Tyson Foods, Inc.

First Quarter 2024 Earnings Conference Call

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CORPORATE PARTICIPANTS

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Donnie King – *President and Chief Executive Officer*

John R. Tyson – *Chief Financial Officer*

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

Wes Morris – *Group President, Poultry*

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PRESENTATION

Operator
Good morning, and welcome to the Tyson Foods First Quarter 2024 Earnings Conference Call.

All participants will be in 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 "*", then "1" on your touchtone phone. To withdraw your question, please press "*", then "2".

Please note, this event is being recorded.

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

Sean Cornett
Good morning, and welcome to Tyson Foods' fiscal first quarter 2024 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 and 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 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's not related solely to historical periods.

These forward-looking statements are subject to risks, uncertainties and assumptions, which may cause actual results to differ materially from our current projections. Please refer to our forward-looking statements disclaimers on Slide 2, as well as our SEC filings for additional information concerning risk factors that could cause our actual results to differ, materially, from our projections. We assume no obligation to update any forward-looking statements.

Please note that references to earnings per share, operating income and operating margin in our remarks are on an adjusted basis, unless otherwise noted. For reconciliations of these non-GAAP measures to their corresponding GAAP measures, please refer to our earnings press release.

Now, I'll turn the call over to Donnie.

Donnie King
Thanks, Sean, and thank you to everyone for joining us, this morning.

As you may have seen in our press release this morning, fiscal 2024 is off to a good start with solid performance in Q1 giving us confidence in our full-year outlook. The momentum we established in the back half of last year continued in Q1, highlighted by a $175 million improvement in adjusted operating income, 130 basis points of AOI margin expansion and near doubling of adjusted EPS, all on a sequential basis.

As we begin fiscal '24, we're witnessing the benefits of our core multi-protein portfolio. Chicken and Pork are offsetting Beef headwinds, while Prepared Foods continues to generate strong profit dollars and margins.

While we can't control the macro environment, our focus on what we can control has been evident in Q1. Our performance reflects a commitment to operational excellence. We are more agile, collaborative, and disciplined business than a year ago, and we have a long runway of opportunities in front of us. I'm proud of our team members' continued efforts to enhance operational performance and want to thank all of them for their high level of engagement and their part in delivering our results in this quarter.

We're controlling what we can to drive cash flow, as well. Our disciplined approach to CapEx and working capital helped generate strong cash flow in the quarter. Prudent cash deployment is part of our strategy to build financial strength and will position us, well, when market dynamics turn in our favor.

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're seeing tangible benefits of our efforts as evidenced by improvements in Chicken and Pork.

While I'm pleased by the performance in Q1, we still have more work ahead of us, and we're cautiously optimistic and laser-focused on achieving what we set out to do, this year. Our brands resonate with consumers, and we're maintaining strong market share, despite comparing to our record position last year and some overall category consumption softness in Q1.

We will continue to support our brands through innovation, marketing and strong customer partnerships, while meeting consumers where they are. I remain highly confident in our long-term strategy based on a broad portfolio of core proteins and strong brands, and I'm optimistic about our future. We're leaving no stone unturned to drive long-term value for our shareholders.

Now, let's delve into an update on share position of our branded portfolio. Our Q1 pound share in our core business lines, which include product lines from our iconic brands, Tyson, Jimmy Dean, Hillshire Farm, State Fair, Aidells, and Ball Park, remains at historically high levels despite a modest decline compared to record share in Q1, last year. In fact, our core business lines have grown pound share by more than 400 basis points, since Q1 of 2019.

While inflation is easing, consumers are still facing high prices, compared to two years ago. However, they are still willing to purchase brands they know and trust, and this is reflected in our share. We're also focused on customer elasticity and balancing with our own cost. We believe our approach is working.

The value proposition of our iconic brands resonates strongly with consumers. Over the past year, nearly three out of four US households purchased a Tyson core business line product, and this penetration rate is growing. What gets me even more excited is that our product line with the highest penetration rate is only in about a third of households, leaving us plenty of room for continued growth, over the long run.

Moving on to segment performance, starting with Prepared Foods. Our foodservice volumes continue gaining traction as we strive to grow this business with a focus on customer diversification and margin accretive channels. Operational efficiencies and lower raw material costs drove strong adjusted operating profits and margins.

Our Branded Foods business remains a strategic growth pillar, and we are committed to supporting and growing our brands through innovation, price pack architecture, high ROI marketing support and strong customer partnerships. This is critically important in an economic environment where consumers remain more discerning with their purchasing decisions.

In Chicken, the momentum established in the second half of fiscal '23 continued in Q1 with a third consecutive quarter of over $100 million in sequential AOI increase.

Operational improvements, including the bold actions we've taken, along with improvements in live operations, yield, labor efficiency and customer service, as well as improving market conditions, were the primary drivers in Q1.

In Beef, limited cattle supply led to spread compression, as we expected. Roughly half the loss in Q1 was related to an inventory valuation adjustment, which was primarily driven by highly volatile cattle futures. While spreads are expected to remain tight, our goal remains to be best-in-class operators, so that we can manage the business as efficiently as possible. We have identified incremental opportunities to improve our execution and help offset some of the challenges from the current cattle cycle.

Turning to Pork, better supply drove lower hog cost, leading to improving spreads. Our team's focus on operational execution allowed us to capture the benefits of these favorable market dynamics, which resulted in improved profits both on a year-over-year and sequential basis.

