

Tyson Foods, Inc.

Fiscal Fourth Quarter 2023 Earnings Conference Call

Monday, November 13, 2023, 9:00 AM

CORPORATE PARTICIPANTS

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Donnie King – *President and Chief Executive Officer*

John R. Tyson – *Chief Financial Officer*

Brady Stewart – *Group President, Beef, Pork and Chief Supply Chain Officer*

Melanie Boulden – *Group President, Prepared Foods and Chief Growth Officer*

Wes Morris – *Group President, Poultry*

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PRESENTATION

Operator

Good morning, everyone, and welcome to the Tyson Foods Fourth 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 the event is being recorded.

And at this time, I'd like to turn the floor over to Sean Cornett, from Investor Relations. Sir, you may begin.

Sean Cornett

Good morning, and welcome to Tyson Foods' fiscal fourth 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, Beef, Pork, and Chief Supply Chain Officer; Melanie Boulden, Group President, Prepared Foods and Chief Growth Officer; Wes Morris, Group President, Poultry; and Amy Tu, President, International.

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 for the Private Securities Litigation Reform Act of 1995. Forward-looking statements include 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 and 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 a reconciliation 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. Earlier this morning, we announced our fourth quarter and total fiscal year 2023 results. In Q4, we saw another quarter of

sequential improvements in our overall earnings as we continue to make good progress in improving our performance.

And I want to thank our team members for delivering these results in what continues to be a tough macro environment. Consumer demand for protein remains relatively stable, and we are well-positioned to meet this demand, giving us confidence in our long-term prospects.

Q4 also wraps up an unusual fiscal year for all of our core protein categories were challenged and yet, one where our Branded business delivered solid results. While we continue to see challenging market dynamics, our broader portfolio is set up well for the future.

As we anticipated, our results continue to improve sequentially in Chicken, with Q4 building on the momentum we gained in Q3 as part of a much better second half of fiscal '23, after a difficult start.

Our brands continue to perform well, and we grew market share across our core business line, outperforming our peers. This helped our Prepared Foods segment generate solid adjusted operating income in 2023.

Market dynamics in Beef and Pork were challenging this past year, causing spread compression, although for different reasons. Despite these headwinds, our goal remains to be best-in-class operators, so that we can manage these businesses as efficiently as possible.

We remain focused on what we can control. One of our priorities is to execute with excellence. Our operations have improved across the business, and we have a long runway of opportunities to perform better.

Controlling the controllable extends to capital allocation as well, where we will remain disciplined with CapEx and working capital.

We continue to execute our multi-point plan focused on efficiency and modernization. You've seen us take bold actions to improve performance, and everything remains on the table to drive operational excellence and address inefficiencies. Our plan is working, and we are seeing tangible benefits of our efforts to end fiscal 2023.

I remain very confident in our long-term strategy and optimistic about our future. Rest assured that we are leaving no stone unturned to drive long-term value for our shareholders.

Let's dive into an overview of segment performance by starting with an update on market share. Our brands continued to outpace the broader food and beverage category in volume growth across the retail channel in Q4. Our volume grew, while the overwhelming majority of food and beverage peers saw volume declines.

Our core business lines including the iconic retail brands, Tyson, Jimmy Dean, Hillshire Farm, and Ball Park, saw a Q4 volume growth of 3.2% versus last year, far outpacing our competition. Those four brands also all hold favorite brand status with consumers over our nearest competitor by a wide margin.

We continue to show market share leadership in most of the retail categories in which we compete, delivering both pound and dollar share gains, across our core business lines.

We are accelerating foodservice, where our Focus 6 categories, including value-added Chicken, breakfast sausage, dinner sausage, pepperoni pizza toppings, bacon, and Philly Steak outpaced the broad-line industry in volume growth in the quarter both versus last year and sequentially. We have a strong foodservice portfolio and are aligning with key customers as we build momentum for the future.

Speaking of winning with customers, we're proud to have made the Top 10 for the second year in a row in the most recent Kantar PowerRankings. In fact, Tyson finished in the Top 10 in seven of the nine categories they measure, as we continue to focus on meeting customer needs and planning the future together with them.

Moving to our segments, beginning with Prepared Foods. As I mentioned, our brands performed well in Q4; in fact, over the last year. Nearly three quarter of US households purchased a Tyson core business line product, which is an increase of 90 basis points. While this is impressive across our portfolio, it's worth noting that our product with the highest penetration rate is only in about a third of households, leaving us room for continued growth.

This performance in retail helped Prepared Foods have a solid year in fiscal '23, with strong growth in AOI. As you know, our Branded Foods business is a strategic growth pillar for the future. We believe it is imperative to support our brands with marketing and advertising.

As consumers began to face what could be a more difficult economic environment, we ramped up our mapped support for our brands in the second half of the year and will continue to do so, as we move into fiscal 2024. While the full-year AOI for Chicken was a modest loss, our progress toward improved performance continued in Q4, with sequential improvement versus Q3. In fact, this is the second consecutive quarter with more than \$100 million in sequential AOI increases.

