meat into the big bird market at a discount at a lower value?

Donnie King

Let me make a few comments, and then I will let Wes add some color to this. The miss for us was clearly in our fresh chicken, our tray pack chicken at retail. That was where we stumbled. The demand for our branded retail products was very good, demand for our foodservice chicken products were all very good. The thing that has exacerbated this was the amount of overall protein in the marketplace in Q1, beef, pork and chicken. While our harvest pounds were up 15%, remember that we are converting all those pounds into a boneless form. That's different. That's a mix shift and a strategy change as we get out of some of the more small bird, whole body, 8 piece type products. We talked about that last quarter. We have moved into a boneless mix in that area. And we have got more to come as it relates to that. But Wes, why don't you cover some of the details?

Wes Morris

Yes. Adam, thanks for the question. Like I said before, we executed our live plan very well and did exactly what we said we were going to do, but we did have a strategic mix change and had less bones. And then one of the other drivers was the impact of our sales of 2% to 2.5% of a lot of chicken depending on what size, rebuilding our safety stock inventory, and then the seasonal increase in inventory to supply wings to the marketplace.

But Adam, the way I would ask you to think about it is at a macro level, we did a very good job and we absolutely had the right number of chickens. We simply had them in the wrong place based on the post-COVID changes. And so we had more than we needed in our fresh chicken business and came up short in some other areas.

Adam Samuelson

Okay. And then, and this goes to both the performance in the quarter and the change in outlook for the balance of the year, you guys reported in mid-November nearly halfway through the quarter at that point, help me understand where the information disconnect was between live production operations and financial planning that there was this big of a disconnect in the period?

And in terms of the magnitude of the guided margin change for the rest of the year, is that just continued unfavorable mix? Is that cost? Is that contracting and pricing? I am just trying to make sure I understand the moving pieces on the magnitude of that margin change relative to three months ago.

Donnie King

Sure, Adam. So, I have said earlier that as a way of a reminder that we start with a demand plan and that over the past 3 years, we have not been able to service the demand in fresh chicken at retail. We were trying to correct that at this point. And every demand signal we had said that the demand was going to materialize and we placed chickens accordingly. Remember, we placed those chickens for that November timeframe back in August. And so we were going – I understand your point about we are in November and we are having the last earnings call. A lot of things from that day forward, the demand didn't show up in fresh chicken. A lot of the other things worked exactly the way we planned for them. But that trigger, if you think about fresh chicken, you typically put that products in a tray before you have the order. And when the order doesn't show up, then you have to take it out of the tray or sell it in the tray at a discounted or in a distressed fashion. We had a lot of that in our Q1.

We have cleaned up that. We are still trying to get ourselves going back again. Q2 is going to be seasonally softer, variable pricing models and the lag associated with that. I mean we will get caught up with that. The back half of the year, we feel good about where we are going to be relative to that. And so, Wes, that's I think the first question, what about the second one?

Wes Morris

Yes. Optimistic about the path forward. The USDA is projecting Q2 numbers around 2%, which is a lot less chicken availability than the 77 increase we saw in Q1. Then when you couple that with 4% to 5% less cattle, you should have an overall protein per capita that is much smaller than what we saw in Q1.

We are already seeing some changes in the marketplace. Since the end of the quarter, we have seen boneless go up a quarter. Wings are up around \$0.14, \$0.15. And so optimistic going forward that the chicken values will correct.

We have talked about variable pricing on a lot of these different calls. And the good news is it's much, much faster than the historical 1-year fixed price agreements. But unfortunately, it still has a short-term lag as these markets correct, it will take a minute to hit the sell sheet.

John Tyson

Hey Adam, this is John, too. I think there is just a couple of other things that we have said that are worth reemphasizing. And I think you asked a good question about, hey, what was going on, you have talked to this last time in November. I think in addition to all the poultry dynamics that Donnie was described here, I think there is still the difference of the outlook as it relates to beef availability, which I think was maybe a little bit of a surprise. And then I think as it relates to the outlook for the year, if you just look at what the public data says, I think it's something like 25% to 30% more chicken meat in the freezer. And so our plan is to account for working through that, but it does take some time to work through that. And there are timing differentials between how the market recovers and where our pricing recovers. So, all of that influences just the shape of the year for us.

I think we have also said this, but just to make sure the listeners on the call get it today, Q2 will be softer for us than Q1. And we expect to see a recovery in what is our Q3 and Q4, the second part of our fiscal year.

John Tyson

Thank you. And our next question today comes from Robert Moskow with Credit Suisse. Please go ahead.

Robert Moskow

Hi. Thanks for the question. The follow-up is it sounds like there is no change to your production plan for chicken. I think you had a plan of 42 million head per week. Is that still the same? And I don't know, like do you still have to harvest 15% more chicken now in order to satisfy the demand that you have three months from now? Are you still at a 15% increase in production?

Donnie King

So, let me make sure I separate it for you. Great question, by the way. One is head and one is weight. The 15% is weight. The head is different. We have talked in terms of in fiscal '23, by the end of fiscal '23, we would be at about 42 million head a week and that's still the plan. I would also tell you that the demand is there to support 42 million chickens a week. And if that changes, we will change. But that's what we see right now as we look at the demand picture.

