

Tyson Foods, Inc.

Third Quarter 2023 Earnings Conference Call

Monday, August 7, 2023, 9:00 AM

CORPORATE PARTICIPANTS

Sean Cornett – *Vice President, Investor Relations*

Donnie King – *President and Chief Executive Officer*

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Brady Stewart--*Group President, Fresh Meat*

Stewart Glendinning--*Group President, Prepared Foods*

Wes Morris--*Group President, Poultry*

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PRESENTATION

Operator

Good morning, everyone, and welcome to the Tyson Foods Third Quarter 2023 Earnings Conference Call.

All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key, followed by "0".

After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*" and then "1" on your touchtone telephone. To withdraw your questions, you may press "*" and "2".

Please also note today's event is being recorded.

At this time, I'd like to turn the conference call over to Sean Cornett from Investor Relations. Sir, please go ahead.

Sean Cornett

Good morning and welcome to Tyson Foods' Fiscal Third Quarter 2023 Earnings Conference Call.

On today's call, Tyson's President and Chief Executive Officer, Donnie King and Chief Financial Officer, John R. Tyson, will provide some prepared remarks, followed by Q&A. Additionally, joining us today are Brady Stewart, Group President, Fresh Meat; Stewart Glendinning, Group President, Prepared Foods; Wes Morris, Group President, Poultry; and Amy Tu, President, International and Chief Administrative Officer.

We have also provided a supplemental presentation, which may be referenced on today's call and is available on Tyson's Investor Relations website and via the link in 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 all comments reflecting our expectations, assumptions or beliefs about future events or performance that do not relate solely to historical periods. These forward-looking statements are subject to certain 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 projection. 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'll turn the call over to Donnie.

Donnie King

Thanks, Sean, and thank you to everyone for joining us this morning. Before we review the results, I'd like to start out by discussing my vision for Tyson and the decisive actions that we are taking to successfully navigate the current market environment.

We remain fully committed to our vision of delivering sustainable top line growth and margin improvement, over the long run. With our leadership team, we are executing a multi-point plan focused on efficiency and modernization, including taking a much closer look at our cost structure across the business to drive operational excellence.

We are already seeing tangible benefits of our efforts. We've been through market cycles before, and I'm confident that we have the right strategy, seasoned leadership and team members in place to emerge stronger from this one.

We are making good progress and saw sequential improvements in our results in Q3. We're not yet where we need to be, so we continue to focus on what we can control. Earlier today, we announced our intention to close four more of our chicken facilities, demonstrating our commitment to taking bold actions to improve performance.

Beyond these important actions, I remain optimistic about our future. We are a leader in our industry, and we continue to innovate and take market share in most of our categories. I remain very confident in our long-term strategy, and we are leaving no stone unturned to maximize value for shareholders.

Diving into our results, we continue to compare against strong performance across our segments, last year. However, I am encouraged by the sequential improvements we made in Q3.

Let me start with chicken. Market conditions in chicken are still challenged with commodity prices across most cuts remaining significantly lower, compared to last year. However, adjusted operating income improved by more than \$100 million sequentially, without any material benefits of market tailwinds.

The sequential increase was primarily due to internal actions we took. For example, in our fiscal Q2, we decided to close two of our plants, convert two others to boneless and rationalize our SKUs, inventory and other assets. In Q3, the team made significant improvements in yield, spend and efficiency, leading to strong improvement in profitability in just one quarter.

As we become more productive with automation and team member engagement, we can further optimize our footprint and reallocate resources to more efficient plants, while still having ample capacity to service and grow with our customers.

This enabled us to announce today that we plan to close four additional chicken facilities, bringing the total announced closures to six this year.

We also recently made the decision to transition away from the no-antibiotics-ever labeling for Tyson-branded chicken to a "no antibiotics important for human medicine" approach. Data suggests the use of ionophores can lead to more uniform birds with consistent weight. In turn, we can more accurately forecast supply and demand, helping to meet the needs of our customers and consumers.

And I want to emphasize that we will continue to evaluate all options, including more actions like these across all of our businesses.

In beef, we performed better than expected. Our results were driven by our disciplined approach to balancing supply with customer demand, while taking advantage of seasonal increases in cutout values.

However, the beef industry will likely continue facing headwinds. As you may have seen in the latest USDA cattle inventory report, herd liquidation continues to tighten supply, leading to higher cattle cost, narrowing spreads and difficult export market conditions.

Pork remains under pressure across the industry, and we continue to see headwinds there with both our internal live production and our external sourced hog supply. Increased feed cost and low cutouts drove spread compression through our results. We also had incremental negative impacts in Q3 from a fire at one of our processing facilities.

Finally, to Prepared Foods, which is a key growth pillar for the future. The business performed well in Q3. In retail, our core business lines saw strong volume growth in the quarter and continued to gain pound and dollar share.

In broadline food service, Tyson Focus 6 continues to outpace the industry in volume growth. This led to better-than-anticipated margins in Prepared Foods.