I'm proud of what our team has accomplished over the past six months. Not only did we hold on to the operational enhancements we made in Q3, we made incremental improvements in yield and in our live operations.

This allowed us to take advantage of improving market conditions, including lower grain costs, leading to a positive margin to end the year. As we head into the new fiscal year, we expect a better outlook for input costs, while we're seeing the benefits of some of the bold actions we took this year.

Coming into fiscal '23, we expected Beef to be under pressure, due to limited cattle supply. This trend held true, as cattle costs appreciated at a faster rate than the wholesale price of boxed pieces, eroding export opportunities due to a strong US dollar and low prices of competing exporters and, ultimately, creating a very tight spread scenario.

We also expected to see signs of rebuild of the herd to surface as cattle prices moved higher. However, this did not materialize. Until significant heifer retention and subsequent herd rebuilding takes place, we expect challenging supply conditions to remain. In this context, while the timing remains uncertain, we will be prepared by focusing on operational discipline.

Moving to Pork. As you know, in fiscal '23, the industry suffered from supply-and-demand imbalances which, negatively, impacted spreads. While we are seeing some signs of improving spreads and lower grain costs, there is still an imbalance between the supply and demand of Pork.

Our team is focused on running the business as efficiently as possible, while continuing to review all the options. We saw significant sequential and year-over-year improvement in AOI in Q4, driven primarily by improving spreads and operational enhancements.

Before I turn the call over to John to review our financials and FY '24 guidance, I want to give you my priorities for the coming year. First is improving our financial strength with a focus on cash. I want to emphasize that we will be disciplined and prudent with capital, while remaining committed to our dividend as the primary way of returning cash to shareholders.

As you saw in our earnings press release this morning, we increased our dividend for the 12th consecutive year. We will continue to evaluate our production footprint and network to drive efficiencies. As you saw, we've made significant changes in Chicken by announcing the closure of six of our older, less efficient plants, which we expect to improve our capacity utilization and mix.

In a similar move to leverage efficiencies and reduce network redundancies, we also recently made the difficult decision to take two of our smaller fresh meats case-ready value-added facilities offline. Production from these locations will shift to larger, more efficient plants, and our harvest capacity, sales volume and, importantly, our customers will see no impact. We are reviewing, whether there are similar opportunities across our segments.

In Chicken, we will remain focused on further enhancing our competitiveness, going forward. Prepared Foods was the profit engine for the company, last year. We want to sustain and build on ad strength by supporting our brands and driving momentum in food service, while being responsive to changes in market conditions. Some of the key focus areas are making better use of our data, shifting more of our MAP support to digital media, and being disciplined with revenue management.

In Beef, multiple outcomes are possible during the current cattle cycle. We believe we have best-in-class assets and team members and are aligning with the right suppliers and customers, giving us confidence that we'll be prepared for all of them.

In Pork, we believe we have a bright future ahead of us and are excited about the team we've built that continues to drive operational improvements and synergies with our Prepared Foods business.

As we said before, we're taking a hard look at our cost structure to drive operational excellence. Our ongoing productivity initiatives are focused on things that can be deployed at scale enterprise-wide, including procurement, logistics, and digitalization. These are a few of the initiatives that will make us a fundamentally stronger business as we go forward.

With that, I'll turn the call over to John.

John R. 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, year-over-year, in Q4 and for fiscal '23, driven by Pork and Chicken, where we saw a reduction in price per pound. The decline in adjusted operating profit for both periods was driven by lower profitability in Beef and Chicken.

While profit in Q4 was down substantially versus last year, it's important to note that it continued to improve on a sequential basis and adjusted EPS more than doubled, compared to Q3.

Challenges remain, but we continue to drive efficiencies and improve our operations, and we believe we're headed in the right direction.

Now, onto the individual segment results, starting with Prepared Foods. In Prepared Foods, revenue was down modestly in Q4, year-over-year, driven by lower bacon pricing. This lower pricing was offset by volume growth, which highlights the strength of our brands. AOI improved slightly year-over-year, despite lower sales.

Our ongoing productivity initiatives and easing inflation offset lower pricing, increased marketing, advertising and promotional support and the onset of start-up costs for our new facilities.

AOI margin declined sequentially in Q4 due to seasonality, increased brand support, and start-up costs. However, the \$151 million of AOI the segment generated is the second-highest Q4 result in the past five years. In the full year fiscal '23, AOI grew by more than \$100 million, representing growth of nearly 14%, year-over-year.

Now, moving to Chicken, sales declined 10% year-over-year in the quarter, driven by lower pricing, reflecting primarily lower commodity protein prices. Volume grew modestly in Q4 versus last year, driven by continued sell-through of finished goods inventory, and this was partially offset by a decline in production. This decrease in production highlights our ongoing focus on balancing supply with our customer's demand.

