Tyson Foods, Inc.

Q2 2024 Earnings Results

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good day and welcome to the Tyson Foods' second quarter 2024 earnings conference call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing "*" "0".

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

Please note, this event is being recorded. I would now like to turn the conference over to Sean Cornett, Investor Relations. Please go ahead.

Sean Cornett

Good morning. and welcome to Tyson Foods' fiscal second 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, 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 also have provided a supplemental presentation, which may be referenced on today's call and is available on Tyson's Investor Relations website via the link in our webcast. During today's call, we will make forward-looking statements regarding our expectations for the future. These forward-looking statements made during this call are provided pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements include all comments reflecting our expectations, assumptions or beliefs about future events or performance that do not relate solely to historical periods. These forward-looking statements are subject to risks, uncertainties and assumptions, which may cause actual results to differ materially from our current projections. Please refer to our forward-looking statements disclaimer 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. A reconciliation of these non-GAAP measures to the 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. I'm pleased with our performance in Q2, and I want to thank our team members for their ongoing commitment to driving operational excellence. We've certainly come a long way from where we were a year ago and wouldn't be where we are today without their hard work.

Our momentum continues to strengthen, and all of our businesses are running better today than they were last year. Our results this quarter are part of our solid performance in the first half of fiscal 2024 compared to the first half of last year. Adjusted EPS and adjusted operating income are both up nearly 60% while operating cash flow increased by more than 50%, and CapEx decreased by more than 40%. This performance gives us confidence in our improved outlook for the fiscal year and in our long-term future.

As you saw in our results, tailwinds in chicken again offset headwinds in beef as we benefit from our multi-protein portfolio. While we're not immune to the macro environment, we are taking steps to reduce our exposure to commodity markets. We are expanding our offerings in seasoned and marinated meats to value up our portfolio across beef, pork, and chicken to provide consumers convenience and new flavor options. Across our brands, we are focusing on meeting the consumers where they are by offering convenient, restaurant-quality food options at home.

We are a leader in protein with some of the most iconic brands in food with offerings that span the value spectrum. This is why our share remains healthy despite a more challenging environment for consumers. We continue to support our brands through efficient marketing, effective innovation, and strong partnerships with our customers. We continue to build financial strength by being disciplined in our capital deployment to improve cash flow and position us well to tackle challenges and capture opportunities. We also continue to take bold actions to improve performance and drive long-term value for shareholders, and I remain highly confident in our strategy and optimistic about our future.

Now let's delve into an update on market share. At Tyson Foods, we have a broad portfolio of offerings across food service and retail at a range of price points to meet consumers where they are, even as they manage through a challenging macro environment. We also have some of the strongest and most iconic brands across food and beverage behind the Tyson, Jimmy Dean, and Hillshire Farm names, which allows us to make efficient choices to maintain margin while strengthening our shelf position. We see this in the strength of our dollar share in our core business lines, which we believe reflects the quality of our share position.

Since Q2 of fiscal 2019, we've added 400 basis points of dollar share in our core business lines. While our share is down modestly versus last year as we lap some record performance, we have gained dollar share over each of the past 3 quarters. Our core bacon brands, Wright and Jimmy Dean have contributed to this recent growth. In fact, our dollar share in bacon for Q2 was at a record high level over the past 5 years, and we were the fastest growing in the category during the quarter. I'm excited about our opportunities in bacon and expect our share to continue improving as our new bacon facility that opened in January ramps up.

The value proposition of our iconic brands resonates strongly with our consumers and our market share and household penetration rates remain healthy. We continue to have opportunity to expand the household penetration of our great brands. leaving room for continued share growth over the long run.

Moving on to the segment performance, starting with Prepared Foods. Consumers' focus on value continues to impact our retail volumes. However, our share remains healthy and as I mentioned, we are gaining dollar share in bacon. Our volumes outside of retail 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 solid profitability both in Q2 and the first half of fiscal '24.

In Chicken, the momentum established in the second half of fiscal '23 continued in Q2. In fact, versus the second quarter of last year, AOI increased more than $325 million. While we are benefiting from better market conditions, including lower grain costs, our bold actions and focus on the fundamentals are also evident in our results.

We have made progress across the value chain. Our live operations are substantially better. We've improved yield, labor efficiencies, and utilization in our plants. Our demand planning and customer service have also taken significant steps forward. When our live operations are running well and our demand plan is more accurate, we can operate more efficiently and better service our customers. In summary, our focus on getting back to the basics in chicken is working.

As you all know, in Beef, limited cattle supplies led to spread compression. Despite some quarterly volatility reflecting market conditions, our results for the first half of fiscal year have come in as we expected. Our goal remains to offset some of the challenges of a tight cattle supply environment by focusing on the controllables such as labor utilization and managing mix to meet customer and consumer demand.

Turning to Pork. Better spreads and ongoing operational execution led to improved profitability in the quarter and in the first half of the year. As you may have seen, we made the difficult decision to close one of our pork facilities. This is part of our efforts to optimize our footprint and improve performance by reallocating resources to nearby more efficient plants while improving mix and better serving our customers.