In short, our results this quarter demonstrate that chicken is gaining momentum, and our branded foods business remains an area of strength.

Let me add some further color on the performance of our branded business versus our top peers. As I mentioned earlier, our Tyson core business lines, including the iconic retail brands--Tyson, Jimmy Dean, Hillshire Farm and Ball Park--continue to outpace total food and beverage and our peers in volume growth, up 5% versus a year ago. We believe this points to the strength of our core brands and sets us up well for the future.

We continue to show market share leadership in most of the retail categories in which we compete, delivering both dollar and pound share growth in the aggregate and across dayparts. Tyson, Jimmy Dean, Hillshire Farm and Ball Park all hold favorite brand status with consumers over our nearest competitor, by a wide margin.

Our share performance and brand strength demonstrate the momentum we've gained with consumers, and they will continue to spend on brands they know and trust. Likewise, we will continue to invest in merchandising and advertising to support our brands.

While we are pleased with our brand strength and share performance, we are constantly building new innovations to expand the appeal and market opportunities for our products. Over the past few years, our innovations have generated roughly \$2 billion in annual sales. Let me highlight a few products we've launched this fiscal year that I'm most excited about.

Earlier this year, we announced the Tyson Original Chicken Breast Sandwich for retail channel, which won the *People Magazine* Food Award for Best frozen sandwich. Furthermore, we were excited to see that more than 70% of the buyers were new to the Tyson brand and more than 20% were new to the category.

We also launched Tyson chicken sandwiches in food service space, where our sandwiches won awards from Food and Beverage Industry, National Agri-Marketing Association and National Association of Convenience Stores. As you can see, our innovation in chicken is able to be deployed across channels and occasions, highlighting the power of our scale.

Moving to Jimmy Dean, which is already a clear leader in the breakfast meal occasion, we're expanding with differentiated capability-based innovation by launching handheld breakfast items. For instance, this year, we launched the Jimmy Dean Biscuit Roll-ups in Foodservice channel and Maple Griddle Cakes and Toaster Pop-ups in retail. We are seeing strong customer adoption of these products and promising early consumer demand.

In Hillshire Farm, one area of focus in retail has been the trend towards healthy snacking. For instance, we launched Hillshire Farm Snack Kits with 100% real premium meats, cheeses and crackers, all ready to eat on the go. If you haven't already, I encourage you to try our Snack Kits like oven-roasted turkey breast, cheddar cheese and wheat crackers. We launched these products at attractive price points and have already seen strong acceptance with major retail customers.

In the Foodservice channel, we are now participating in the fast-growing Cupping Pepperoni category with our very own Hillshire-branded Cupping Pepperoni product. We are always on the lookout for how to keep our brands on trend across channels.

Now I'll turn things over to John to review our financial results for the quarter in more detail.

John Tyson

Thank you, Donnie. Let me start with a quick summary of our total company results and then review our individual segments. Our sales were down 2.6%, year-over-year, driven by pork and chicken, where we saw a reduction in price per pound. More than 90% of the decline in adjusted operating profit was driven by lower profitability in our Beef and Chicken segments.

Higher input cost per pound was primarily due to the increase in cattle costs along with unfavorable derivative impacts and higher labor costs, but these were partially offset by lower hog costs, reduced outside purchases of meat in our Chicken segment and lower raw material costs in Prepared Foods.

While profit was down substantially versus last year, it's important to note that it improved meaningfully versus last quarter, and adjusted EPS increased \$0.19 on a sequential basis.

Challenges remain, but we continue to improve efficiencies by controlling what we can and believe we're heading in the right direction.

Now on to the individual segment results, starting with Beef. In Beef, revenue was essentially flat, year-over-year, with lower head throughput offset by higher pricing. Operating profit was down, primarily reflecting higher cattle costs, which increased \$610 million on a like per pound basis.

Operating margin of 1.6% was down from the historically strong margins of more than 10% in Q3 of last year.

On a sequential basis, disciplined yield and procurement benefits, along with seasonal cutout improvement, helped drive better-than-expected operating profits.

Beef is likely to continue to face headwinds, and we don't expect the ongoing tightening of cattle supply and spread compression to abate, until herd rebuilding is well underway.

Now moving to Pork. Revenue was down 18%, driven primarily by lower pricing due to softer demand. The operating loss in the quarter was \$70 million, as spread compression continued to pressure our margins. This was exacerbated by market pressures in our live operations, lower exports and the operational impact of the fire at our Madison facility.

Moving on to Chicken now. Sales declined 3.5%, year-on-year, driven by lower pricing, partially offset by volume growth. The decrease in pricing reflects the challenging commodity market. While volume grew modestly versus last year, it decreased more than 4% on a sequential basis. This sequential decline is more than historical seasonality, reflecting steps we took to align internal production to consumer demand, while also reducing finished good inventory by \$70 million.