Year-over-year profitability declined primarily due to lower commodity Chicken pricing, but this was partially offset by lower input costs and operational efficiencies.

On a sequential basis, lower grain cost and productivity enhancements drove another quarter of AOI improvement. In fact, when we compare to Q4 to Q2, Chicken AOI increased by more than \$240 million.

In Beef, revenue increased modestly year-over-year in Q4, with lower head throughput offset by higher pricing. Operating profit was down, reflecting compressed spreads, primarily due to higher cattle costs. As we have been discussing all year, Beef is likely to continue to face headwinds, including in fiscal '24, as we don't expect the ongoing tightening of cattle supply and spread compression to abate until herd rebuilding is underway.

Moving on to Pork, revenue was down nearly 7%, driven primarily by lower pricing due to softer global demand. AOI for the quarter was a modest loss but, importantly, it increased by more than \$40 million year-over-year, and by more than \$60 million, sequentially, as spreads improved along with operating performance.

Before moving to our capital priorities, it's worth noting that our International business posted solid Q4 and fiscal '23 results, driven by growing penetration across our key markets and channels. We remain focused on market share growth and continued operational excellence, as we ramp up our new facilities.

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

As Donnie said earlier, we will remain disciplined and prudent with capital. We came into fiscal '23 with a plan to spend roughly \$2.5 billion dollars in CapEx. As you saw, we ended up reducing

our spend by \$600 million, as we reacted to market conditions driving lower profitability and impacting our operating cash flow.

We were also disciplined in managing working capital, which was a source of cash this year. We ended the year with \$3 billion of liquidity and net leverage of just over four times. Our balance sheet management approach remains unchanged as we are committed to building financial strength, maintaining our investment grade credit rating, and returning to net leverage of at or below two times net debt to EBITDA.

During the year, we returned \$670 million to shareholders via dividends and \$354 million in share repurchases, primarily to offset dilution. We remain committed to maintaining a disciplined capital allocation strategy, ensuring that we deploy resources to maximize long-term shareholder value.

Now, let's review our outlook for fiscal 2024. Fiscal '23 was a challenging year, and we took a hard look at how we managed the business in times like these and how we can better communicate and manage expectations for investors. Our focus for fiscal '24 is to manage the business for profit and cash dollar generation.

These are our internal goals and what we want investors to understand. So for this year, as you'll see, we are giving guidance in dollar terms, instead of a margin percentage.

While there are some top-line uncertainties within the individual protein categories, we expect our overall sales to be approximately in line with fiscal '23.

Moving on to the segments, Prepared Foods has been a solid and stable driver of operating cash flow. We expect that to continue in fiscal '24, driven by volume growth, disciplined revenue management and productivity, offset by MAP support for our brands and the start-up costs for our new facilities, as well as risks from changes in consumer behavior.

Reflecting these dynamics, our expectations for adjusted operating income is in the range of \$800 million to \$1 billion.

To help navigate any potential shifts in consumer spending and sentiment, we are focused on the most efficient marketing, advertising and promotions that drive the highest ROI and the most effective consumer engagement and demand. To help meet demand in value-added brands and categories, we had previously invested in new capacity and we expect to incur start-up costs in fiscal '24.

On to Chicken. Our operational turnaround in Chicken is progressing as we expected. We demonstrated sequential profit improvement in Q3 and again in Q4. We anticipate operational improvements to continue into next year and that along with lower input costs net of pass-through pricing, the segment should generate between \$400 million and \$700 million of adjusted operating income.

Now onto our Beef segment, when and how fast meaningful heifer retention will take hold is uncertain at this point, and this influences our outlook for our Beef segment in 2024. Multiple outcomes are possible, and we will be prepared for all of them to operate as efficiently as we can. Our guidance for this segment is a loss of \$400 million to break even for the year, reflecting uncertainty and market dynamics.

Now onto our Pork segment, where we see momentum in the business. As spreads begin to improve and we continue to execute, we expect AOI to improve versus last year to roughly break even for fiscal 2024.

For the total company, we've given a range of outcomes for each segment, but we expect any outsized weakness or strength in any one area to be balanced by the remainder of the portfolio.

In other words, neither the low end nor high end of the range is anticipated to happen simultaneously, across all the businesses. As a result, we expect our total company AOI for fiscal '24 to be between \$1.0 (billion) and \$1.5 billion.

To further help understand the shape of the year, let me provide some context on the quarterly phasing. While we foresee more typical seasonality in our business for next year, things like start-up costs and Prepared Foods and rising cattle costs will impact Q1 and Q2 and generally shift profitability to the back half of Fiscal '24. In addition, we are monitoring potential impacts to the consumer of higher interest rates and inflation, which could create some volatility.

Now, to round out the key P&L items, we anticipate interest expense to be roughly \$400 million for the year and our tax rate to be approximately 23%. We moderated our pace of CapEx in Fiscal '23 in a challenging environment. We ended the year with \$375 million of expenditures in Q4, which annualizes to \$1.5 billion.