Now let me take a step back and talk about our recent corporate rebranding initiative. We launched a new corporate logo earlier this year that captures our One Team, One Tyson spirit. It encompasses our differentiated capabilities and scale and our diverse portfolio across channels, categories, and eating occasions. Our Tyson Foods corporate logo represents our company's legacy and our team's purpose, which is to feed the world like family.

Our approach to driving long-term value hasn't changed and is built on a core of 3 key pillars. First, we are fortifying our foundation of core proteins. We strive to be best-in-class operators while continuing to look for ways to value up our portfolio. Second, we are building our brands by delivering innovation for new occasions, categories, and channels to better serve consumers.

Today, we have 3 of the top 10 protein brands with room to expand our household penetration. Brands are our best opportunity to drive faster growth, higher margins, and stronger returns. Third, we're growing globally. Our international business grew revenue eightfold to $2.5 billion over the 5 years through fiscal '23. We expect to drive profitable growth over time by capturing expanding consumer markets, particularly in Asia, and we believe we are well positioned to win. These strategic pillars are supported by key enablers of operational excellence, customer and consumer obsession, along with data and digital.

A key element of operational excellence is to gain enterprise scale and unlock savings in our controllables by modernizing our operations and driving performance to standards. We win with our customers by building long-term partnerships and delivering top-tier experiences. We enrich consumers' lives by creating best-in-class marketing and innovation. Finally, we continue to build our digital capabilities utilizing data, automation, and AI tech for better decision-making and outcomes.

Before I hand it over to John to review our financial performance, let me remind you of our priorities this year, where we focused on controlling the controllables. Our results for the first half of the year clearly show that we are controlling our CapEx and working capital to drive strong cash flow.

Another priority is to optimize our footprint and network. We closed the last of the 6 chicken facilities that we announced in 2023, along with the 2 case-ready beef facilities and as mentioned earlier, we are closing one of our pork plants. We're also focused on operational excellence by restoring performance in chicken, strengthening prepared foods, managing beef through a difficult cattle cycle and driving efficiencies in pork. As you have seen in our results so far this year, we are making tangible progress in all these areas.

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

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

Sales in Q2 were essentially in line year-over-year at $13.1 billion as a decrease in chicken was nearly offset by an increase in beef. Adjusted operating income increased $341 million year-over-year to $406 million, driven primarily by significant improvement in chicken profitability. Operational performance and substantially higher AOI led to an (inaudible) increase in adjusted EPS, which came in at $0.62 in Q2.

Now let's review our segment results, starting with Prepared Foods. In Prepared Foods, Q2 revenue was down slightly year-over-year. Volume growth was led by benefits from the Williams acquisition. The pricing decline reflects the mix impact of the lower contribution from retail. AOI in Q2 was down modestly versus last year. Lower raw material costs and operational efficiencies were more than offset by start-up costs and mix. Despite the decline in AOI, our margin for the first half of the fiscal year remained in the low double digits.

Moving to chicken. Sales in Q2 declined 8.2% year-over-year, primarily due to lower volume. Volume declined 6.1%, driven by lower production as we better aligned our supply to customer demand, while the 2.1% reduction in pricing was due in part to the pass-through of lower input costs. Despite the decline in sales, AOI increased $326 million year-over-year to $160 million.

The benefits of our strategic actions and the substantial operational improvements we've executed since last year are clear. Market conditions, including lower input costs, net of pass-through pricing, and a better supply-demand balance were also key contributors to improved profitability. The current quarter results include a $55 million derivative loss compared to a $35 million loss in the year ago quarter. As a reminder, our grain hedging program is part of an overarching risk management strategy and not a speculative tool.

In our Beef segment, revenue was up 7.3% year-over-year in Q2, with both volume and pricing increases. The 2.8% increase in volume was primarily driven by higher average carcass weights, while pricing increased 4.5%. While revenue increased AOI decreased versus last year, primarily reflecting compressed spreads as expected. This more than offset continued progress on our operational efficiencies, including better labor utilization and better management of product mix to meet customer and consumer demand.

Moving to Pork. Q2 revenue increased 4.6%, driven by volume growth and higher pricing. Volume growth of 2.9% was led by more plentiful hog supply. Pricing improved due to healthy global demand. AOI also increased year-over-year going from a loss of $31 million last year to a profit of $33 million this year in Q2, benefiting primarily from improved spreads and better operational execution. Year-to-date, Pork AOI has improved $151 million.

Finally, our international business continues to make progress towards stronger profitability. AOI increased versus last year as we begin to lap some of the start-up costs of our newer facilities and continue to focus on operational execution.

Shifting to our financial position and capital allocation. Year-to-date showcased strong operating cash flow of approximately $1.2 billion as we continue to manage working capital. We remain very disciplined with CapEx, which came in at $621 million for the first half. The $267 million in

CapEx for Q2 was the lowest quarterly spend in several years and represents the fifth quarter in a row of sequential decline as we lap our elevated CapEx from the previous 2 fiscal years and focus on controlling where and when we deploy capital. Year-to-date, free cash flow of $556 million increased nearly $900 million versus the first half of last year and was more than $200 million ahead of our year-to-date dividend payments.

Our balance sheet management approach remains unchanged as we are committed to building financial strength, investing in our business, and returning cash to shareholders while maintaining our investment-grade credit rating and returning net leverage to at or below 2x net debt to EBITDA.