Year-over-year profitability was negatively impacted by market conditions and higher feed costs and a \$65 million net derivative loss in the current quarter, compared to a \$23 million loss in the prior year period. On a sequential basis, it's worth noting that AOI improved by more than \$100 million.

In Prepared Foods, sales declined 2.6%, driven by both volume and price. The volume decline was driven by Foodservice, as the trajectory of this channel's recovery remains a little uneven. As Donnie mentioned, our Focus 6 categories are outpacing broadline industry and maintaining their share. Our lower Foodservice volumes were partially offset by continued growth in retail, highlighting the strength of our brands.

Lower pricing was primarily driven by lower bacon prices, reflecting the underlying cutout values for bellies. Compared to the prior year period, operating profit was up \$34 million due to lower raw material costs and productivity gains, which was partially offset by lower sales, higher packaging costs and increased MAP investments.

Despite increased spending in brand-building efforts, we were pleased with our operating margin of 9.2%, particularly so given the challenging retail food environment. Our Prepared Foods segment remains key to our strategy, providing a high-margin, stable business with many growth opportunities ahead, helping to offset the pressures and volatility in commodity prices.

Before moving on to balance sheet items, I want to provide some context on the goodwill impairment charge that impacted our reported numbers on a GAAP basis, the details of which will be provided in our 10-Q when we file it, later this week.

The interim impairment testing we did this quarter resulted in noncash charges in the reporting units that we have been disclosing as at risk in our filings going back to last fiscal year. The impacts of the charges are not shown in our presentation this morning as they are not reflected in our adjusted results, but all reconciliations to reported results can be found in the appendix.

Now, to our financial position and capital priorities. We're building financial strength, investing in our business and returning cash to shareholders remain the priorities of our capital allocation strategy.

Q3 operating cash flow was \$660 million, in line with expectations with prudent working capital management partially offsetting lower profitability. Inventory reduction was the primary driver of

improved core working capital. We still see some opportunity to improve inventory days and drive better cash flow.

Year-to-date, CapEx is roughly \$1.6 billion as we continue to moderate our pace of spending. Based on this pace, we don't expect CapEx to exceed \$2.1 billion, below our prior guidance of \$2.3 billion.

We ended the quarter with \$3.7 billion of liquidity and net leverage of 3.2x. Our balance sheet management approach remains unchanged as we are committed to building financial strength, maintaining our investment-grade credit rating and targeting net leverage of at or below 2x net debt to EBITDA for the long term.

During Q3, we returned \$167 million to shareholders via dividends and \$11 million in share repurchases. We remain committed to maintaining a disciplined yet opportunistic capital allocation strategy, ensuring that we deploy resources to maximize long-term shareholder value.

Now, let's review our updated outlook for fiscal 2023. We're maintaining our total company sales guidance range of \$53 (billion) to \$54 billion, and we expect to be at the lower end with roughly flat sales growth for the year.

Turning to AOI. In Beef, based on our year-to-date results, offset by anticipated live cattle cutout spread compression, we expect full year margins to be at the higher end of our range of between a loss of 1% and a gain of 1%.

For Pork, due to ongoing market dynamics impacting our Pork segment, we now expect full year margins to be between a loss of 4% and a loss of 2%, but at the higher end of that range.

In Chicken, we're gaining momentum. But with our results year-to-date, including net derivative losses, we expect full year margins to be at the lower end of our range of between a loss of 1% and a gain of 1%.

Prepared Foods has generated strong margins, throughout the year. With continued investment to support our brands, we expect margins to be at the higher end of the 8% to 10% range for fiscal 2023. And as I mentioned earlier, we're reducing our expectations for CapEx to approximately \$2.1 billion.

Our expectations for net interest expense and tax rate remain unchanged at around \$340 million and 22%, respectively.

So in summary, while the current operating environment is difficult in several of our businesses, we are making improvements across our operations, and we are optimistic on our long-term growth opportunities. We have great teams across our segments. We've got growing demand for our products and the right portfolio mix to win in the marketplace.

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

QUESTION AND ANSWER

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 both to our prepared remarks and the following Q&A. Operator, please provide the Q&A instructions.

Operator

Ladies and gentlemen, at this time, we will begin the question-and-answer session. To ask a question, you may press “*” and then “1”, using a touchtone phone. If you are using a speaker phone, we ask that you please pick up your handset, prior to pressing the keys. To withdraw your question, you may press “*” and “2”.

We do ask that you limit yourself to one question and one follow-up. If you have further question, you may re-enter the question queue.

At this time, we will pause, momentarily, to assemble our roster.

And our first question today comes from Alexia Howard from AllianceBernstein. Please go ahead with your question.

Alexia Howard

Good morning, everyone.

Donnie King

Good morning.

John Tyson

Good morning

Alexia Howard

Okay, so there's obviously a lot of moving pieces here on the quarter. Could we maybe take a step back and get your overall take on the quarter and where we're at in the recovery of your commodity meat segments? Just trying to put things into context here. And then I have a follow-up.