Before I hand it over to John for a financial review, let's reiterate our priorities for the year. First, we're committed to improving our financial strength and driving cash flow to support our dividend, as demonstrated in Q1.

Over the past year, we announced the closure of six of our older, less-efficient plants in chicken and two of our smaller beef case-ready, value-added facilities. We're already seeing the benefits of these actions and we'll continue to evaluate opportunities to drive efficiency, across our segments.

In Chicken, our focus on enhancing our competitiveness continues. In Prepared Foods, we want to build growth momentum behind capacity additions coming online, increase our brand household penetration and diversify and grow our foodservice business.

In Beef, we acknowledge the challenges and will be prepared for multiple outcomes during the current cattle cycle. In Pork, we're gaining momentum in operational execution and are excited for continued improvements.

With that, I'll turn the call over to John to discuss our financial results and outlook.

John R. Tyson

Thanks, Donnie. I'll start with an overview of our total company results, before moving on to our individual segments.

Sales in Q1 grew slightly, year-over-year, as an increase in Beef revenue was nearly offset by a decrease in Chicken. The decline in adjusted operating profit was driven by lower profitability in Beef, which was partially offset by growth in Chicken and Pork. It's important to note that AOI improved significantly on a sequential basis, despite the modest decline versus last year. Adjusted EPS nearly doubled compared to last quarter, highlighting the ongoing improvement in our operational performance.

Now, let's review our segment results, starting with Prepared Foods. In Prepared Foods, Q1 revenue was flat, year-over-year. Volume growth was led by benefits from the Williams acquisition and continued recovery in our foodservice business. Lower pricing primarily reflects the mix impact of the lower contribution from retail. AOI in Q1 was also in-line with last year.

Lower raw material costs and operational efficiencies were offset by increased brand support expenses, start-up costs associated with new capacity additions and mix. AOI dollars and margin both increased significantly on a sequential basis, due to strong operational performance and great seasonal execution by the team.

Moving on to Chicken. Sales in Q1 declined 5.4%, year-over-year, primarily driven by the impact of lower commodity protein prices. Volume declined 1.5%, due to lower production, which was partially offset by continued sell-through of finished goods inventory. Despite the decline in sales versus last year, AOI more than doubled in Q1, primarily driven by the benefits of our strategic actions and other operational efficiencies. These include lower plant spend, improved yield and better live performance.

While input costs were a clear tailwind, these were largely offset by the impact of lower pricing. As Donnie mentioned, this is the third consecutive quarter of more than $100 million of AOI improvement, as we were able to pull forward the benefits of closures of inefficient plants and improvements in our live operations.

Now moving to Beef. In Beef, revenue increased 6.4%, year-over-year in Q1, with lower head throughput more than offset by higher prices per pound. While revenue increased, AOI decreased versus last year, primarily reflecting compressed spreads, as was expected.

As Donnie mentioned, in Q1, nearly half of the operating loss was driven by an unfavorable inventory valuation adjustment, which was primarily due to the rapid and significant decline in cattle futures.

Moving to Pork, Q1 revenue was down modestly as volume growth was offset by lower pricing. However, AOI increased, year-over-year, benefiting primarily from improved spreads driven by lower hog cost, as well as better execution.

And finally, a brief comment on our international business. AOI improved as we begin to lap some of the start-up cost of our newer facilities and continue to focus on improving execution, despite a decline in sales, driven by macroeconomic challenges.

Shifting to our financial position and capital allocation. Our commitment to building financial strength, investing in our business and returning cash to shareholders, primarily via our dividend, remains unwavering. While market conditions remain challenging, we are laser-focused on disciplined management and deployment of our capital resources to drive cash flow.

Q1 showcased robust operating cash flow of $1.3 billion, above our expectations, and working capital was a solid source of cash as we continued to manage inventory levels. We were also disciplined with CapEx, which came in at just over $350 million in the quarter, below last year's exit rate. During the quarter, we returned $171 million to shareholders via dividends.

Our net leverage declined sequentially, coming below 4 times, driven by our improved profitability and strong cash generation. We ended Q1 with more than $3.7 billion of liquidity.

Our balance sheet management approach remains unchanged. We are committed to building financial strength and maintaining our investment-grade credit rating and returning net leverage to at or below 2 times net debt to EBITDA. 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 take a look at our updated outlook for fiscal 2024. Given the solid results in Q1, we have confidence that our financial performance in 2024 will improve versus last year. However, as it's still early in the new fiscal year and uncertainties remain, especially in our Beef segment, we have made only modest changes to our outlook.

Our focus for fiscal 2024 remains to manage the business for profit and cash dollar generation, reflected in our guidance presented in dollar terms, rather than margin percentages. With that in mind, we are reiterating our overall sales guidance to be roughly flat, year-over-year.

Moving to each of the segments. Prepared Foods had a solid start in a seasonally strong period. For the remainder of the year, we expect strong volume results as we continue our momentum in foodservice and see the benefits of our capacity additions. We remain focused on operational efficiencies, while we support our brands and anticipate continued start-up costs. Taking all this into account, we're maintaining our AOI guidance to be in the range of $800 million to $1 billion.

In Chicken, our operational turnaround is progressing, as anticipated. For the remainder of the year, we expect to return to normal seasonality where Q2 is typically a weaker quarter. Given the strong start in Q1 and that we believe that there were more tailwinds than headwinds, we are tightening our AOI guidance range to be between $500 million and $700 million.

In Beef, spreads are compressing, as expected. However, uncertainty remains around how the cattle cycle will progress. Therefore, we are maintaining our full-year guidance at a loss of $400 million to breakeven.