As we maintain tight controls in our spending in line with profitability and cash flow, we expect CapEx for the year to be between \$1.0 (billion) and \$1.5 billion. While there are a range of possible outcomes for AOI, we expect to manage our working capital and CapEx so that we're free cash flow positive for the year.

In summary, while the current operating environment remains difficult, we are making improvements across our operations and remain optimistic on our long-term prospects. We have great teams, growing demand for our products, and the right portfolio mix to win in the marketplace.

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 that 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'll begin our question-and-answer session. To ask a question, you may press "*" and then "1" on your touchtone telephones. If you are using a speaker phone, we do ask that you please pick up your handset, prior to pressing the keys. To withdraw your question, you may press "*", and "2". Once again, that is "*" and then "1" to join the question queue.

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

And our first question today 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

So my first question, John, Donnie, I'd love to get a little bit more color as we think about the high and low end of the segment profit ranges in Chicken, Beef, and Prepared Foods, specifically. How do we think about what gets to the high and low end of those ranges? What do we think are the key year-on-year profit drivers increases in Chicken and decreases in Beef in particular to help narrow the range of kind of company-level outcomes?

Donnie King

Okay. Adam, this is Donnie. Thanks for the question this morning, and thank you for being with us. As we said earlier, 2023 was a very unusual year, one that I've not seen, where all core protein categories were challenged at the same time. And at the same time, our brands continue to perform well, outperforming the broader food and beverage category.

The demand for protein remains strong. We're controlling the controllables, and we're focused on efficiency, modernization, and cost structure. Over this past year, we've taken bold actions to improve performance.

We're managing the business for cash. We also have pulled down our capital spend and if you go back to '22, we spent \$2.6 billion, in '23. We pulled that down to \$1.9 billion, and we're projecting between \$1 (billion) and \$1.5 billion in '24.

We will continue to return cash to shareholders, predominantly through the dividend, and we shared that earlier today. We had the 12th consecutive year of increasing dividends. We're winning with customers and consumers. We do have advantage brands and advantage categories and are very proud to be in the Top 10 for the second year in a row with Kantar PoweRanking.

We've seen sequential improvement across all the businesses in the second half of '23. We expect fiscal '24 to be better year-over-year in cash flow and profitability. Chicken AOI improving considerably and Prepared Foods continuing to perform well. In short, our plan is working and delivering tangible results. FY '24 is off to a great start, and I could not be more excited about our future.

We do have a good plan. We do have the right team, and we are executing at levels I've not seen in a long, long time. And in terms of individual segments, John, do you want to add something to that?

John R. Tyson

Yeah, Adam, I think your question was around what gets you to the high or bottom end of the range in a few different segments. What I can tell you is in Chicken, there's a few different things that will influence the profitability in the year. One, I think our plan, we have an aggressive

operational improvement plan, and so our range reflects some different timing on how we achieve that.

We also expect timing benefits from the closures last year to roll through, as we get into around the midpoint of the year. And then of course, there's just market movement that we can't necessarily predict, although I think recent market data would show you there's more tailwinds than there are headwinds in our Chicken segment.

On Beef, the width of that range really just reflects the range of outcomes and the spread in that business. Naturally, we would expect that range to tighten as we move through the year. But just to comment on some of the movements in those markets. Even Q4 for us that we just finished was better than we anticipated, you know, a quarter ago, so just acknowledging that there's a lot of movement there.

And I think then on Prepared was the last one you asked about. That'll be driven by execution, consumer demand strength, how we invest our brands and how they perform.

So, I think that this range is actually by going to the AOI dollars we've, hopefully, for you and all of our investors, tightened up the band of outcomes here, but there is still some natural unpredictability in just how close we can nail the number.

Adam Samuelson

And the AOI dollar guidance ranges are definitely appreciated versus the percent. And if I could ask a follow up just on cash flow. So you said free cash flow positive, is that free cash flow positive after dividends, or what's the big plugin there would be? How much working capital do you think you can release if given the sales and profit outlook that you have?

Donnie King

Yeah, I think on working capital, the drivers will be pulling down some of the finished goods inventory, but we might give some of that back on inventory just in terms of the cattle prices and what we've got on the balance sheet. As it relates to free cash flow positive, we are committed to supporting a dividend for the year.

And so, we've given a range of CapEx numbers that we would expect to reflect wherever the AOI and EBITDA is, so that we can be free cash flow positive for the year.

Adam Samuelson

Okay, I appreciate it.

Donnie King

Okay. I think to clarify one thing is that would not include any opportunistic M&A. I think we've always been pretty active in the market, evaluating opportunities. And so, we don't have any predictions or news to share there, but just acknowledging that we'll consider things should they come to market during the year.

Adam Samuelson

Okay. I appreciate that color. I'll pass it on. Thanks.