Our net leverage again declined sequentially, coming in at 3.6x in Q2, driven by improving last 12 months' EBITDA, and we expect it to continue to improve for the balance of the year. We ended Q2 with $4.4 billion of liquidity. As you may have seen from our press release in March, we successfully raised $1.5 billion in new senior notes, and we paid down a portion of our term loans.

We plan to use the remaining proceeds to retire our outstanding notes coming due this August. 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. We are reiterating our overall sales guidance to be roughly flat year-over-year. However, given our strong year-to-date results, we are raising our AOI guidance driven primarily by an improved outlook for Chicken. For the total company, we now expect between $1.4 billion and $1.8 billion of operating income.

Moving to the segments. In Chicken, given the strong start in the first half of the year, we continue to believe that there are more tailwinds than headwinds. We are raising our AOI guidance range to be between $700 million and $900 million.

Prepared Foods also had a solid first half. In this segment, we are tightening our AOI outlook to be between $850 million and $950 million, indicating a weaker second half of the year, which reflects typical seasonality.

In Beef, the first half of fiscal 2024 has progressed in line with our expectations. However, uncertainties remain, including the progression of the cattle cycle, and we now expect our full year AOI to be between a loss of $400 million and a loss of $100 million. In Pork, we've seen solid first half performance and are raising our guidance to be between $50 million and $150 million.

To add some color to the shape of the rest of the year, uncertainties remain around consumer strength and behavior, the progression of the cattle cycle, and key commodity costs. When we factor in these variables with pork and prepared foods seasonality, there are reasons to believe that Q3 could be weaker than Q4. To round out these key P&L items, we anticipate interest expense to be roughly $400 million and our tax rate to now be approximately 24%.

Turning to CapEx. We're maintaining tight controls on spending in line with profitability and cash flow, and we are narrowing our CapEx range to be between $1.2 billion and $1.4 billion this year. And finally, on free cash flow, we're committed to managing working capital and CapEx and we're even more confident now that we can fully fund our dividend this year through our free cash flow generation.

Now I'll turn the call back over to Donnie to wrap up before we move to Q&A.

Donnie King
Thanks, John. Before we get to your questions, I'd like to thank our 139,000 team members who work tirelessly to feed the world like family and fulfill our mission to bring high-quality food to every table in the world. It is the strength of our team that secures our position as a world-class food company and a recognized leader in protein. Together, we delivered a solid first half. We still have more work to do and believe we have the strategy in place to continue our progress and deliver long-term shareholder value.

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

Sean Cornett
Thanks, Donnie. We will now move to your questions. Please recall that our cautions on forward-looking statements and non-GAAP measures apply to both our prepared remarks and the following Q&A. Operator, please provide the Q&A instructions.

QUESTION AND ANSWER

Operator
We will now begin the question-and-answer session. To ask a question, you may press "*" "1" on your touchtone phone. If you are using a speaker phone please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press "*" "2".

At this time, we will pause momentarily to assemble our roster. The first question today comes from Peter Galbo with Bank of America. Please go ahead.

Peter Galbo
Donnie, maybe just to start, you typically give, I think, kind of an update on the state of the business and things have improved sequentially at least pretty dramatically. I guess just curious a little bit on two things.

One, kind of are you happy now with kind of the state of the portfolio and the state of plant closures and asset rationalization? And then secondly, just trying to understand the commentary around Q3 weaker than Q4 seasonally in light of what you've been saying that that would run kind of counter to what has been the case seasonally for the past, I don't know, 5 or 6 years. So maybe if you can just unpack those 2 areas would be helpful.

Donnie King
Thanks, Peter, and I appreciate everyone for being on this morning. Your first part of your question is essentially am I satisfied. I'm encouraged, I'd stop short of saying satisfied in terms of the results. I'm proud of the results that we delivered in Q2, and we're seeing the benefits of our diverse portfolio across proteins, channels, categories, and eating occasions.

Where we saw chicken and pork are offsetting the headwinds in beef. In our Q2, our momentum continues to strengthen on all of our businesses, and they're running better today than they were last year. We've come a long way from where we were a year ago and my thanks to all of our team members for continued improvement in execution.

We're executing against the priorities we laid out for fiscal '24. We are controlling the controllables. We're optimizing our network. We remain focused on operational excellence. We've taken bold actions to drive performance and to build financial strength.

We're delivering meaningful results compared to the first half of last year in profitability, cash flow, CapEx in line with historical rates. Our performance has given us confidence to raise our guidance while acknowledging uncertainties remain, and we have much work to do.

In terms of your specific question around Prepared, let me make a few comments, and then I'll pass it over to Melanie to add some detail. Our results were in line with our expectations. Our brands are strong, and our share remains healthy. Persistent inflation is weighing on our bifurcated consumer. Our strategy is to meet the consumers where they are with offerings at various price points.

In terms of more details, let me flip it over to Melanie to add a little color to your questions.

Melanie Boulden
So, Peter, I think you were asking specifically about our projections for Q3 as well as the rest of the full year. And so, I'll just talk specifically about Prepared Foods and let any of the other leaders chime in.