In Pork, on the back of our strong Q1 results, we're now raising our guidance to be between breakeven and $100 million.

For the total company AOI, we're maintaining our guidance of between $1 billion and $1.5 billion, reflecting the portfolio nature of our segments.

To round out the key P&L items, we anticipate interest expense to be roughly $400 million, and a tax rate to now be between 23% and 24%.

Turning to CapEx, we're maintaining tight controls on spending in-line with profitability and cash flow, and we expect CapEx to remain between $1 billion and $1.5 billion, this year.

Finally, on free cash flow, we're committed to managing working capital and CapEx, and we're even more confident now than we were last quarter that we will generate positive free cash flow for the year.

To further help model the shape of the rest of the year, we anticipate more typical seasonality, across our business. As a reminder, Q2 is seasonally our weakest quarter for AOI and cash flow, driven by Beef and Chicken. And as you may be aware, this January has already been impacted by severe winter weather disrupting operations. And again, we expect start-up costs in Prepared Foods to impact Q2, as well.

So, in summary, 2024 is off to a promising start, and we're cautiously optimistic on our prospects for the remainder of the year, as well as for the long term. Tyson is a leader in the global protein industry. We have strong brands, a broad portfolio of products and a great team, all of which uniquely position us to win in the market.

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

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.

QUESTION AND ANSWER

Operator
We will now begin the question-and-answer session. To ask a question, you may press “*”, then “1” on your touchtone phone. If you are using a speaker phone, please pick up your handset, before pressing the keys. To withdraw your question, please press “*”, then “2”. Please limit yourself to one question and one follow-up. If you have further questions, you may re-enter the question queue.

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

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

Peter Galbo
Hey, guys. Good morning. Thanks for taking the question.

Donnie King
Hi, Peter. Good morning.

John R. Tyson
Good morning, Peter.

Peter Galbo
Donnie, I was just wondering if you could give kind of maybe a brief state of the union. I know you gave some in your prepared remarks, but across the segments. And then maybe specifically, if you could start on Prepared Foods where, unlike a lot of CPG peers, you're showing actual

volume growth. Some of that may be acquired, but just some of the dynamics around foodservice there seem to be a pretty important driver. So, if you can unpack that for us would be great.

Donnie King
Sure. Thanks, Peter. I'll start off and maybe I'll have others to weigh in. Let me start off just kind of State of the Union. We had a solid first quarter, and we continue to build on the momentum of the back half of 2023. We are seeing the benefits of our portfolio where Chicken and Pork improvements are offsetting challenges in Beef and where our Prepared Foods continues to deliver strong results.

We continue to restore performance in our Chicken business. As I said earlier, this was our third consecutive quarter of $100 million of AOI improvement. And this--our Chicken business remains a top priority of mine.

We're managing Beef through the volatility and spread tightening of the cycle. We're making great progress in driving out inefficiency all across the supply chain in Pork.

Prepared Foods is performing to plan. While we have seen softness in the retail channel, our brands have performed well. Core brand share remains near record levels, and we're regaining share in our foodservice business, and I'll talk more about that in a moment.

We're cautiously optimistic about FY '24. We have considered our better-than-expected results in this quarter. We've considered our initiatives to improve performance, while also still accounting for the ongoing macro uncertainty. As John said in his opening statement, Q2 is seasonally weaker, and our Q2 started off--has started off with several significant weather events.

But having said all that, taken together, it's still early in the year, and we don't want to get ahead of ourselves. We have a lot of work ahead of us, and we're leaving no stone unturned. We're focused on CapEx and working capital to drive cash flow and support our dividend.

We are controlling the controllables and taking necessary action, including right-sizing and modernizing our footprint and network design to drive efficiencies. We are pleased with the quarter and believe we're taking the right steps. We are excited about our future and are focused on creating value for our shareholders.

Specifically--or a little bit more specifically in terms of Prepared Foods, to your question, Peter, we had--in the quarter, we had strong top- and bottom-line performance in the quarter, with meaningful sequential improvement versus Q4 of '23. If you look at the makeup of the volume, it was driven by a balanced portfolio between retail and foodservice.

We're regaining some share lost in the middle of the pandemic that we couldn't support, and we also had the acquisition from a volume standpoint of Williams Sausage. Our branded core business line remained a key focus, and we have a competitive advantage with volume share near-record levels and 400 basis points above Q1 '19.

Let me stop with that. Melanie, anything you would add to what I've said.

Melanie Boulden
Yeah, Donnie, I think you did a great job hitting the highlights. The only thing I'll add for you, Peter, is, as Donnie said, our foodservice performance was strong, and I believe you asked about this question. Our growth this quarter was up by 3%, and that was due to customer expansion. Look,

this channel is rebounding. It continues to be an important part of our portfolio that we are focused on because we want to be where our consumers are at. And so, we're diversifying our customer base, we're building digital capabilities to drive demand, and we are focused on profitable growth.

Peter Galbo
Great. Thanks for all that. And then just maybe quickly as a follow-up on Beef, Donnie. Look, the cattle inventory report out last week seems like maybe we're nearing a bottom or seeing, potentially, some improvement. But just, what's the conversation like with ranchers at this point? What's it going to take to get them to actually start the heifer retention process? Because I think that remains kind of the biggest linchpin in the whole chain, and it doesn't seem like we have a lot of clarity there yet. Thanks very much.