Donnie King

Okay. Well, good morning, Alexia, this is Donnie King. Let me start out with thanking you for the question. And as is no surprise, markets continue to be challenging, and they're challenging for everyone. I will tell you that we continue to execute our strategy. And I would tell you, we've had the best execution in our Q3 that we've had since pre-pandemic times.

In Q3, we saw a sequential improvement across all businesses, led by Chicken as well as--led by chicken as we focused on our cost structure. We have aligned our supply to our demand, as we pursue profitable growth. We are controlling the controllables across all businesses.

I would tell you that we're not surprised by Beef and Pork results. We expected it. We are happy to report that we're winning with customers and consumers and gaining volume and dollar share. We are taking decisive actions, as we talked about this morning, rightsizing and modernizing our footprint. We continue to invest in automation and digitalization. We continue to invest in our team members and their work experience.

We are pursuing growth in value-added and branded categories. In Chicken, behind the number one brand in chicken, Tyson; in Prepared Foods behind Jimmy Dean, Hillshire Farm and Ball

Park, we are number one in eight of nine categories we compete in at retail. We hold number one or number two positions in most Foodservice categories.

And as I said this morning, we will continue to evaluate everything we do.

Tyson has been around since 1935, and I've been around since the early '80s, and we've seen many cycles, before. We always come out better, stronger and faster, and we will this time,, as well. That said, we have more to do, and we're excited about our future. Our leadership team and our 140,000 team members are aligned to maximizing shareholder value. That's a little bit of color.

Let me flip it over to Brady, and he can speak to a little bit around the Pork and Beef business.

Brady Stewart

Sure. Thanks, Donnie. First of all, in our Pork business, I think it's important to break the Pork business into two different segments. First, as John and Donnie indicated in the opening remarks, we faced some challenges relative to the economics in the Pork business, specific with live operations.

It's well documented that the pork industry is in the midst of a liquidation cycle right now. We believe that the markets will, in fact, take care of themselves. But over half of our losses in the quarter were attributable to live ops and price discovery relative to live ops with some of our suppliers.

Fresh pork, on the other hand, the other half of that segment, was impacted by the fire we had in Madison. And outside of that, we saw strong improvement in terms of operational execution in our Pork business. We're excited about the team that we've assembled here in Springdale and believe we have a bright future in front of us, as we continue to execute on those operations.

On the Beef side, we'll continue to focus on what we can control relative to moving through this beef cycle. We're going to continue to align our supply with demand and drive value-added, including case-ready, to make sure that we continue to be closer to our customer and try to de-commoditize that business. Thanks for the question.

Alexia Howard

Great. And then if I go back to year, I mean, this time last year, you were looking for strong and speedy recovery in the Chicken margins based on improved hatch rates and capacity utilization. Obviously, there was the hiccup over the holidays with the forecasting error, but it seems as though the environment has changed, materially. What has changed in the environment? And how quickly do you think you can get back on track on the Chicken side of the business? Thank you and I'll pass it on.

Donnie King

Thank you, Alexia. We are encouraged by the sequential improvement in 3Q and especially in June. As--we have much work left to do, but we're on the right path. And I think that's important to call out. We're controlling the controllables better than before, and I mentioned earlier that the best I've seen in terms of execution since pre-pandemic.

But let me flip that over to Wes and let him add a little bit more color on chicken.

Wes Morris

Yeah, sure. I, too, am encouraged by the sequential improvement. The team is focused on what they do day in and day out. And we've seen a big step change in improving yields, labor efficiency, the line efficiency and spend. And at the same time, we've seen great improvement in order fill and on-time delivery.

Alexia Howard

Thank you and I'll pass it over.

Operator

And ladies and gentlemen, our next question comes from Ben Bienvenu from Stephens. Please go ahead with your question.

Ben Bienvenu

Hey, good morning. Thanks for taking my questions.

Donnie King

Good morning, Ben.

Ben Bienvenu

So, I want to start on the Chicken business. Donnie, you noted the sequential improvement in the business. You also called out the actions you took to close four facilities. I recognize not all of those are lot kill harvest facilities, but I do think there's some sizable facilities in that footprint. So, could you talk a little bit about what the net impact to production might look like, as you layer some of that production into the rest of your facilities and then think about what the go-forward looks like?

Donnie King

Sure, Ben. I'll add a few comments, and I'll flip it to Wes to add a little more color. In terms of the plant closings, closing plants is never easy for anyone involved. The fact is it can be gut-wrenching. But I would tell you with a great deal of gratitude and thanks to our team members, our family farmers and the communities impacted, we made those decisions.

And earlier today, we announced the closure of the four plants, bringing the total to six, this year. The facilities that we are closing, just to give a little color about them, they're typically smaller in scale and in need of major capital to make them viable. And so, that's an important detail. And I'll flip it over to Wes to give you a little color on the capacity.