Donnie King

Thanks, Adam.

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.

Donnie King

Good morning, Andrew.

Andrew Strelzik

Good morning. I'd like to actually start on the CapEx guidance, please, if you could maybe unpack, how you landed where you did, what the buckets are. I think you previously talked about \$1.7 billion, maybe getting as low as \$1.5(billion) over time. Obviously, this is lower than that. So, what types of things are removed from the plan? How does that shift and where do we go from here?

John R. Tyson

Yeah. I'll give you three or four data points on how to think about CapEx. Number one, we communicated throughout last year that we were trending towards a \$1.5 billion number, did not mean to make any commitments last year as to when we got there, although we feel as though that's the high watermark this year.

And so, I think I mentioned in my prepared remarks, Q4 was at \$370 spend for us, and so that would track out to being at the high end of our range for the year. I think that the other two things that are worth pointing out is, number one, we have a lot of capacity expansion projects that are rolling off and finishing up, as we start '24.

And then last but not least, if you just think about a normalized investment level in our business, if I were to go back to before we embarked on this period of significant capital investment, \$1.25 billion was probably the average number between, I think '17 and '21. So, that's just recent history that would support the range that we're sharing today is in line with what we need to invest in our business.

Donnie King

Hey, John, if I might add one thing to that, and you referenced some of the larger projects being behind us. I think it's important to remind everyone that in '22, we began to have an outsized capital expense.

All of that was in service to making sure we had the capacity necessary to grow our branded portfolio, the value-added Chicken and Prepared Foods, as well. And we've got those, Danville, Virginia, we have also Bowling Green, Kentucky, and Caryville coming online, plus a number of operations coming online, outside the United States.

Andrew Strelzik

Okay, great. That's super helpful. And then a second question is maybe, if you think about your footprint today, your capacity utilization across your business, and you've been very, very consistent in terms of saying that you're looking for all the opportunities that are out there and those types of things across the business. So, you found some more in Chicken that you've talked about.

But I'm just curious if you could characterize how you think about your footprint today and how you're evaluating those opportunities. If there's anything beyond Chicken that you think might

make sense at some point, or maybe not, since we haven't seen that yet, but just curious, as you continue to go down that path. Thank you.

Donnie King

Sure. And as we've said a number of times, and we'll continue to say this, we are evaluating everything, leaving no stone unturned. If you go back and look at what we've announced thus far, the six Chicken plants, and then most recently, the two value-added case-ready plants in our Beef and Pork business, those are typical of what we're looking for. But these are typically older, less efficient, certainly not modern that require a lot of capital expenditure to try to either expand or make efficient.

So, we're choosing to move that capacity to another plant. We're not wanting to give up any volume or share, and we're doing that very well. But the other thing that may not be as quite as apparent is because of the efficiency play in all of our core plants, it has enabled us to run lines at rate. It's allowed us to get the labor and yield and throughput on those lines that we need. But that's also been an unlock in our ability to take away some redundant capacity.

Andrew Strelzik

Great. Thanks. I'll pass the line.

Operator

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

Ken Goldman

Hi. Thank you. I wanted to ask first, Tyson in the past has gone back and forth a little bit about providing longer term margin ranges by segment. Now that you're providing EBIT dollars by segment, and I would mirror, I think, Adam's thoughts about appreciating that, is it possible that at some point in the future, you might consider going back to giving us some kind of longer-term EBIT ranges instead of margin ranges?

Or is the goal to kind know, hey, let's see where the business goes, and then maybe that'll be considered, or is that just off the table at all? I know there's some people that just are always curious what your longer term outlook is at this point, even though visibility is not great, right now?

John R. Tyson

Hey, Ken, this is John, and we appreciate the question. I think today, we're not backing off of the long-term guidance that we've got out there, but we're really focused on '24. And so, I think the time in the future when is appropriate and reflective of our high confidence on where things are, we will give revisions if we deem that to be appropriate or reflective of our outlook, but today, we're really just talking about '24 and Q4 '23.

Ken Goldman

And then just as a quick follow-up--and thank you for that. It was mentioned that you're still, if I can paraphrase maybe, reviewing all of your options for your Pork business, I was just curious, if there's any further insights you might be able to provide about what those options are and where you are in that progress. Thank you.

Donnie King

Thanks. I'll throw out a couple things and then I'll let Brady step on top of that. If you look-back in '23 and supply-demand imbalance, there is a little of that occurring in Pork, as we move into '24.

We talked a lot about controlling the controllable, but here's what I would tell you about that. The team that we've got in-place today in our Pork business is a world-class team delivering best-in-class results, couldn't be prouder of the work that they've done.

But they're also working across the lines as it relates to Prepared Foods and trying to unlock new opportunity. We obviously have more Prepared Foods capacity coming online. Some of the Tyson Pork raw-material will be in support of that. But we're looking at each footprint in terms of Capital requirements, how efficient, what it would take to make it modern and to upscale it, but then we're looking at network and how to do that. But with that, Brady, anything you would add to that?