Donnie King
Sure. I mean, I'll tell you, we look at the same information that I'm sure you've seen, and we saw the cattle on feed report that you referenced. Unfortunately, Peter, the data doesn't indicate that heifer retention is taking place, and that's obviously one of the signposts we're looking for. In the quarter, we continue to see volatility and spread tightening. We expected that. As we think about our outlook, we continue to project high cattle supplies for the balance of 2024 and even beyond. And let me pause. Brady, do you want to add anything to that?

Brady Stewart
Yeah, thanks, Donnie. And Peter, that's a great question and one that we continually are studying. I think when you unpack those cattle on feed report, there's a few comments that, obviously, are lending itself to the numbers that we're seeing, and part of it's relative to some slower turnover that we've seen.

We've seen placements for cattle on feed from some of the drought areas as well from a geographical perspective. And as you indicated, which is the spotlight of the conversation is, we have not seen significant heifer retention to-date and continue to see those heifers move into the cattle on feed report.

So, continuing to focus on a few factors relative to heifer retention, obviously, how these interest rates that we see today relative to the difference or the delta today versus some of the cycles in the pack--in the past is a highlight for us to continue to watch. And then, we'll continue to evaluate and understand how weather conditions are changed and lend themselves into a more favorable heifer retention strategy for these ranchers.

Peter Galbo
Thanks very much.

Donnie King
Thanks, Peter.

Operator
The next question comes from Adam Samuelson with Goldman Sachs. Please go ahead.

Adam Samuelson
Yes, thank you. Good morning, everyone.

Donnie King
Good morning, Adam.

Adam Samuelson
Good morning. So, maybe coming back to Chicken, and John, you gave some color in your prepared remarks, but hoping to expand on a little bit on just the profit drivers in the business in the quarter.

There was $170 million of feed tailwind, year-on-year, some offset with price. But can you walk through the year-on-year profit bridge in Chicken a little bit more closely? And I guess, apart from seasonality in the fiscal first quarter—or fiscal second quarter, excuse me, the first quarter would imply kind of tracking to at or above the high end of the segment profit guidance for the year. So, just want to make sure we're understanding kind of some of the moving pieces you're looking at for the balance of fiscal '24.

John R. Tyson
Yeah, Adam, thanks for the question. And maybe let me give a few points that will help you shape our '24 outlook, compared to '23. I think the first thing to point out is we talked about the network moves, operational performance improvement. We started to realize that, and the adjustment in our guidance range of taking the bottom end up by $100 million, roughly equivalent in-line with where we were ahead of expectations for the balance of the year--or excuse me, where we were, compared to expectations.

Then, when I move through the balance of the year, I know one question is sometimes on investors' mind is, hey, where is your return on sales guidance, how does that peaking, or not peaking? We've heard some questions about that. We're not going to return on sales guidance, but there's reasons to believe that our quarter three and quarter four could be around where we delivered the result in Q1, but frankly, it's probably premature to make any strong assertions around that.

And then again, Q2, we had weather impacts, across all of our segments. Chicken was not immune to that. And so, that's kind of the overall picture that we can give today, based on the shape of the year.

A couple of other things we're saying, we did talk about a couple of hundred million dollars in improvements on some previous earnings calls, thinking about the benefits we've realized from the network moves. We believe that we have achieved that. We have one facility still going, Corydon, Indiana. And when we close out that process, then we'll be nearly finished there.

And then, there are some tailwinds from a market standpoint. I think, last quarter, Donnie was the one who said more tailwinds than headwinds. I think that sentiment prevails but as you know, it's not just grain prices, but it’s kind of the interplay between that and what chicken markets are doing and what's going on from a supply-demand standpoint to influence things.

So, I think, overall, the $500 million to $700 million range, for a lot of those reasons, is our best estimate today of where we think the year will be. And, yeah, hopefully that gives you a little extra color.

Wes, maybe you’ve got something to add in there for Adam.

Wes Morris
Yeah, I had a couple of comments, Adam. We expect to realize our strategic change funding, throughout the year. And specifically, to your question on year-over-year, both grains and markets

were both lower. So, we stayed focused on improving our fundamentals. Year-over-year did have a little tailwind, but it's mostly the material change we made in our fundamentals.

We improved our live performance, specifically hatch and livability. We have a very disciplined S&OP process that got really tight in Q1, and our sales are not only sold out position, but our forecast accuracy has allowed us to do a better job filling orders with materially less working capital.

Adam Samuelson
That's very helpful color. And then just as a follow-up, especially in Chicken and Prepared Foods. Just wondering if you have any views on changes in consumer behavior and how consumer demand elasticity has been evolving as you kind of enter--as the calendar's flipped and how you're thinking about the state of the US consumer, over the balance of calendar '24.

Melanie Boulden
Thanks, Adam. So, I'll start first to talk about how we're looking at it from a Prepared Foods perspective and our Branded portfolio. So generally, we're seeing elasticities returning to pre-COVID levels. And as you know, we seek to balance both price and volume growth to maximize the value of our Branded portfolio.

But at the end of the day, we do understand the financial uncertainty that our consumers are faced with as inflation remains elevated, which is why we continue to leverage our strong revenue growth management capabilities in support of our brands, and we're prioritizing their health and their profitability when determining our pricing strategy. And additionally, across the board for any of our Branded business, we remain focused on understanding our category dynamics, assessing our competition and, of course, meeting our consumer needs when making pricing decisions.