Wes Morris

Yeah, Ben, I would answer it simply this way, we're moving our existing sales to more efficient assets. And so, no material change in volume in any way, shape or form in excess and 90%, once implemented.

John Tyson

Hey, Ben, this is John, if I can just add in a little bit because I think you're trying to ask what's the impact on these moves. So, you heard Donnie talk about adjusting the need for capital investment in some of the older facilities. We see that as a benefit with these moves.

I think, number two, we're talking about taking out around 10% of harvest capacity, which puts our asset utilization when all things are said and done, up closer to that 90% out of the low 80s. And not just talking about the asset closures, but when you think about the asset closures, the NAE to NAIHM move and some other operational changes that we're making we've talked a lot

about last year around mix, etc., we would expect somewhere around a \$200 million run rate uplift from those moves.

And so, exactly when all that comes to fruition in the end of '23 and '24, we can't peg it all to one date. But that's kind of order of magnitude what we're talking about here.

Ben Bienvenu

Okay. That's very helpful. Thanks. Maybe thinking about the Pork business. You noted the facility fire impact in the quarter. We have been seeing the cutout rally pretty materially. So kind of a 2-part question.

One, I know despite the guide down for the balance of the year in Pork, how would you expect Pork packer margins to migrate as we move through the rest of this year? And then two, as you've seen some of the cutout costs prices that rally pretty materially, what impact does that have to cost of goods sold on the Prepared Foods business, as well?

Donnie King

So Ben, if I could make a couple of comments and I'll let Brady add color, too, Q3 was challenging, and we expected it to be. But as Brady mentioned earlier, we are absolutely laser-focused on those things in which we can control.

I'll let Brady, if you would, speak to -- from the hog side as well as from a Pork perspective.

Brady Stewart

Sure. Thanks, Donnie. I think there's a number of things at play here that we'll continue to evaluate, as we learn more about these markets. And obviously, one of the biggest impacts relative to the supply-demand equation that we've seen in the last several months is the Supreme Court's ruling on Proposition 12.

I think as an industry, we're still learning what total impact that has from a supply-demand perspective. I think it's somewhat difficult, right now, to totally forecast with great accuracy how that all plays out, coupled with the fact that, as I referenced earlier, we're in the midst of a--sell liquidation cycle, as well, in the industry.

We're going to continue to monitor these macroeconomic factors that impact our business. But let me be clear, we have the opportunity to continue to control the controllables, continue to use our footprint with our case-ready and value-added assets to get closer to the consumer. And I feel good with the team that we have here in Springdale, who stood up to manage the Pork business and are seeing significant operational improvements in that business.

Operator

And ladies and gentlemen, our next question comes from Peter Galbo from Bank of America. Please go ahead with your question.

Peter Galbo

Hey, guys, good morning. Thanks for taking the question.

Donnie King

Good morning, Peter.

Peter Galbo

Donnie, maybe we can actually start on Beef. I think you said it came in better than you expected in the quarter but again, your outlook here in 4Q, maybe a bit weaker. And I just wanted to give you a chance to talk about how you see that business playing out over the next 18 months.

Not asking for formal guidance, but I think the last time we were in this part of the beef cycle in '14 and '15, you went through an extended period where packer margins were actually negative. And is that--within your consideration set, is that in your outlook? Just would be helpful to hear from you.

Donnie King

So, Peter, let me start off with--and we did, in fact, have a better quarter than expected. We were not surprised, necessarily, by the Beef results. As Brady has mentioned and John did in the opening remarks, we continue to see herd liquidation, but we are focused on what we can control. Let me flip it over to John and let him add some commentary around this.

John Tyson

Hey, Peter, yeah, just regarding your question on the outlook, I think a couple of things. So you did note, right, just on what the implications are with our guidance ranges on the balance of our '23, and we base that on dynamic market conditions. We're obviously being as intentional and aggressive as possible in trying to balance that supply and demand to manage the spread. But knowing what we know today, that's where things sit.

As we think about '24, we expect to give you guidance in November, as has been customary for us in the past kind of annual cycles. But as it relates to making any projections or estimations about what the future looks like. As we move into the fall, we'll start to see some data around where pasture conditions were, what are the herd numbers looking like, what is the cow harvest.

And I think from there, at that point in time, we might be able to make better projections about what '24 and '25 look like. And so, I think that's probably as much as we can tell you on that, today.

Peter Galbo

No, that's helpful, John, Thank you for that. Just kind of as we think about botch-outs. And then maybe just back on Chicken, guys, just two questions--or a 2-part question. First, with the for facilities you announced today, are there any further anticipated impairments that you may have to take, or kind of was that all contemplated, today?

And then secondly, maybe more broadly, Donnie, this mark-to-market hedging program in Chicken seems to kind of be an unexpected headwind a lot of quarters. Just curious, as you're reevaluating all parts of the business, I mean, is there a thought process on just unwinding the hedging program and kind of going to a more hand-to-mouth approach? Thanks very much.