Brady Stewart

Thanks, Donnie. As Donnie indicated, we've seen improvement and John certainly in his opening remarks, talked about the improvement sequentially, quarter-over-quarter and year-over-year in our Pork business. Again, that's driven by two things, one is we did see some moderate improvements relative to the spread, and we did see a significant improvement relative to us controlling our controllables.

And again, that is a focus on making sure our assets operate as efficiently as possible. Really focused on our mix and ensuring that we have world-class yields coming out of our assets, as well. So when we talk about '24, again, we're looking at better than \$100 million of improvements, year-over-year, relative to '23.

We're excited about the team that we have. They continue to really use data and analytics and ID all of the opportunities in the business. They've developed the right strategies for the future. And most importantly, they've executed on continuous improvement in mix, efficiency and yields.

Operator

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 questions.

Donnie King

Hello, Peter.

Peter Galbo

I wanted to unpack a little bit on Prepared Foods and the guidance for the year. Donnie, just given your commentary and some of your competitors, it seems like there is a step-up in the MAP spending and some of the promotion and maybe some of the retail categories are getting more competitive.

I just--I was hoping maybe you could unpack that in the current environment and then reconcile, again, the guidance for the year. Typically, you would see a stronger profit contribution from Prepared in the first half versus the second half of the year and maybe this year, it seems like it might be a bit different. So anything you can do more to get more detail there. Thanks.

Donnie King

Thank you. Let me say--make a couple of comments, and I'll turn it over to Melanie. Let me start off by welcoming Melanie Boulden, who is our Chief Growth Officer, and she has taken over

responsibility for our Prepared Foods, and she's on our first call today representing Prepared Foods. And Melanie, welcome.

And let me just lay a little foundation, and I'll let Melanie close the deal. Prepared Foods is a key growth pillar for our future. Our brands continue to perform well. Even last year, even in fiscal '23 when we were challenged, we have advantaged brands in advantaged categories. So we like that. But I'll let Melanie talk to you about some of the upside to even Prepared Foods today.

Melanie Boulden

Hi, Peter. So let's first--you asked about performance and wanting to unpack that, if you will. Let's start with our performance in Q4. It's important to remember that the Prepared Foods business, it has some seasonality aspects that typically result in softer margins in Q4 compared with our full year expectations. But despite the seasonality and impact from our start-up costs this past quarter, our margins still increased year-over-year in line with our full year expectations.

And as John pointed out, this past quarter, we generated--it's been our second highest Q4 result in the past five years. And so, then as I think about the full year, and our outlook for 2024, I have full confidence in the growth proposition of our Prepared Foods business. As we think about fiscal year 2024, we're driving profits behind disciplined revenue growth management and price pack architecture capabilities, as well as we have strong operational improvement initiatives planned.

And yes, to your point about that, we are investing for the future behind our business with increased math, but we're also investing behind new highly automated industry-leading production facilities to increase our capabilities in service to meet our growing demand. But I do want to say, though, as I think about 2024, it's also important to note, just like we had in Q4, we still have some start-up costs in Q1 for our new facilities, and that's probably going to impact our profit.

John R. Tyson

And Peter, if I can add one thing. Just to answer your question, we did not mean to indicate that the seasonality in Prepared would be meaningfully different than from prior years.

Peter Galbo

Got it. Okay. No, that's helpful. Thanks, Melanie and John. And then Donnie, maybe just--and I know we have Brady on the call as well, but a two-parter on Beef. It seems like you missed the window or the industry missed the window on heifer retention for last year. Is that pushing out now another six to 12 months prior on Beef cycle recovery versus what you thought previously?

And then--the second piece would be, obviously, you're consolidating some of the case-ready operations that you announced last week. Historically, that was supposed to be a pretty big value driver in margining up the Beef business, over time. And just I want to make sure that that's still core to the strategy. And again, removing those plants or shuttering those plants doesn't knock that off the rail. Thanks guys.

Brady Stewart

Well, thanks for the follow-up there, Peter, this is Brady. And first, touching on the question relative to heifer retention. And I think a lot of industry analysts have continued to go back to where we saw diminished supplies almost a decade ago relative to the Beef cycle. And certainly, the cattle on feed number relative to heifer as a percentage is extremely high. And we'll continue to monitor that. USDA indicated it was the largest on record for October.

And so, I think what we are looking at relative to the shape of the future certainly is maybe more of a U-shaped curve on the bottom end relative to supply as opposed to the V-shape we saw back almost a decade ago as well.

So, we will continue to monitor heifer retention and cows relative to production capabilities and supply and really prepare for the variety of outcomes to go. We've got a solution for really those variety of potential outcomes. Relative to our case-ready assets, I think there's a few key focus areas here.