So, the first half of the year, Prepared Foods delivered $500 million in AOI, and you also know that profit delivery in the second half of the year has historically been lower than the first half, and we expect this year to be the same. So therefore, the midpoint of our second half guidance is $400 million. And I also want to point out that historically, Q3 has performed better than Q4, but we're seeing higher commodity costs in Q3, so we expect a pretty even split between the 2 quarters.

Peter Galbo
Great. Melanie, that's very helpful. Yes, we've gotten certainly a number of questions on that. So, thank you for the context.

And then Donnie, maybe just as a follow-up. Look, we've had a number of companies this quarter, both in the CPG industry and in restaurants just kind of comment on the state of the consumer and low-income consumer. I know that was in some of your prepared remarks, but curious if you could dive a little bit deeper on just your view on food service and some of the channels that you service there. Just any commentary around quick service, casual dining, and noncommercial would be helpful.

Donnie King
Melanie, why don't you answer that?

Melanie Boulden
Yes, happy too. So, Peter, in both retail and food service, as you know, the consumer is under pressure, especially the lower-income households. And in retail, we're seeing roughly 20% cumulative inflation over the last 3 years. Now the inflation impact, coupled with historically low savings rate has created a more cautious price-sensitive consumer. And we're also seeing a cautious consumer prioritize essential staples over discretionary categories.

Now that said, we're advantaged in that our protein categories enjoy lower levels of elasticity compared to the broader consumer landscape. And in retail, well, I should say, but in retail, we are experiencing a little slippage to private label with lower income households. However, our share remains strong with growth in bacon, snacking, and sausage.

Now in foodservice, where you specifically noted, we continue to deliver solid performance, but we are seeing shifts from fine dining into QSR. We're also seeing QSR slippage to more meals being consumed at home. But for Tyson, we're advantaged as we serve both in-home and away-from-home consumers.

The key point, I guess I'd like you to take away from all of this is that we've intentionally built the portfolio diversified across strong brands spanning multiple protein offerings and value tiers, and our scale allows consumers to find our products in multiple places throughout retail and foodservice channels. And this allows us to deliver on our goal of meeting our consumers where they're at, across a variety of value spectrum.

Operator
The next question comes from Ben Theurer with Barclays.

Benjamin Theurer
Congrats on those very outstanding results. Just wanted to dig a little bit into the dynamics in Chicken that you've seen and kind of unpack a little bit the volume performance on the production side. Can you help us to kind of frame it a little bit more? Is it lower (inaudible)? Is it lower weight? Is it a combination of it? What have you done differently in terms of like adjusting your operations to kind of have those sales down, but at the same time, with a very nice profit spread? And that would be my first question and then I have a quick follow-up.

Donnie King
I think I caught all the questions. Let me start out here was -- if I heard correctly, it was a kind of a supply question and then let me talk about that, and I will look at Wes to add some very specific details.

But in terms of chicken supply, if you look at the publicly available data, USDA has projected chicken supply to increase about 1% in 2024. But if you look at the data underneath it, there are some things that you need to get from this.

This is a livability and hatchability story for the industry. If you look, pullet and hen mortality continues to be elevated. Broiler mortality continues to be elevated. Hatchability continues to be 3% to 5% below historical rates. So, the net of all that is this. There will be fewer live pounds delivered to the processing plant than forecast.

So, if I look at that, I believe the supply will be lower than 1% projected by USDA. The other thing I would say with that is this is not a short-term fix. If you remember, we have a genetics company as well. And we've seen some of this activity as well. So, this can be a little bit of a longer-term issue.

So you ask -- you didn't ask, but I would tell you, at least from our perspective, genetic selection over the last several years have been skewed towards broiler characteristics like yield and feed conversion. There has been some impact, cumulative impact, from no antibiotics ever across the supply chain. And there's some, I won't say, new disease, but the disease persists, creating mortality in the broiler.

There's a new one or new to me called Avian meta pneumonia virus that's out there laryngotracheitis, or LT, is out there today, and there are other things. But I think the supply will be less than 1% based on the data points I'm looking at and from flat to 0.5% or something along that order.

Let me flip it to Wes and let him talk about our supply and see if that answers your question.

Wes Morris
Yes, Ben, we certainly see the USDA numbers projecting up 1%, but we're seeing the egg sets up by, weight up but slaughter pounds relatively flat. The good news is I'm very proud of our live performance. We hatched 82 34 in the quarter. livability is up 50 points year-over-year.

And so, looking at our live performance and then our S&OP process, our supply-demand group, we're in a good position for the back half of the year to stay balanced to take care of our customers, and I'm very pleased with our live and supply demand planning group.

Specifically, to Q2 volume, our volume is solid. It's consistent with Q1 and our expectations. Just as a reminder, 2023 is a challenging comparison period. Our pricing is solid. Just as a reminder, we lag a quarter to a quarter plus. And then the other dynamic unique to us is we have quite a few grain-based models that pull pricing down, but it does stabilize our margin.

Benjamin Theurer
Okay. Perfect. And then just a quick follow-up on Beef in terms of like what you're seeing on the industry. Have you seen any signs of heifer retention so just what you like getting on the ground to get a better feel on how bad it is still going to get until it might get better? A little bit of a preview maybe into '25.