Wes Morris
Yeah, Adam, I'd just add that we're seeing really good dark meat demand. We've seen a reemergence of our wing demand, and we're seeing a slight shift towards foodservice.

Adam Samuelson
All right. That's all really helpful. I'll pass it on. Thank you.

Donnie King
Thanks, Adam.

Operator
The next question comes from Ken Goldman with JPMorgan. Please go ahead.

Ken Goldman
Hi, thanks so much. I wanted to ask a little bit about competition on the Prepared Food side. Are there any of your more important categories that you're starting to feel maybe a little incremental pressure in terms of competition, whether it's on the pricing side or however you want to frame it? And I guess, how comfortable are you with your price gaps versus these competitors today, just in a general sense?

Donnie King
So, in terms of competition, I mean, regardless of the business, I mean, there's--we have some very strong competitors in every space that we play. And so, I'll leave that there. But I'll give Melanie the opportunity to talk about more specifics in categories. For example, I would just simply

say that we saw a strong performance in breakfast sausage and cocktails, and we had some headwinds in our lunch meat and our frozen protein breakfast area. Melanie, do you want to add to that?

Melanie Boulden
Yeah., I would just say, Ken, at the end of the day, this is a challenging consumer environment and, boy, competition is stepping up. We're not only seeing competition step up from branded players, but also private label is a factor. And I think, overall, we're doing very well and holding our position.

But at the end of the day, we are just focused on our own retail business, in particular, and making sure that we're doing what we have to drive consumption, to address any price gaps and make sure that we are maintaining our leadership position in--which, as you know, in eight of our 10 categories.

So right now, we are focused on making sure that we grow through high ROI merchandising with a strong feature and display at shelf. We're increasing our MAP investment to continue to grow our household penetration. We've got strong innovation on shelf now and also coming, which is going to offer strong engagement with consumers.

And very importantly, to address pricing, we're making sure that we're enhancing our price pack architecture offering so we can ensure that we are maximizing our distribution footprint. And we think all these steps together, we're starting to see actions in the marketplace and are confident in our full-year outlook.

Ken Goldman
Thank you for that. And then, a follow-up is on Chicken. As we look at some of the export data, and I realize some of the monthly data is a couple of months in arrears, usually. But the export data in general in terms of pounds for chicken, they've been a little bit weaker, as 2023 anyway, progressed.

And yet, as we start into 2024, at least according to Urner Barry, leg quarter prices have done pretty well, which might be not what one might expect at first glance, just seeing the trade number. So, just curious for a little bit of your thoughts on how to think about demand for leg quarters, export demand, in general. Any color there would be helpful. Thank you.

Wes Morris
Yeah, I'll take that, Ken. Thanks. We've seen a lot of disruption in the pause, the export side. Specific to leg quarters, freezer stocks are at a really low level, and demand seems to be robust enough to clear it at very attractive prices.

Ken Goldman
Thank you.

Operator
The next question comes from Ben Bienvenu with Stephens Inc. Please go ahead.

Ben Bienvenu
Hi. Thanks. Good morning.

Donnie King

Good morning, Ben.

Ben Bienvenu
I want to ask--I know, Chicken has gotten a lot of focus: congrats on the quarterly results. John, I wanted to drill down on the 2Q commentary that you provided, recognizing it sounds like there's some operational headwinds and disruptions from weather, early in the year. What I'm curious on is if fundamental--commodity fundamentals continue to improve and grain prices stay low, supply/demand comes into better balance, is that enough positive to offset the temporal operational dynamics that we saw in the second quarter?

John R. Tyson
I think there are reasons to believe why some of that could offset it. But I think it would be--I think, to quantify exactly what that offset is, we're not really ready to do that. But let's zoom out and talk about the broader year because I think I just want to hone in on some factors that are at play about why we remain cautious on the Chicken outlook.

And it has to do with what's going on in the total protein markets. Beef continues to be volatile. I think we've had predictions about where beef prices and beef markets were going to go. Some have held through, some have not. There are projections for more pork to be on the market, this year.

We've already talked about the consumer, today. So, I just want to make sure that we land the message today while there--we're cautiously optimistic about chicken, there remains a lot of uncertainty and a lot of time left in the year. So, Ben, I think I addressed at least parts of your question. Hopefully, that's helpful.

Ben Bienvenu
That's great.

Donnie King
If I could add one thing or a couple of things to that as it relates to Chicken. Those operational improvements that all of us have talked about in Chicken, those continue. And those fundamentals, while we are improved, there's still a lot of work left to do there. And we got a really good team working against those things. But keep that in mind as you are looking at Q2 and the balance of the year, as well.

Ben Bienvenu
Okay. Very good. Thinking about the cash flow statement, John Randal, you guys came into fiscal '24, bringing down your CapEx budget, materially. You've sustained the range again this quarter. Is there yet still room to tighten that budget as we move through the year, or do you think that number is more set in stone with, potentially, improvements coming into 2025?

John R. Tyson
That's a great question. I think there's probably room to tighten it a little bit but let me kind of talk about the total picture. When we gave guidance in the first quarter, we talked about striving to be free cash flow positive, that we would pay attention to our ability to manage the business and working capital as well as our operational results, and that would influence our thinking in terms of the total spend.

If you just extrapolate where we are in Q1, that will take you toward a higher end of that 1.5 range. But that's really just a product of lot of good projects in flight that we have, our efforts to slow down from the spin that was projected in north of $2 billion in recent years.