Number one is we did not lose any true capacity relative to our customers. All of our customers that we currently service today will be serviced in the future. We had redundant capacity. And so, this just really allows us to continue to service our current customers, and we still have opportunity to grow into the future, but we're able to do that in a much more effective cost structure, as well. So still a focus for Tyson is to get as close to our customers as we can relative to our value-added proposition.

Donnie King

So if I could add a couple of things to that, as well. I think it's important that when you're evaluating Beef that you evaluate it across the entire cycle, which is approximately 10 years. And I will tell you and this thing moves quickly. But a year ago, I was testifying before Congress with some of my peers because Beef was making so much money. And today, we're talking about what it looks like on the downside.

So my message there, and I have to tell myself this as well, is that you have to look at it across the cycle, and we do that. But a couple of other things that, again, I would just reiterate, don't miss the fact that we have redundant capacity and are able to shutter that, that don't miss the fact that we got better at what we do and every aspect of the operational component.

And so we did. But we continue to evaluate all options. But something that Brady would never say, but I'll say because he won't, but we have best-in-class assets. We have best-in-class team members. We are aligned with the right suppliers, and we have great--we have all the great customers that you would want to service. So, we have a number of things that are lined up against--or lined up the right way for us.

Operator

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

Ben Bienvenu

Yeah. Thank you, good morning. John, a follow-up on a comment that you made around the Chicken guidance for next year. You noted the operational improvements you expect to make, and I think the variability from the bottom end of the range for next year to the top end is subject to the pace of that progress.

But you also made a comment about the market conditions that we can all see improving. Is improved market conditions a variable that you're considering in guidance for next year for FY '24 in Chicken?

John R. Tyson

Yes, Ben. The answer to that question is we do factor in some range of market conditions, although I would say in the band of our year-over-year improvement. It's probably about two thirds

of that is what we're seeing from operations, and one third of that year-over-year improvement has to do with some favorable grain prices and Chicken market prices is how we think about that. And then I described earlier, obviously, how we get to the different outcome within the range. Wes is here with me, and maybe I can invite you just color a little bit more on the year, Wes.

Wes Morris

Yeah. Thanks for the question, Ben. As John said, I classify it, one-third of our improvements will be baked around markets, so grains, net of meat values, two-thirds driven by our fundamental improvements. And I can give you some examples. Nice improvement in Q4 in our live production led by livability, fee conversion and hatch. Our capacity and our yields were both up, while turnover and absenteeism were down.

Our service was up materially year-over-year and we did it with \$84 million less finished inventory pounds. And so, trending in the right direction. We also have a very disciplined supply demand balance process in place. And so, balance and supply demand and capacity to maximize profits while servicing customers. And so we're on track, improving our fundamentals, servicing customers and shifting our mix to drive profitability. But I agree with John, one-third markets, two-thirds performance.

Ben Bienvenu

Very, very helpful. Thank you. My second question is a follow-up question on the balance sheet for next year, as it relates to the \$400 million of net interest expense in 2024. John, does that include the refinancing of the \$1.25 billion of debt you have maturing in August? And/or is there something else that you guys might consider either downsizing that debt or something else to manage the balance sheet, as you think about maturities in 2024?

John R. Tyson

Yeah. So we'd be projecting to refinance any upcoming maturities. I think we also have a term loan that we executed earlier this year to draw in November. And so, just the rebalancing of the portfolio and the combination of the fixed and floating is where you see the total interest expense tick up, year-over-year.

Ben Bienvenu

Okay. Great. Thanks so much. Best of luck.

Donnie King

Thanks, Ben.

Operator

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

Rahia

For sure. Thanks so much. This is Rahia (ph) on for Ben. Just a question for Chicken. In terms of your factory closure, I know there's two already closed or in process, can you confirm that? And also, what would you say is your current capacity utilization as of now? And then maybe any stats on reduced costs. Also, I just wanted to confirm for the \$333 million write-down in fees, if this relates to the two fresh meat case ready value-added facilities you said you took offline? Thank you.

Donnie King

So let me start off, and I'll answer the Beef question first. The write-down in Beef doesn't have anything to do with that. That was discount rates, which drove the goodwill impairment. But in terms of Chicken, let me just state this because we've not said this in some time. Our goal in Chicken is to simply be the very best in this space.

That hasn't changed. I can tell you that over the last three, four, five years, maybe we haven't done that to the best of our ability. We haven't competed very well. But we're getting more competitive, and we are still unlocking opportunities. And I'll let Wes share some of the things that he's doing, in addition to what he's already said.

Wes Morris

Yeah. Let me see if I can answer your question. And so at this point, five of the six that we announced are in fact, are done producing with the last one coming offline at the 1st of March. In our Q4 financials, only two of those would have been driving those numbers with the remaining ones coming in Q1 and early Q2.

As for capacity, yeah, let me go ahead and I'll touch on the capacity. Our goal is to always have room to grow with our important customers, but we have moved up materially year-over-year, with both the closures and other activities. But I would remind you that mix is as important as volume in driving our profitability across our total portfolio.