Donnie King

Sure. Thanks. Let me--in terms of the plant closures, as I said earlier, we're continuing to evaluate everything as we automate and modernize these assets. And so, we'll continue to look. I will tell you from an execution standpoint, again, performance was much better in Q3 and a lot of momentum moving into Q4 in our Chicken business.

We're still growing with customers, and we still have capacity to be able to do that, going forward. So--but in terms of mark-to-market, I see it, as well. We've talked about it a great deal and what the other options are for that in the business.

Let me send it over to John and let him add a little color about that.

John Tyson

Yeah, I think there are two questions in there, one around the impairments and one around the mark-to-market program. I think on the hedging program, look, we manage that--try to manage for margin with--for ourselves and as part of our relationship with our customers. We're always evaluating how we can do things different and better and recognize that it can create a little bit of noise in the numbers but at this point in time, don't have any plans to change our approach on how we do that. That's number one.

And then on the impairment, I think it's just worth pointing out, there was a goodwill impairment in our Chicken business in our Q3. But as it relates to these asset closures, the details of those charges would come through in our Q4. And we'll give a little more clarity on that as it relates to the asset impairments and the onetime cash costs, which all continue to get worked through as we just work through the details of the closure.

Peter Galbo

Great, thanks very much, John.

Operator

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

Adam Samuelson

Yes, thank you. Good morning, everyone.

Donnie King

Good morning, Adam.

Adam Samuelson

Good morning. So, maybe just continuing in Chicken. And John, you gave some helpful color on quantifying kind of the benefits from some of the plant closures and production shift. On the business, you quoted a \$200 million kind of profit run rate. That would equate to, give or take, 110 or 120 basis points of margin at your current revenue levels.

So, as we think about where you're exiting fiscal '23 with the business in a loss position, the cumulative effect of those actions would get you to functionally marginal levels of profitability. So help us think about beyond that. So, these are things you can control, and they get you slightly profitable. Is it really a market-dependent question on chicken demand has to improve, chicken commodity, chicken pricing has to improve is what would actually get you to those historical 5%-plus margins that the company had been previously still aiming for, longer term?

John Tyson

Yeah, Adam, I think I would point out to a couple of things there. So first off, we're talking about the sequential improvements in operational execution. And more or less, you haven't seen market conditions materially change, quarter-to-quarter. So, I guess we just do emphasize that as a proof point that we're talking about execution, but holding the external data mostly static, we're starting to see that come through.

And you did pick up correctly on the \$200 million as kind of a run rate number. And again, when we talked about making the same amount of food in a smaller footprint, we do have some--we have confidence in just what that cost elimination means from an overall profitability.

We obviously are subject to where commodity markets move on both the input and the market side. So ,recovery there helps us as it does everyone in the industry. So, we kind of focus on what's in our control. And I think beyond what I've just said, it's probably too early to issue any numbers for '24. We'll give a look at that when we get to the November call. So hopefully, that's somewhat more helpful than what you're looking for.

Adam Samuelson

No, it is. And I guess, though, if I think philosophically, historically, the company would always talk about profitability in Chicken and less volatility than the industry as a whole and not seeing the lows that others in the industry see, not seeing the same highs. And not saying that others in the industry haven't seen real lows in the last six to 12 months. It's been a real challenge for the whole industry.

The historical model would have made us think that Tyson's Chicken business would be more resilient. So how does the experience of the last year kind of inform how you would think about the Tyson's relative performance versus the industry and the margin potential of the business is currently constructed?

John Tyson

I'll let Donnie comment on that one.

Donnie King

As I said earlier, Adam, we believe in Chicken, we're on the right path. I would tell you, it's the right path. We've been on that path for about two years now. And we've had a number of fits and starts from the breeder side to demand--the demand picture. We're on our way to healing from a genetics perspective on the live side.

In terms of our operations, they're performing better than they have. But then the third one, and it really impacted us in Q1 last year, is the demand picture that we struggled with getting a really accurate view of that.

I would tell you the good news is, in Q2, we were able to get that done. We actually started seeing benefit of that in Q3. And so, we feel like we have a better picture of what the demand truly and consumption truly looks like. And that informs us again, in terms of supply.

And so we feel more balanced today than we have over the past two quarters. And the executional elements that we've talked about, we're obviously doing those a lot better than before. And then if you look at the bridge that you're trying to create basis your question, yes, there are some asset impairments. Yes, there are some plant closures.

There's the typical labor yield and all those type things that we're managing. But we are doing every one of those things. And so, I feel really good about where we are in Chicken and the path that we're on. And the future looks really good to me. John?

John Tyson

Yeah, and Adam, I just want to add and emphasize something we already talked about, but I don't remember exactly how you asked your question, but something to the effect of, hey, what's

different right now or looking backwards. And it's worth pointing out, I think, we've taken pretty meaningful steps to get the cost structure back in balance. That includes the two closures back in the March time frame, the NAE move that we've talked about, as well as these additional ones.