Brady Stewart
Sure, Ben. This is Brady. And thanks for the question. And first of all, I guess, really at a high level, we haven't seen anything relative to any of the industry numbers that have been published that really indicate that true meaningful heifer retention has begun.

And so, at this point, we can potentially anticipate retention beginning in the fall, but there's some caveats to that. And certainly, as we shift from an El Nino weather pattern to a La Nina, the pasture conditions are extremely important to heifer retention. And there's a potential we could see some drier conditions as well persist.

We'll continue to monitor that along with additional metrics around heifer retention and the percentage of heifers that move into slaughter. And then lastly, one of the promising signs would be we have seen a meaningful decline of the number of cows that are going to slaughter, down double digits from '22 and '23, both and so really, we find ourselves what looks like in the midst of a transition pattern, and we'll continue to monitor to understand the timing of that as we move forward.

Operator
The next question comes from Tom Palmer with Citi.

Thomas Palmer
Maybe start off on the chicken side, at least relative to consensus estimates, the guidance boost would seem to indicate more than just upside in the quarter. So maybe talk on the components that are driving that increased outlook for the second half of the year? I mean it does seem, obviously, like feed is favorable. It seems like the pricing environment it's getting better. And

then you've had positive commentary on productivity. So just any help on kind of how much those items are helping, if there are other items to consider? And any quantification of course, would be appreciated.

Donnie King
Sure. Let me start off, and I will let Wes add a little color to this as well. But one of the things I got to point out is that the focus on the fundamentals that Wes and our Chicken team have had over the past year actually is quite impressive, and that's a result of some of this.

I would point out this that there have been some market tailwinds that as far as Chicken is concerned. But of the $325 million that we’re better year-over-year, more than half of that came from execution type things such as the footprint and network as well as some of the other tougher decisions that we made.

And with that, Wes, why don't you cover some of the more specifics around the program.

Wes Morris
Yes, sure. We're certainly focused on controlling the controllables, and Donnie talked about the wide operational performance, which includes our network changes. And then probably the biggest change is making sure that we match our supply and demand.

We've talked about the lives being better. Our plant performance and network optimization is right on target. Our capacity utilization continues to improve sequentially. We've improved our order fill rate while actually lowering our working capital over $400 million, driven almost exclusively by inventory. Demand is solid and '23 is not a very good comp.

Let me add a little more color to valuing up and our path forward. And so, we have our new start-up plant in Danville. It is currently single shifted, and I expect due to demand will be double shifted by the beginning of '25. And so, we are running a fundamentally stronger Chicken business. We've got strong BU leadership in place and strong future growth plans.

So specific to your question, Q1, Q3 are typically our strongest quarters. So good balance front half and back half. Grains have moderated but are still higher than pre-COVID levels. We continue to watch the total protein availability. Obviously, spring and summer are better growing conditions so that should increase some volumes in the industry.

We're also paying real close attention to the consumer behavior and how that may shift our mix. But we will be doing quite a bit of investing in the back half of the year in our value-added business where we have a number one share in both retail and food service. And as I said earlier, we're ramping up Danville well ahead of schedule.

If I could, I'd like to just reiterate something that -- to make it really clear in our chicken business. Our strategy is very simple. It's live performance, excellence in life performance, it's operational execution and matching supply and demand. It's that simple.

Thomas Palmer
And then maybe a quick one on Pork. Just with the costs falling, are you seeing any signs that the industry in terms of hog supply making better profits and might start ramping up supply at all or still a bit too early?

Brady Stewart

Thanks for the question, Tom. Certainly, the compression we've seen on some of the feed stuff has helped move some numbers back to profitability within the industry from a pork production standpoint, which is certainly good news for our producer partners as well.

What we've seen consistently for the last year, which is of importance, is we've seen genetic improvement across the entire industry, leading to additional pigs per liter. And when you compound that with the fact that we've seen over the last 10 years, probably the best year relative to true industry herd health. We're seeing ample supply as we move forward as well.

So, I'd be speculating if we commented on any potential expansion. But certainly, the environment is set up in a much better position versus last year. But let me be clear, when we look at our business, we really focused on the controllables and have seen good improvements from our Pork business through the first half of the year relative to operational excellence relative to yields within our assets and relative to our mix management conversions as well. That's really coupled with the fact that we have plenty of runway ahead of us. to continue to improve and get better, and that's the expectation as we move forward.

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

Adam Samuelson
Maybe continuing on the discussion on controlling the controllables. Donnie, in response to the last question, you talked about kind of improvements in live operations, operational efficiency, kind of matching supply demand. I would just love to get your view on where the company is today and certainly notably improved versus where you were 12, 18 months ago but how much -- where can you get it to? How much kind of cost reduction on a per pound or millions of EBIT dollars, do you think is still kind of attainable excluding changes in the external market environment in the chicken business?

Donnie King
Sure. Let me speak to chicken specifically, but let me start across the portfolio. just managing working capital and CapEx, driving cash flow and really in support of the dividend. That's still a priority for us and part of the controlling the controllables; optimizing the footprint and network, still a huge priority for us. Restoring chicken performance is right there at the top and also strengthening our Prepared Foods business, really important to us.