And I would just say we're not trending to that higher end because, hey, we've made some adjustment in our opening up the capital floodgates again. We remain very committed to getting that spend down to the midpoint of our range or below as we move through the balance of this year and next year. So that's what I want you to take away from a CapEx guidance standpoint.

Ben Bienvenu
Great. Thanks so much.

Donnie King
Thanks, Ben.

Operator
The next question comes from Andrew Strelzik with BMO. Please go ahead.

Andrew Strelzik
Hey, good morning. Thanks for taking the questions. My first one is actually on the Pork segment and the outlook there. If I look at the performance in the quarter, and it seems like some solid performance is probably continuing into the second quarter. It doesn't seem like there's much baked into the back part of the year. So, I guess, how are you thinking about pork margins from here evolving through the year and kind of the puts and takes as we get into the back part of the year?

Donnie King
Let me start off, and then I will flip it to Brady to talk about Pork. Hog supply drove lower hog costs, leading to improved spreads. We're seeing a number of benefits of better execution in Pork, and we have assembled a really, really strong team in our Pork business, led by Kyle Narron. He and his team have really taken out inefficiencies from procurement all the way to the customer consumer, and very proud of that work.

But I would also tell you there's still room for more. And you will probably continue to hear that from us is there's--every time--excuse me, every time we turn over a rock, we find something else, but where our moat is one of continual improvement.

And Brady, any big nuggets that I have not touched on?

Brady Stewart
No. Thanks, Donnie. And Q1, obviously, is seasonally the strongest quarter of the year. And we'd expect to see some typical seasonality as we move through, specifically, the latter part of this year, as well. The team understands it's their responsibility to control the controllables. And as Donnie indicated, done a really good job of being able to take advantage of some of the spreads we have seen in Q1 and certainly expect those improvements to continue through the course of the year, as well.

Really seeing some increased operational efficiencies, and the team has done a great job increasing the true business performance through the data and analytics platforms that they've stood up that allows for better decision-making and, really, adaptation of some of these market trends in the current conditions.

Andrew Strelzik
Okay. Great. That's helpful. And then, on the Beef side, I guess, when I look at the typical seasonality and I look at kind of the performance in the first quarter and then the commentary around the second quarter, it seems like you would need to have pretty solid improvement in the back part of the year, not to be kind of towards the lower end of that range. I know there's seasonality involved there, as well.

I guess I'm just curious, can you talk about maybe what would get you to the high and low end of that range? I understand certainly that there's a lot of uncertainty as we move through the year. And then, maybe can you clarify also when we think about the second quarter, are you thinking about sequentially lower off the number that you reported adjusted operating income in the first quarter, or is that kind of once you back out the inventory adjustment? Thanks.

Brady Stewart
Well, thanks for the question. And as you pointed out there, I think it's really important to emphasize what both John and Donnie indicated in the opening remarks, which was, in Q1, we saw that rapid decline in cattle futures and that was the driver for that inventory valuation adjustment, that was roughly $56 million in the first quarter. And really, as we look at the first quarter, obviously, we saw some headwinds relative to some decreased value in the drop. We saw the spread compression. And obviously, with lower supply, not only in Q1, but as we move through the rest of the year, we see that lower opportunity for cost dilution of our overhead structure relative to these volumes.

But let me be really clear, we see a path to improvement, as well. And from an operational excellence perspective, how we manage the business today versus the past in a different economic cycle is very important. Focus on efficiency, yield and really balancing supply and demand, not only by a cut-by-cut basis and through our grinds complex, but also in terms of yield and efficiency is going to be paramount and important to the team, and they're dialed in on that, as well.

We've made changes that certainly provide us opportunity in the future as well, as we mentioned last quarter. We've right-sized our Beef value-added business really to match our customer needs and what we're seeing from a supply perspective as we move through this. And again, as I've mentioned before, we have a well-capitalized asset base, and believe we're really able to manage through a variety of headwinds and market conditions that we expect to see as we move through this cattle cycle.

Andrew Strelzik
Great. Thank you very much.

Donnie King
Thank you.

Operator
The next question comes from Ben Theurer with Bank of America--excuse me, with Barclays. Please go ahead.

Ben Theurer
Hi, good morning, Donnie, John. Thanks for taking my question.

Donnie King
Good morning.

Ben Theurer
So, just wanted to kind of understand a little bit some of the dynamics as it relates to the export business, because if I remember right, that used to be some sort of a headwind also in Beef. So, if we look into the details on sales into the international channels, particularly Beef, was kind of contrary to the rest of it, was actually even down in the sales. Could you elaborate a little bit on the dynamics in the export markets as it relates to Beef in particular, but also if you could just mention, briefly, what you're seeing on exports for Chicken and Pork, That would be my first question. Thank you.

Brady Stewart
Sure. Well, thank you for the question. And I think it's really important to understand, we've really been working within historically high rates from a beef product or cut-out perspective. And when we talk about the arbitrage opportunity between a domestic sale and an export sale, really puts the domestic beef business and industry at a disadvantage, right now.

We're seeing large supplies from some of our competing countries that are in the southern hemisphere. And they're really on the opposite side of the cycle from we are--from where we are. And so, that's really led to increased opportunity for some of those competing countries and a decreased opportunity for us here in the U.S. However, we have seen strong domestic beef demand has led the--held these cut-out values at a historically high level, as well.

Wes Morris
Yeah. And Ben, this is Wes. I'll touch briefly on Chicken. As I said earlier, pause have been interrupted due to AI. And on leg quarters, we're seeing frozen inventory in the US at almost record lows. Our inventory continues to be in check, and the pricing has been very good, going forward.