Rahia

Great. Thank you so much.

Donnie King

Thank you.

Operator

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

Michael Lavery

Thank you. Good morning. I just wanted to come back to--you said your first priority was being disciplined with cash, but you also pointed out that you've raised the dividend. It's a modest increase; I realize that. But why the rush to take it up at all? Is it just that time of year? Is there a reason--with especially an outlook with a bit of uncertainty that you couldn't just put that on hold? Just help me understand that thinking. And am I hearing correctly that it sounds like the flex comes from adjusting CapEx down? Is that the right trade-off? How should we think about that?

John R. Tyson

Hey, this is John. I'll take that question. So as I mentioned earlier, we remain committed to growing the dividend, preserving dividend this year and growing it, over time. I understand the question. I think our judgment was that on an absolute basis, about a 2% increase in terms of cents per share was modest and fit well within the range of outcomes for our capital allocation in '24. So, I think that's how we answer that question.

Donnie King

If I could add something to that in terms of CapEx. As a reminder, over the last couple of years, we've made major investments in capacity, and we're pulling that back down to normal levels. We are in a good spot today in terms of the capacity to produce and to be able to produce and grow

in the near term here. We'll certainly keep our eye on that. But I think another way to think about that is you're just returning to more of a historical level of capital spend.

Michael Lavery

Okay. That's helpful. And I just want to follow up on the Prepared Foods commentary. This has been touched on a little bit, but you called out the difficult consumer environment and how you're trying to meet those consumers where they are.

Just at a higher level, can you give a sense of how you prioritize the volume over price? What's the key driver in terms of how you think about approaching what could be a further step-up in promotions, or just how you manage that going forward?

Melanie Boulden

Yeah. So Michael, let me first talk about our pricing strategy in totality. So, we have strong revenue management capabilities as well as our leading brands, which is the foundation of our pricing strategy. And when we do implement price increases, we're focused on our profitability and the health of our brands while at the same time, simultaneously, being cognizant of the category, our competition and our consumer demand dynamics.

And through these capabilities, as well as our analytics, we can see that our elasticities are moving back to pre-COVID ranges and level. And at the end of the day, as you know, our goal is just to balance pricing and volume in a volatile commodity market.

Michael Lavery

Okay. Thanks so much.

Operator

And ladies and gentlemen, once again, if you would like to ask a question, please press “*”, then “1”.

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

Alexia Howard

Good morning, everyone.

Donnie King

Good morning, Alexia.

Alexia Howard

So can I just start with Beef? I think you mentioned in the prepared remarks that it was going to be a year of two halves with more pressure on profitability in the first half. Obviously, this latest quarter came through a bit better than expected. And I know you don't give quarterly guidance, but are we trending at the moment towards the lower end of the range and the expectation is that things will pull around. And why would they pull around in the second half? Just curious about the magnitude of how it skews first half and second half.

Brady Stewart

Sure, Alexia. Thanks for the question. And as we indicated, there is certainly a large range of outcomes, and there's a number of different supply and demand dynamics that will come into play as we move throughout the year. When we lay out our forecast and our approach, we certainly

look at a variety of different inputs, including seasonality, where we see different demand behaviors from the consumer, along with what we see from a supply perspective and have balanced what we believe to be appropriate amount of heifer retention, given the environment into those forecasts.

And so, really, that provides us that range of outcome that we look at for '24. We've done a really good job from a business perspective of continual improvement, which we believe relative to the industry available spreads that we see, lent itself to the performance in Q4. And we expect to see those trends relative to our true controllables, move into '24, and that has provided us with the range of guidance that we provided.

Alexia Howard

Okay. Thank you. And then on leverage, it's linked to the Beef question. If there is going to be the cadence through the year, do you anticipate that leverage is going to increase, and if so, by how much? Or how do you expect that to trend from here?

John R. Tyson

Hey, Alexia, this is John. So, we do would project for leverage to tick up a little bit as we move through the first part of the year. And really what's driving that is just lapping the quarters that we'll see from the first half of last year. And so, once we move past them through that, we would begin to expect our leverage numbers to start to move back then.

Alexia Howard

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

CONCLUSION

Operator

And ladies and gentlemen, at this time I'm showing no additional questions, we'll end today's question-and-answer session. And I'd like to turn the floor back over to Donnie King for any closing remarks.

Donnie King

Thank you. While fiscal 2023 was a difficult year for our business, we finished strong and are more focused, collaborative and efficient than we were 12 months ago. While we're not yet where we want to be, our plan and the decisions we have made are moving us in the right direction, as demonstrated by a second quarter in a row of sequential improvements.

In an uncertain macro environment, our priority continues to be controlling the controllables with discipline and agility.

Our strategy is working. We have the right leadership team in place to deliver, and the bold actions we've taken are poised to drive long-term opportunity and shareholder value. Thank you, and have a good day.

Operator

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