The other thing that I think that – and I will just say it, as we talked about the beef cycle and the pork cycle and herd health and so forth, if you look at what happened in Q1, I think every chicken company in America read the headlines around there is going to be less beef, less pork, and the natural belief is that chicken will fill that gap. But the problem with all of that is there wasn't a gap in beef and pork in Q1. And so I think you are seeing even now based on the numbers that Wes quoted earlier, you are seeing adjustments in the marketplace relative to that. But we will always balance our supply with what our demand needs are. And it's just the fundamental tenet of how we operate this business and have operated for many years.

Robert Moskow

Okay. The follow-up is, I have gotten questions from investors asking whether this is an indication of much weaker demand from consumers. Would you describe it that way, or is it really oversupply that's been the issue? And then in the back half of your fiscal year, you think that, that's what's going to correct? It's not really demand needs to get better. It's that the supply needs to normalize?

Donnie King

I think you are spot on relative to that. And I think you are already seeing adjustments in terms of the supply plan. I would tell you, and I don't want to mislead you or anyone else on this, there is unusual, erratic, however you choose to describe it, behavior as it relates between channel swapping and even parts of the store and what's going on there. Swapping between proteins, all the normal things that you would know from all your years of covering this protein sector, they are all in play. But I think in Q1, this was a supply issue first and foremost. Secondly, there was some shifting in what part of the store and what products were purchased.

Operator

Thank you. And our next question today comes from Ben Theurer with Barclays. Please go ahead.

Ben Theurer

Yes. Good morning and thanks for taking my question. Just wanted to dig a little bit into if you could explain in more detail what happened on the derivatives in both cases chicken and pork? And if there is something else outstanding that might go wrong going forward and how you are planning on trying to not run into this? Because I think you said on pork, without the derivatives, it would have been positive, but then obviously, because of there has been were negative, so just to understand a little bit of that dynamic. That would be my first question.

John Tyson

Hey Ben, this is John. I think maybe just a couple of comments headlining on how we are using hedging and derivatives as it relates to a risk management overarching strategy. Generally speaking, what you would expect from us is to have coverage in the near-term, coordinated with what our sales picture looks like with customers. And we really use it as a margin management tool more than any type of speculative tool. And so I think that just emphasizing that last point, we would not project any – there is no outside bet sitting out there in terms of what the markets are going to be doing. We keep things in close and use it more from a margin management standpoint.

Ben Theurer

Okay. And then just from a like general within Prepared Foods, obviously, you had a very good quarter, both pricing still nicely up, but at the same time volume was actually up. Can you help us understand how much of that volume was just recovery in some of the foodservice things as you were saying, you still need to catch up here on the volume to get to pre-pandemic levels? And are you seeing any sort of elasticities or any headwinds on some consumers becoming a little more sensible to the price increases, just to understand the volume impact within it as it was still positive?

Stewart Glendinning

Yes. Sure. Well, Stewart here. I will just pick that up. So, first of all, look, like I said earlier, we have a very, very powerful platform here, both on the retail side and on the foodservice side. The increase in volume was not driven by food service. Foodservice for me is still a place where there is a lot of work to be done. A good platform, but opportunity to fill some plants to sell harder against volume that we lost during COVID.

This was driven by the strength of retail. And what was really impressive in the quarter was the ability of our brands to gain price to offset some inflation and also to gain ground with consumers. But we are working closely with our customers, we are providing the right level of support for our brands and I think the performance in this quarter just demonstrates the real strength of our retail platform.

At the same time, there is ground that we can cover in innovation. I am pleased that Melanie is on board. She is going to be a big help. There is ground we can cover from a productivity standpoint just in running our operations better. And certainly, we will start to fill up that foodservice volume.

Operator

Thank you. And our next question today comes from Michael Lavery with Piper Sandler. Please go ahead.

Michael Lavery

Thank you. Good morning. I just wanted to follow-up on the consumer demand piece and just understand, you have said you have seen channel shifts and protein shifts and things that sound pretty typical. But in just a few weeks, the elevated SNAP party is going to be over. And just curious how you think about for that cohort, which it is a certain demographic, but how do you think about that impact in your planning for the rest of the year?

Donnie King

Sure. I will start and then offer it up to anyone else that may have something to add. But if you look at the information that we see, it says the consumer is working through savings. In the middle of the pandemic, they were able to bank a lot of savings. And over the last little bit they have been working through that savings. And I think many consumers are now out of those savings and/or at least nearing the last of it. And so I would expect the consumer to be under more pressure as we move forward in this year.

But I would also remind you that as a company, if you look at our brands and we cover the spectrum across proteins, we have a product for every consumer across various proteins and price points. So, we feel very good about the fact that we can intersect with that consumer wherever they are. That's I think a good position to be in or the best position you can be in, and so we will see how it turns out. But we don't know any more about that than you do today.