And then managing Beef through the cattle cycle. The unknown around that is, once we do see heifer retention, obviously, you were not going to be processing those animals. So, what does that do? And we still got that coming our way and then continue to drive efficiencies in pork. As you stated, versus last year, every business is performing better.

We raised the guidance primarily this quarter based on strong chicken performance, but let me acknowledge that there are still some uncertainties out there relative to the consumer and their strength and behavior, and that's still out there. I mentioned the cattle cycle already. Key commodity markets, they are tailwinds today, but what do they look like beyond our horizon?

Pork and Prepared Foods seasonally could be seasonally weaker, will be seasonally weaker and then Q3 could be, I say could be weaker than Q4 driven by Prepared and Pork. Chicken. Chicken is -- we're seeing better execution in our Chicken business than we've seen in some time, better capacity utilization than we've seen in some time.

We're very optimistic in terms of where we are. And we've gone slow in our Chicken business. We've built this thing from the ground up, and we're excited about the momentum that we're seeing relative to that. Wes, anything about chicken specifically that I haven't said.

Wes Morris
Yes, I think I'd say it this way, Adam. In the long term, Tyson is the market leader in the industry, and I would fully expect us to deliver best-in-class results over time regardless of the market conditions, but we’ve still got work to do.

John Tyson
And Adam, I think -- this is John, just with one final clarifying point. You had a specific question around can you quantify the operational performance opportunity. I would just say that we've got a range of guidance out there. I think that reflects the balance taken and the midpoint of that is probably a reasonable place to be for the total company.

But we've left things open a little bit on the top side and the high end of all the estimates of the various segments would reflect at least what we believe to be achievable in our fiscal ’24 from an operational improvement opportunity. So, I think that's about as much detail as we're intending to provide here. But safe to say, I think we see a lot of opportunities around the portfolio. The guidance reflects what we can get in '24, and we're optimistic about '25 and beyond too.

Adam Samuelson
Okay. No, that's all very helpful color. And if I could just ask a follow-up on Beef and taking, Brady, some of your comments about kind of uncertainty on if heifer retention has actually begun in earnest across the industry, but if it did, that would further reduce slaughter utilization for a period while those cattle don't come to market.

Again, under the spirit of controlling the controllables, if we actually are entering a heifer retention cycle and herd rebuild cycle, can you help quantify the magnitude of controllables in beef that you actually have to mitigate kind of what would be a further drop in volume and throughput? I mean the business is already operating at a loss today presumably, that would be a meaningful incremental challenge. So, could there be a path for the Beef business to make money through the worst of the heifer retention period?

Brady Stewart
Thanks for the follow-up question, Adam. And we've been pretty consistent with our message over the last few quarters, whereas there is absolutely a variety of expected outcomes here and how we move through relative to supply and pounds. One of the good signs we've seen is we have seen additional weight per carcass. And so that has provided some dilutive effect relative to cost structure, which is one of the concerns as you move through lower supplies. How that translates itself into potentially higher grading cattle is of interest as well, and we'll be monitoring that.

But as we looked at the cycle and the potential outcomes of the cycle, we created a strategy that was completely focused on understanding a range of outcomes and how we can provide deliverables within those outcomes as well. And I'd just say we really appreciate, and we like the strategy that we have developed.

Regardless of the range of outcomes on the supply side, we like the progress we have made year-to-date relative to controlling the controllables, which for us is operational excellence and efficiency within our assets, managing our mix and delivering to our customer, and we like the runway in front of us relative to improvements that we can continue to make as we move through what is going to be a range of outcomes through the cycle as well.

Operator
Our next question comes from Heather Jones with Heather Jones Research.

Heather Jones
Congratulations on the quarter. Yes. I had a couple of questions, one on Chicken and one on Beef. And I just want to start on Chicken. I wanted to go back to the volume question.

So, I understand that Q2 was a more difficult compare than Q1, but it was a pretty substantial volume decline. And you all had closed a facility, but I think I remember those were going to be consolidated into other plants. So just wondering, is this production decline going to continue going forward? And was it lower outside meat purchases or lower internal production? Just wonder if you could help us how to think about the rest of the year going into '25.

Donnie King
Sure, Heather. Let me start out and just maybe remind us of last year. In '23, at least the first half of '23 is not a real good comparator. If you look at Q1 of last year, we absolutely missed the demand signal in Q1 of last year, and that carried on into Q2 of last year. And so, if you look at volume in Q2 of last year, versus Q2 of this year you're going to see that it is down but last year was really overstated. Volume growth was, in fact, there, but there was also issues with profitable sales as it related to Q1 and Q2 last year.

So, we're beyond that. We've cleaned all of that up, and we're moving forward. We're running a much better business today in our Chicken business. And Wes, do you want to speak to the volumes?

Wes Morris
Yes, Heather, thank you for your question and asking for clarity. Our volume is in line with our expectations. We are well positioned in supply-demand balance. And we have strong growth plans put in place, and you'll start to see that in the second half.

Heather Jones
Okay. And then a follow-up on Beef. More recently, beef demand seems to have been more challenged and I don't know if it's related to the HPAI or what. But anyway, I just wonder if you could give us a sense of how your margins are tracking relative to where they were in Q2.