So I think just pointing to that evidence and then when you look at quarter-over-quarter, market condition is the same. We're delivering on the operational execution. There are multiple proof points in the last, call it, nine to 12 months that I think we are--we believe, are indicative of the trajectory on this business.

Adam Samuelson

Okay, that's helpful color. I'll pass it on. Thanks.

Operator

Our next question comes from Andrew Strelzik from BMO. Please go ahead with your question.

Andrew Strelzik

Hey, good morning, thanks for taking the questions. My first one is related to the chicken facility closures that you just announced. But I'm wondering if you could compare and contrast the Chicken dynamics to what's going on in the Beef and Pork operating environment. You talked about controlling the controllables and utilization rates.

And certainly, you spoke about how difficult decisions are to close plants. But why does it make sense to do that in Chicken and not across your Beef and Pork businesses, given the supply contraction that you're talking about?

Donnie King

Sure. Let me start out and remind you that I said we were looking at everything, and we are. And so, I get your question around why not look at Beef and Pork. And again, I would tell you we are looking at everything in terms of how it works, across the board.

Fundamentally, we are focused on executional excellence across all businesses and functions at Tyson, including the overhead and cost structure at our corporate facilities. And so, we're doing that, well. I'm not saying--I'm not telling you that we're not looking at Beef and Pork in the same manner that we have looked at Chicken. We're evaluating everything. And I think that's probably the biggest takeaway from that, but there was the first part of that, there was a Chicken component.

John Tyson

Yeah, I think the specific question was comparing Chicken to Beef here and how do you think about that. And I think--look, there are multiple factors that go into making decisions like this. Asset efficiency and projected capital requirements are a big driver here. And when we talk about poultry today and we just think about the older kind of slower, less efficient assets compared to where we're moving the birds, we see that as a big uplift. And we make those same kind of evaluations across the whole network, if I would make the comparison there.

I think the other thing to point out, we've talked about this on previous calls, we are in this special moment of facing headwinds in Chicken, Pork and Beef segment. The recovery time line in each of those is different. We would expect to see Chicken recover most quickly. Pork is a little different. And then the beef cycle and those dynamics, I think, are well documented. So, it's just worth recalling attention to that, that we've discussed before.

Donnie King

I would say this, John, as one final thought. As we think about Chicken, and you mentioned, John, that Chicken would recover faster. And I think that's all true. But I think if you look at the Chicken business today versus where we were just a quarter ago, there are more tailwinds than headwinds in the Chicken business in the near to long term here.

Andrew Strelzik

Great, that's really helpful color. And then for my second question, I just wanted to go back to the change to the CapEx guidance for the year. Can you talk about, more specifically, the change there? And does it have any implication for '24 CapEx? And just generally, as you think about the flexibility of your CapEx budget, is there a way, given projects that are already underway, etc., to think about a minimum CapEx budget for next year? I don't know if there's a way to frame that. Thank you.

John Tyson

This is John. I'll take that question. Let me talk a little bit about CapEx and just maybe some other related matters on the balance sheet and leverage. So I think, first off, we have pared back the CapEx quarter-over-quarter. We've been managing the spend throughout the year, and we feel good about that.

Based on our guidance today, you would expect to see about \$500 million in Q4, which just worth pointing out that's still above what has been a historical annual run rate for us of about \$1.5 billion. We are targeting to get to that \$1.5 billion spend, annually. And I think it would be premature to say where the '24 number lands, but safe to say that we're trending in that direction.

I think it's also worth just taking a second to talk about where we are with leverage and--because capital, obviously, the capital has been, obviously, influences that. I think the headline for us is we're sitting on a sound balance sheet, and that's really a product of the capital allocation choices we've made through the last few years, where we're really focused on preserving a good financial position, targeting at or around that 2x leverage number for the long term.

So, leverage has increased with where profitability has been on an LTM basis. But I think overall, we feel good about where we are from being able to manage the capital spend standpoint and everything else that we've got going on.

We've made a couple of moves, just tried to be tighter on working capital. We've pulled that down about \$100 million in inventory this quarter just despite what's going on in the market. So, I think overall, capital spend, working capital efficiency, all in line with that long-term leverage number have been, we're comfortable with where we sit, today.

Andrew Strelzik

Great, thank you very much. I'll pass it on.

Operator

Our next question comes from Benjamin Theurer from Barclays. Please go ahead with your question.

Benjamin Theurer

Hi, good morning. Thanks for taking my question. Now consider that Pork margins after this you've really shown and you already commented on market conditions. Can you provide more light on

company-specific initiatives, maybe some plant closures in Chicken, maybe that could be an option? Anything else that you can provide towards improving operations there? Thanks.

John Tyson

Hey, Ben, it's hard to understand, you're a little muffled. Do you mind repeating that question, sorry, because there was a lot in there?