Ben Theurer
Okay. Perfect. Thank you very much. And then just quickly following up as it relates to the Prepared Foods business. Can you quantify what the Williams Sausage volume contribution was because I didn't find that? I know it was positive, but if you could quantify that, that would be helpful.

Brady Stewart
Yeah. We haven't broken that out, but it's--we haven't broken that out, specifically, Ben.

Ben Theurer
Okay. That's okay. Thank you.

Operator
The next question comes from Tom Palmer with Citi. Please go ahead.

Tom Palmer
Good morning, and thanks for the question. Maybe I could ask on feed costs. Just how locked in is your exposure this year? And then, when you look at the downward moves over the past few months, does this benefit your current fiscal year? Or if it continues, is this more of a 2025 flow-through? Because it does seem like there's some incremental favorability.

Wes Morris
Yeah, Tom, this is Wes. I'll touch on that. We have a very diverse commodity risk management group. We also have different pricing mechanisms with customers in which some of the grains flow-through through pricing. I would tell you it's moderate and in the back half of the year.

Tom Palmer
Okay. Thank you. And then, I wanted to follow up on the Prepared Food side, maybe going back to Peter Galbo's question just on the new customer wins. Are there particular products that you're seeing these wins greatest in or particular channels within foodservice? Thanks.

Donnie King
Melanie?

Melanie Boulden
So, Tom, your question was--I just want to make sure I'm clear. Are we--are there particular products where you are seeing more success? Can you just repeat your question for me?

Tom Palmer
Yes. Sorry. Exactly. Just you've noted some--your growth was driven by some new customer wins. And I was just curious what products were really driving that for you right now, within Prepared Foods. Thanks.

Melanie Boulden
Yeah. So, I'd say that when I was talking about the customer expansion, we are making great strides in that area on the foodservice side of the business. And then, I would say, on the retail side of the business, we're seeing strong growth in distribution with our existing customers behind our core business lines, but we're also seeing excitement behind some of our--a lot of our new innovation. And in particular, I want to highlight our Jimmy Dean Maple Griddle Cake that we launched last year to success, and we are planning, in a couple of months, to launch an extension of that product item. Does that help, Tom?

Tom Palmer
Yes. Thank you.

Donnie King
Tom, let me add a little more color as it relates to foodservice there. As a reminder to everyone, in the middle of the pandemic, we had some operational issues being able to produce enough product for our customers, and we essentially had to give up some business. And we've been, since the pandemic, trying to go and regain that. But we have a nice diversification between what are the traditionally quick-service restaurants and as well as broad line distribution.

Tom Palmer
Okay. Thank you.

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

Michael Lavery
Thank you. Good morning.

Donnie King

Good morning.

Michael Lavery
I want to come back to Chicken and just trying to understand, obviously, the lift in the quarter was cost and margin driven. But when you point to the strategic actions and those benefits, can you help us understand maybe how to think of them kind of longer term? And would this put you at the higher end or above kind of a 5% to 7% margin range? I know you're not wanting to think about margins as how you guide for the year.

You gave a little bit of breadcrumbs for the second half. That's all real helpful. But maybe just looking a little further out, is business structurally different enough that under normalized conditions, you would rethink what it's capable of, what its earnings power is, longer term?

Donnie King
So, let me start. This is Donnie. Let me start with a couple of points, and then I think John probably has a couple to add. But in terms of being prepared to give guidance, we're not prepared to do that today and talk about that.

But what I can tell you is what we're doing as a company. We talked about the third consecutive quarter of over $100 million of AOI improvement. In the midst of that, what I can also tell you is market that's for grain or the meat side, those were largely offsetting one another. So, the improvements are coming from operational improvements, operational excellence both in plants and in live production and really driving out waste from the business.

But we also, as we said earlier, we're realizing the benefits from plant closures that in terms of modernizing and right-sizing our footprint. So, we're seeing all of those. But this plan doesn't really is--I mean, we've modeled the markets as they are today for the balance of the year, but this is all about operational excellence and being more competitive and being better at what we do, at the same time driving up raw material to a more value-added and branded within the Chicken segment. John.

John R. Tyson
Yeah, Donnie, it's a nice summary. I think, again, without touching on what the long-term outlook is like, the things I would point out about how the strategic moves we made have a sustaining impact in our business is a couple of things.

First, we're just taking cost out of the system while still keeping the same amount of volume with our customers. Over the long run, that means not putting capital into older and more tired assets, rather investing in those assets where we think we can achieve our targeted ROIC number.

And then, I think the other thing, too, is we have really, in the last year, refocused our growth to be demand backed and to be in those subcategories within the Chicken segment, where we see favorable trends from a growth and margin standpoint. So, I think with that, over the long run, we project to be competing and performing as a best-in-class chicken company from a margin standpoint, and that's how we realize that.

I think the other big move that we made, we've seen it in our live performance results this year is the switch from NAE to NAIHM, and that provides us for a lot more consistency in order to meet customer demand and expectations from a live standpoint.

Michael Lavery

Okay. That's helpful. Great. And just a follow-up on Prepared Foods. I understand it's obviously always competitive, and you touched on some of those dynamics. But can you give a sense on promotional levels? Would you say they're normalized again? Do you see increasing activity there? You called out some of the mix headwinds was priced otherwise flat? Or I guess maybe could you dissect the price and mix pieces of that, and just a sense of how the environment looks from a promotional perspective? Is it getting more intense, or does it seem to have stabilized? What's your sense of how that looks?