Brady Stewart
Yes, Heather, thanks for the question. I would say relative to demand, we've seen a fantastic demand on both the chicken side and the pork side relative to retail promotional activity as well. While we've seen fantastic demand being driven by that retail and promotional activity, beef really has not received much promotional activity at all.

And so, we're in the path, as we move into the summer months, you've seen that activity. We'll be watching for that as we move into Q3 to see if we see additional promos or where retail specifically going to drive the consumer relative to any of the proteins likely for us. We're in good shape on the pork side and in good shape on the chicken side in terms of meeting that customer in those channels, as well.

Donnie King
So just to maybe clean up for clarity, I think you may have misspoken on. It is pork and chicken, where we are seeing the future productivity right now.

Brady Stewart
That's correct.

Heather Jones
And so have you seen any -- I know you narrowed your guidance, and you took down the up the high end for beef. I'm just wondering has there been any deterioration in margins relative to Q2, given that you haven't gotten the feature activity you normally would have gotten at this time of the year for beef?

Brady Stewart
The beef promotion, that's been -- that's really been a calendar '24 story. And again, we'll continue to monitor that as we move through the remainder of the quarter, but we won't provide any additional guidance on Q3 other than what we've provided already.

Operator
The next question comes from Ben Bienvenu with Stephens.

Ben Bienvenu
So, you noted that in the Chicken business, fairly equal contribution in the first half of the fiscal year of the improvement to what we saw last year between operational improvements and market improvements. As you look to the balance of the year, 3Q, 4Q, is it similarly equally split? Or should we see a diminished operational improvement contribution and more of the improvement is predicated on the market having strengthened?

Donnie King
Well, let me say this in short, Ben, and then Wes can give you the details. As I mentioned in my opening statements, we have made great progress, but I would also make sure that you understand that we believe there's still a lot of work to do. Good progress, but much work to do. And so, you can define that financially, if you'd like, but we're not where we need to be yet in our Chicken business. But Wes?

Wes Morris
Yes, Ben, I'd say we certainly have more tailwinds than headwinds, and it's really a function of the volatility of the grain market what ultimately happens in the supply and chicken markets and then the consumer mindset. And then as I've said a couple of times, we do have some go-forward investments in our value-added business in the back half of the year.

Ben Bienvenu
Okay. Very good. My second question is related to total company. And in particular, in years past, you all have gone through the exercise of articulating what you think kind of normalized earnings power is for the business and you've provided some clarity by segment.

Not asking today what that earnings power is but maybe when you think you all might be at a place where you can provide that level of clarity at the total enterprise and across the segments, given all the changes that you've made and the operational improvements that you've made progress against?

John Tyson
Ben, this is John Randall. Let me try to answer that question. So short version, yes, we're not making any adjustments to long-term outlook on normalized ranges today. We plan to do that maybe as we go through the balance of this year and start to look to '25 and kind of give some color around that potentially.

But let me take the opportunity just to talk about the shape of the rest of the year for the total company and build on some things that have already been said today. So, I just want to point out that from a total range standpoint, guidance has come above from midpoint to midpoint $350 million. We think that is reflective of the results year-to-date and some of our optimism for the balance of the year. And there's also a range of outcomes in there. And I think that despite some of the potential signals we see in chicken around supply and demand, I think there's more tailwinds and headwinds there.

I think going to our Prepared segment, although we are experiencing some of the consumer behaviors that we've heard so many other companies talk about, I think we feel really good about our portfolio. And we've gotten questions about food away from home, food at home. We're in a pretty good position to win no matter where consumers are shopping. And I think that you kind of heard us say, hey, Q3 could be softer than Q4.

I think I want to just put a point on that, that we see the rest of the year as being fairly balanced, but just with all of the various factors at play and some seasonality in Pork especially there could be a tweak there, but don't want anyone to overread into that. We don't mean to get so overly precise. There's a lot of factors at play, and I would just emphasize that we're confident about the balance of the year and the midpoint to the guidance we've given.

Operator
The next question comes from Alexia Howard with Bernstein.

Alexia Howard
So, can I start with Chicken? I seem to remember that the cold snap in January hit production operations somewhat this quarter. Are you able to quantify any of that? How much did it hit volumes and profitability for the segment overall?

John Tyson
Alexia, this is John again. I would say that we typically plan for a little bit of that weather in the quarter. When we talked to you in February, we were pretty early on and had experienced some significant events just at that point, kind of one month in. I would say overall, though, the

impacts in the quarter were not so significant that it had a disproportionate impact on earnings. So, I think there is nothing to read into there.

Alexia Howard
Okay. And then two quick things. How much longer do you expect the start-up costs in Prepared Foods to remain a headwind? When does that go away? And then finally, do you have a forecast for where you expect your leverage to end up by fiscal year-end?

Melanie Boulden
Alex, this is Melanie. And in terms of our start-up costs, we may experience a little bit bleeding over into Q3, but we think the majority of them have hit in Q2.

John Tyson
And to your second question, Alexia, on leverage, not placing a specific number where we expect to exit the year but safe to say, we're definitely trending towards lower leverage and two times or below is the long-term target but that's as much as we can give right now.

Operator
The next question comes from Andrew Strelzik with BML.