Benjamin Theurer

Sure, on Pork margin, you already revised this and you mentioned the market conditions operational results. But can you provide more light on company-specific initiatives, maybe some plant closures? Could that be an option same as in Chicken? Anything else on Pork profitability to improve that? Thanks.

Brady Stewart

Thanks, Benjamin. This is Brady Stewart. Appreciate the question. As Donnie just indicated, we are evaluating our business in totality. And first and foremost, really, I think we need to unpack those Pork results back into the live and the actual fresh Pork segments that roll up to the specific BU. I'm going to speak specifically to our plants and operations from the fresh pork perspective.

Very comfortable with our strategy, moving forward. Obviously, from an impact perspective, we're focused on everything from our expenses and expense structure that we have within our assets. The efficiency of our assets, we have plans in place to make sure that we focus on better efficiency within those assets. And then obviously, traditional price yield and mix matrices that really provide us the opportunity to maximize the margins and our opportunity to go to market.

So, that's the approach we take. We feel very comfortable with the team we have in place. We'll feel very comfortable with the strategy that we have in place. I feel very comfortable from an operational execution perspective that we're making strides and improvements in that particular segment.

Benjamin Theurer

Okay. So no plant closures then except Chicken?

Brady Stewart

As Donnie indicated earlier, we literally are evaluating everything. And that's both asset utilization, along with how we frame our strategy and our business moving forward, and we're comfortable with our approach, as we move forward.

Benjamin Theurer

Okay, perfect. Thanks, have a great day.

Donnie King

Thank you.

Operator

Once again, if you would like to ask a question, please press "*" and "1".

Our next question comes from Michael Lavery from Piper Sandler. Please go ahead with your question.

Michael Lavery

Good morning, thank you.

Donnie King

Good morning.

Michael Lavery

I just wanted to come back to Chicken and how you think about capacity. It's impressive to be able to cut some facilities and maintain the volume output. This is obviously from an efficiency standpoint. But just given the industry supply and where pricing is so pressured, is there any rationalization or reduction beyond that that would make sense just given the market dynamics?

John Tyson

Sure. I think there's a couple of things to say on that. We've been pretty consistent going back to the--to last year talking about capacity utilization as a driver for profitability in this business.

And we were in the low 80s in '22. And so, with the balance of growing our business and rationalizing some of the footprint, we feel as though we've now optimized the network and continue to push toward those utilization levels that would be in line with the historical drivers for profitability for us. So, I think that's the first thing.

And then you talk about--you asked about just where demand is or what the customer is doing or the industry dynamics. We don't mean to make any projections about what's going on in the industry and focus on what we can control. And I think that with these moves, we're going to get closer to our customers, which is a benefit with how we're moving things around. And I think we feel good about the choices on that front.

I don't know if you got anything to add, Wes or Donnie?

Wes Morris

Yea, Michael, I think just as a reminder, we talk about it often that we're a demand-backwards slaughter production organization. And so, when you look at our customers' forward demand curve, plus some of the business we've picked up, we're literally gaining momentum on both sides, rightsizing capacity and growing at the same time.

Donnie King

Yeah, and maybe I could add one additional thing to that. There's been a lot of conversation this morning about capital and what is that going to be going forward. We obviously talked about the assets that we're closing. I think that what you may not understand is how all those fit together. And so, maybe I can help with that.

A couple of years ago, we heaved up, intentionally, in capital to get ourselves in a position to have capacity, specifically more value-added branded-type capacity. And so, that's where a lot of the extra spending above and beyond \$1.5 billion.

I think it's also important to link the plant closures that we talked about with the reduction in the capital that we're going to spend for the balance of '23 and probably what that looks like in '24.

That work is done, today, and these assets that we're shuttering would have required significant capital in order to make them competitive. And if you look at the returns on those, it really didn't make sense to do that.

But I would tell you in terms of Chicken, specifically, and the capacity with--even with the 10% reduction, we're just over 90% capacity, and we still have room to grow with the customers and as the market grows.

Michael Lavery

Okay, great. Thanks so much.

Donnie King

Thank you.

CONCLUSION

Operator

And ladies and gentlemen, in showing no additional questions, this will conclude our question-and-answer session. I'd like to turn the floor back over to Donnie King for any closing remarks.

Donnie King

All right. Thank you, and thanks, everyone, for being with us, today. As you've heard today, we're executing in the face of macro headwinds, and we're seeing early success demonstrated by the sequential improvement in Q3. I remain optimistic about our long-term outlook.

Our customers and consumers are behind us. We're winning with both, while we remain focused on operational excellence. And we will continue to combat the current environment by focusing on what we can control, all in an effort to maximize value for shareholders.

I'm very thankful for the hard work that our team members do, every day, to support these efforts. As we continue to build a world-class 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.

Thanks for your interest in Tyson Foods, and we look forward to speaking soon.

Operator

Ladies and gentlemen, the conference has now concluded. We thank you for attending today's presentation. You may now disconnect your lines.