Melanie Boulden
Yeah. So, this is Melanie. I would say that promotional activity is continuing. We are continuing to see intense promotional activity. In terms of how we are operating, we have our highest-performing our highest-ROI merchandising initiatives in place to drive our feature and display and choice at shelf, and we are seeing it working. But to your point, competitive activity in this area is strong, and we're just focused on controlling our controllables.

And in addition to our promotional activity, we're focused on, as I said before, increasing our MAP investment to engage consumers. Again, we've got strong innovation in place, and we're enhancing--when you asked about price, we're making sure that we enhance our price pack architecture structure to address competitive pricing, as well.

Michael Lavery
Okay, great. Thanks so much.

Donnie King
Thank you.

Operator
The next question comes from Alexia Howard with Bernstein. Please go ahead.

Alexia Howard
Good morning, everyone.

Donnie King
Good morning.

John R. Tyson
Good morning, Alexia.

Alexia Howard
Okay. So, two ones. Firstly, on the financial side. Your leverage has obviously come down, but it sounds as though weather, there'll be more sequential improvement in operating income next quarter in CBD given the weather issues. Do you expect leverage to continue to come down from here, or could next week--next quarter be the other high point?

John R. Tyson
Yeah. Thanks, Alexia. So, I think two questions in there. The first off is just independent of weather--I want to make sure we're tracking. Independent of weather, we expect our Q2 to typically be one of the softer quarters from an operating income standpoint. And so, then that's exacerbated by weather a little bit. In the long run, we are projecting for leverage to continue to come down. That's driven by a couple of things. One, we're getting more efficient with working capital. We've talked about some inventory clearing in our--around our segments.

Exactly kind of where things happen in the first half of the year, we can say that we would expect to end our fiscal 2024 in a better net leverage position from a ratio standpoint than last year. That's evident also in our pull down on CapEx and what we projected, which is to be a better year from an operating income and EBITDA standpoint than '23.

So that's--we're trending in the right direction, aggressively pursuing that at or around 2 times net leverage ratio. And we would project that we'll get to do that, continue to invest in our business and also support our dividend from a capital allocation standpoint.

Alexia Howard
Thank you. And then just as a follow-up, sticking with Prepared Foods, it sounds as though this mix shift into foodservice is obviously a good thing overall, but it is pushing the pricing down and, potentially, there might be a negative mix shift with margins. Are you able to clarify whether that price pressure will continue in future quarters? And are you able to talk about the margin differential between branded retail and foodservice and private label, which I assume is lower?

Donnie King
Okay. Alexia, this is Donnie. There are a lot of questions in there. Here's what I can tell you relative to foodservice. And keep this in mind, we've talked about it today because you have seen some volume improvement relative to foodservice. I would remind you that we had given up some business in the middle of the pandemic, and the nature of those contracts can be quite lengthy. And we're starting to get back in when those open up and get some volume. We have maintained in Prepared Foods the capacity which produces those products.

So, if you think about it from that perspective, this overhead in these assets have been a drag on our business to some degree. We've gotten new volume to put into those assets. So that's one piece of it.

We're probably not going to talk about the differential in the margin structure between foodservice and retail. But it's important that we regain that volume in foodservice. But our retail--our iconic brands in retail continuing to support those and grow those and innovate and do merchandising like Melanie has talked about before, those are all still critical--mission critical for us.

Melanie Boulden
Yeah. And the only thing, Alexia, I would like to add, because I think Donnie did a nice job of highlighting more of the top-line, but also as we think about our business and our performance, one of the reasons that we were able to deliver a solid quarter and what we plan on continuing to do is focus on our controllables, the things we can control, especially from an operational efficiency standpoint.

So, we're really focused on improving our service levels, maximizing our asset utilization by driving down our overhead and increasing our yield and labor efficiencies. And importantly, we're driving automation to improve our supply chain execution. So, from a top-line perspective, yes, your question was about mix, but I just wanted to reiterate that we're also working all levers of the P&L to ensure that we drive strong bottom-line, as well.

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

CONCLUSION

Operator
This concludes our question-and-answer session. I would like to turn the conference back over to Donnie King for any closing remarks.

John R. Tyson
Before Donnie wraps us up, I just want to make sure we land one final point related to our outlook for 2024. And we've had a lot of great discussion this morning about our various segments. We obviously moved the range on Chicken and on Pork. But I just want to highlight our reaffirmation of the total company guidance from $1 billion to $1.5 billion, based on a lot of various macro factors and the interplay between all of our segments.

I think we have reasons to believe, while we could achieve a range of outcomes in that window, the midpoint plus or minus, we designed it that way for a reason, and it feels like a way to think about the total look. And then obviously, as we move through Q2 and through the balance of the year, we'll give any revisions as necessary.

But cautiously optimistic, promising start to the year, but still a lot of factors at play around total protein availability, consumer sentiment and the other unpredictable factors that would get us to where we are.

So, Donnie, I think with that, I hand it over to you.

Donnie King
Okay. I want to say--once again, say thank you to all 139,000 of our team members. We're here today and have a good story to tell because of those 139,000 team members who contribute to us, each and every day. Their efforts are what makes and what drives this business forward.

Our strategy is working. We have the right leadership team in place to deliver, and we're poised to drive long-term opportunity and shareholder value. We've taken some steps in the right direction, but we have a lot of work to do.

Thanks for Your continued interest in Tyson Foods, and we look forward to speaking with you again, soon.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.