John Tyson

Yes. I would add two things to what Donnie is saying. Number one, if you think about the prepared and retail branded side of our business, we have been paying attention to what the consumer is doing and feeling over the last few quarters and we continue today. I think the good news is even in these times where the outlook for the economy is evolving, we have had pretty steady growth and pretty strong performance in that part of our business, which tells us that while, yes, there may be a lot of behavioral changes going on in the economy, we see consumers come into the brands and the categories that we are in repeatedly. So, I think we feel good about that.

The second point I want to make is the supply and demand balancing on the fresh and frozen more commodity protein side of our business has more influence on how we are performing than does the macro situation because people are going to continue to eat protein. They may cut back on other things, but food is not one of them.

Michael Lavery

That's helpful. And just a follow-up on the beef spreads. You have called out the drivers of the pressure near-term, but any sense of how long before it can rebound? And I know you don't want to get into fiscal '24 really, but maybe any just directional guardrails of how to think about it? Is this going to be more of the same for a while? Is there something you can point to that's a catalyst one way or the other, just a little bit maybe longer look if there is anything you can add there?

Donnie King

Yes. I wish I could be here before you today and tell you I knew when that was going to happen, but there is some prerequisites before we are going to see that. Heifer retention, which is going to be driven by better precipitation, getting past the drought and for ranchers to have hay that's more affordable and forage land to be able to feed those animals. I don't think you are going to see heifer retention in a meaningful way until those things occur. And I have listened to every expert that's been through all of these cycles through all of these years, and I have been through a couple of them myself, I get a number somewhere between the spring of '23 and the spring of '24. That's how variable it could be.

What I can tell you is the harvest of heifers and the harvest of cows continue. And in a lot of cases, people are paying up for those animals to sell them for a lesser cut out. So, that's what I can tell you about it, Brady, anything you would add to that?

Brady Stewart

No, Donnie. I think you covered it very well. We have a different situation today than we have in the past as well relative to some of the interest rate pressures that certainly will have an impact as these ranchers decide to retain heifers as well. So, that coupled with some of the weather and impacts that we see certainly create the uncertainty that you outlined.

Operator

Thank you. And our next question comes from Eric Larson with Seaport Research Partners.

Eric Larson

Hi. Yes. Thanks for taking my question. It's on the beef cycle again. It's not surprising that we continue to see cow and heifer slaughter, but the question that I have, and it's related to this, we are at 50-year low on these various cattle sectors and it seems like the recovery for this will certainly take quite a bit longer than maybe I would have expected. And now when you have got new capacity coming on stream from some more competitors, what does the increase in capacity with lower and maybe more sustainable lower supplies mean for the mid to longer term margin for your business?

Donnie King

Yes, I will make a few comments, and Brady can step in on this. I think you have described it very well in terms of what the levers are here. Everything you have said I think I agree with what you have said and how you characterize it. And you have also described this future state where there will be more packing capacity with fewer animals. And so if you build the capacity for these large plants, you can spend \$1 billion to build a beef plant. So, if you spend \$1 billion to get a beef plant, you are going to process animals and so that could all likelihood drive up the price of the cattle that are available at that

point. But you are going to get some pushback with the consumer if you try to cover that or try to get cut out to cover that.

So, I see all the same pressures and dynamics that you just outlined, and it's going to take a bit to rebuild the herd. And once we get to whatever the bottom is, we are looking at 2-plus years to be able to see some better times. Brady?

Brady Stewart

Thanks for that, Donnie. I think there is a couple of other factors that we need to consider as we come out of the cycle, and one of them is certainly relative to export demand. And we have seen an increase in terms of demand from our export partners relative to higher grading cattle. I think that is an anomaly relative to cycles that we have certainly seen in the past, and it's something that we will be watching as well.

Now, we have seen the strength that I mentioned earlier relative to some of the drop values in byproducts as well. So, certainly combining not only the supply factors that you touched on from a live cattle perspective, but also the demand factors that are going to come into play from both our export customers and our domestic customers is certainly a focal point for us.

Eric Larson

Thank you, guys.

CONCLUSION

Operator

Ladies and gentlemen, this concludes our question-and-answer session. I would like to turn it back to management for any final remarks.

John Tyson

Sure. This is John again. And just a couple of things to wrap up on. We want to make sure we got to cover with you before I hand it to Donnie to close it off.

I think the first thing, if we think about the top line guidance that we have given, our outlook there is probably in the bottom half of that range just to crystallize where we are today. And I think the second thing is we didn't really have to touch on capital allocation today, although I know it's a point of interest for many folks, and our capital expenditure outlook for the year is firm at or around that \$2.5 billion number. But I think what we would guide to as we look forward, that's probably the high watermark. And for us, our priorities are preserving financial strength and flexibility, investing for returns in our business. and then after that, being disciplined on M&A, dividends and share repo. So, I just want to make sure people understood what the outlook was like there. And yes, I think with that, Donnie, I will hand it back to you just to close it out.

Donnie King

Alright. Thanks, John. We are building a world-class business organization positioned to take advantage of the opportunities in front of us. We remain confident that our strategy will deliver long-term growth and shareholder value. Thank you for your interest in Tyson Foods, and we look forward to speaking with you soon. Goodbye.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.