Andrew Strelzik
I wanted to go back to the Beef segment outlook. And you've mentioned some uncertainty and ranges of outcomes. I guess I'm just curious what is the environment that would get you to the top end of the beef profit range versus the bottom end? Is it primarily around whether or not we get heifer retention and (inaudible) efforts in the fall, and that's kind of the biggest piece of it or the demand side, I guess? What are the range of outcomes that would get you to the top or bottom end of the range?

Brady Stewart
Thanks for the question, Andrew. And specifically, we talk a lot about beef demand. We talk a lot about beef cutout pricing as well. But also, we need to factor in the fact that drop as a significant amount of value that falls within the beef supply chain and also our largest cost is relative to live cattle costs as well.

And so, when you really balance the two revenue streams, the cutout pricing and the drop pricing, and you take that into account with live cattle and where potentially we could see some live cattle pricing going that really creates the range of outcomes. It's trying to balance those 3, the 2 revenue and the 1 supply cost perspective when we look at particular guidance and the range of outcomes.

But again, we still have plenty to control within Tyson. And we really focus on making sure that we balance the grade of cattle with the demands of the consumer as we move through the cycle as well. We're continuing to see improvements relative to efficiencies and yields. And really, we'll just continue to look at value streams that we can continue to generate to help offset some of these headwinds we have from a margin perspective.

Andrew Strelzik

Okay. Okay. That's helpful. And then my second question is on the CapEx outlook. And I know last quarter, when it was reduced, you were kind of matching CapEx and the operating profit outlook. And so, I guess I'm curious just how we should think about CapEx on a go-forward basis. As the profit environment is better, since that hasn't really kept up and maybe there's timing dynamics and you've already mentioned controlling that tightly but just as the profit dynamics get better, how should we think about the rate at which you might add back to CapEx? Where are the priorities where you might want to add back? Just any color around that on the go forward would be great.

John Tyson
This is John. Let me take that question. So, you are right in that we had talked in the past about being responsive to the operating environment and managing cash flows. I would tell you that, first off, we feel good about our free cash flow projection for the year in terms of being in excess of covering our dividend, so just pointing that out. But I would also tell you that the tighter range on our CapEx today, $1.2 billion to $1.4 billion that's really reflective of us determining what are the needs for the business and where are there opportunities for good investment.

What I want you to take away from that is we're not turning on and off the spigot. It's kind of based on our outlook on profitability, but rather trying to return to a normalized level of spending. And you asked where would be the where would be the best opportunities for investment.

I think the short answer is that our Prepared portfolio and components of our Chicken portfolio where we see the best opportunity for the growing our value-added business is where we want to continue to invest. And then, of course, we have our ongoing maintenance and repair that's needed. So, I think that will probably paint a good picture for you on how we think about capital allocation.

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

Michael Lavery
You had mentioned that you still have some work to do in Chicken and you've touched on that a few ways, but can you just be clear how that does or doesn't apply to your footprint there? Is the supply-demand balance pretty well set? Or is that another piece of the equation that could evolve as well?

John Tyson
Yes. Thanks for this question. So let me answer it in two ways. I think, first off, on the network moves that we've made up until this point we anticipate that we have either recovered all or should recover nearly all of the volume in chicken and nearly all of the volume related to our Pork moves and the other moves. So, I think I just want to be clear that when we talk about that rationalization, we're talking about being more efficient taking cost out and losing none of the business. So, I think that that is a point we're emphasizing.

The other part of your question was about chicken specifically, and I think that we even talked last year or a couple of quarters ago about the overall capacity utilization. Safe to say, we still got some headroom in our current footprint and would expect to grow with demand in the more profitable parts of our business. And so, I think have a positive outlook based on all of the network moves.

Donnie King
If I might add one more thing relative to chicken. The back half of the year for chicken, if you look, grains have moderated, the demand for chicken is very strong, and we've built a fundamentally stronger chicken business. So, we're excited about that. We're executing better and demand is certainly working in our favor.

Michael Lavery
Okay. That's helpful. And just on international. You've touched on it a couple of times earlier in the prepared remarks. Just how should we think about its margin runway? And what does it take for that to get a ramp-up in profitability?

Donnie King
Well, thanks for the question on international. And I think it's important to remind this came up a little bit in the CapEx question. But I think we should remember over the last 2-plus years, we've built 12 processing plants around the world. That was part of the driver as it relates to the capital spent and we're beyond that, and we're moving into filling up those capacities.

So, we're also lapping -- if you look at the international, we're lapping a ramp-up cost for the 7 facilities outside the United States, and our execution should continue to improve. Our focus short term is operational excellence and capacity utilization as it relates to our international business. Amy, would you like to speak?

Amy Tu
Thanks for the question, Michael. As Donnie said, we are absolutely focused on delivering the results that is expected of us. So, we're focusing on driving operational efficiencies across our plants. We are focused on improving our conversion costs.

We're identifying available capacity are reviewing our SKUs and delivering the more profitable mix of products, and we're also tightening our spending. So, all of these actions we're beginning to see the results and improved gross margins and AOI delivery.

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

CONCLUSION

Donnie King
Thanks for your continued interest in Tyson Foods. 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.