Tyson Foods

Third Quarter 2024 Earnings Call

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator
Good day and welcome to the Tyson Foods Third 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 the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on a touchtone phone. To withdraw your question, please press star then two. Please note, this event is being recorded.

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

Sean Cornett
Good morning and welcome to Tyson Foods' fiscal third quarter 2024 earnings conference call. On today's call, Tyson's President and Chief Executive Officer, Donnie King; and Interim Chief Financial Officer, Curt Calaway, 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 Devin Cole, President - International and Global McDonald's. We also have provided a supplemental presentation which may be referenced on today's call and is available on Tyson's Investor Relations website and via the link in our webcast.

During today's call, we will make forward-looking statements regarding our expectations for the future. These forward-looking statements made during this call are provided pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include all comments reflecting our expectations, assumptions, or beliefs about future events or performance that do not relate solely to historical periods. These forward-looking statements are subject to 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. For a reconciliation of these non-GAAP measures to their corresponding GAAP measures, please refer to our earnings press release.

Now I'll turn the call over to Donnie.

Donnie King
Thanks, Sean, and thank you to everyone for joining us this morning. Q3 was another solid quarter, as momentum continues to build. Compared to the third quarter of last year, AOI is up more than $300 million, growing nearly 175%, and adjusted EPS increased by more than $0.70, or almost 500%. Q3 not only dramatically improved versus last year but also marked the highest profitability in the last seven quarters. What's even more impressive is that we delivered these results despite well-known headwinds in the cattle cycle as we benefited from our diverse portfolio.

I want to take this opportunity to thank all of our team members across every segment and function for their hard work in contributing to these results in Q3 and for their dedication to driving operational excellence, which as you know has been a priority for us.

Let me highlight the performance in Chicken. We delivered segment AOI of more than $300 million, the best third quarter profit result in eight years. We are raising our guidance in Chicken for the third consecutive quarter. The midpoint of our outlook is now $350 million better than our initial expectations coming into the fiscal year. I want to emphasize that the operational improvements we've been driving are enabling us to benefit from the market tailwinds, invest in our value-added portfolio, but also enhancing our results. In fact, all of our businesses are more agile, collaborative, and disciplined than they have been in some time. Beyond the strong results in Chicken in Q3, Pork also came in better than we anticipated, while Beef and prepared foods were in line with our expectations.

Our disciplined approach to capital allocation continues to improve cash flow. Year-to-date free cash flow is better by more than $1.2 billion compared to last year. This growth was driven by improved profitability and our focus on managing working capital and controlling capital expenditures, while still investing for profitable growth. And again, we're delivering these results in the face of a challenging environment for Beef. Better performance has helped us to reduce our net leverage ratio for the third consecutive quarter.

Before I talk more about the performance in the quarter by segment, let me remind you that we have some of the most iconic retail brands in all of food with top brands in protein. Behind Tyson, Jimmy Dean, Hillshire Farm, and Ball Park, we have the number one or number two market share in eight of our core business lines and enjoy favorite brand status in key categories. I remain highly confident in our strategy and optimistic about our future and the ability to drive long-term value for shareholders.

Let's move to segment performance, starting with Prepared Foods. In Foodservice, we continue to broaden our customer base, grow in margin accretive channels and expand our presence in broad line distribution categories. This led to overall volume and sales growth in Q3. AOI for the quarter was right in line with our expectations. Operational execution, including supply chain improvements and more efficient and effective marketing support through digital, are delivering results. In addition, we are leaning into our top performing SKUs to capture opportunities to expand distribution.

While our brands remain strong, we are continually focused on new innovations to expand the appeal and market opportunities for our products. For instance, the Jimmy Dean Griddle Cakes platform is an innovation we are very proud of. We've launched two flavors, maple and blueberry, and we're seeing an exceptionally strong repeat rate and customer adoption, making it one of the most successful Prepared Foods innovation over the past five years. Our focus on execution and innovation are keeping us on track to deliver another solid performance for the year.

As I mentioned, Chicken had one of its best quarters in some time. While we are clearly benefiting from better market conditions, including lower grain costs, our actions and focus on the fundamentals across all aspects of the value chain are also contributing to these strong results. Our live operations continue to improve, with hatch rate and livability up year-over-year. We generated efficiencies and improved utilization in our plants by optimizing our network. Our demand planning and customer service have also taken significant steps forward as we improve order fill rates and continue to build long-term partnerships with customers, all while reducing inventory.

We've reinvested some of the proceeds from these improvements into the long-term growth of our value added Chicken business. For instance, we've accelerated the ramp up of our Danville fully-cooked facility and launched new products like Honey Bites and Restaurant Quality Wings. In summary, our focus on the basics has built a fundamentally stronger Chicken business with an eye on the future.

Moving to Beef, as expected, elevated cattle costs continued to compress spreads in fiscal Q3. While pasture conditions have improved this year, clear size of meaningful herd rebuilding have not emerged. We continue to be laser-focused on the things we can control, such as labor utilization, yield and mix management to meet consumer demand and customer needs as we manage through the challenges of the cattle cycle.

Turning to Pork, the overall health of the herd and the productivity of sows remain strong, driving an ample supply of lean hogs, combined with solid demand and the benefits of our improved operational execution. AOI increased noticeably versus last year.

Now let me take a moment to reflect on who we are. Our purpose is to feed the world like family, where protein remains clearly at the center of the plate. In fact, protein is the largest category in the retail food and beverage sector, accounting for about one-third of sales in the US. We believe protein plays a central role in any healthy diet. This is why we see consumption growth is up 1.3% across Beef, Chicken, and Pork in fiscal Q3 per Nielsen and is also why we have protein as a foundational core.

Our strategy encompasses our differentiated capabilities and scale and our diverse portfolio across channels, categories, and eating occasions. Our strategic pillars are supported by key enablers of operational excellence, customer and consumer obsession, along with data and digital.

One key goal is building on our iconic brands to value up our core proteins. Today, Tyson, Jimmy Dean, and Hillshire Farm are three of the top 10 protein brands, with room to expand household penetration. Brands are our best opportunity to drive faster growth, higher margin, and stronger returns, and is the most effective way to generate long-term shareholder value.

As I've emphasized all year, our priorities are centered on controlling the controllables, including cash management. Our cash flow performance this year demonstrates the success we've had on this front. We're also focused on operational excellence by continuously improving Chicken, strengthening Prepared Foods, navigating Beef through a difficult cattle cycle, and driving efficiencies in Pork. We came into fiscal 2024 with plans to deliver against these priorities. Our focus on being intentional and deliberate on executing those plans is delivering tangible results.

With that, I'll turn the call over to Curt to review our financial performance in more detail.

Curt Calaway
Thanks, Donnie. Total company net sales of $13.35 billion in Q3 were up 1.6% year-over-year. The increase was led by Beef, with contributions from Pork and Prepared Foods partially offset by declines in Chicken and International. Adjusted operating income improved $312 million to nearly $500 million, driven primarily by another quarter of substantial increase in Chicken profitability. Operational improvements and substantially higher AOI led to a $0.72 increase in adjusted EPS, which came in at $0.87 in Q3. As Donnie mentioned earlier, this is our best AOI, AOI margin, and adjusted EPS in the past seven quarters.

Now let's review our segment results, starting with Prepared Foods. In Prepared Foods, Q3 revenue grew 2.1% versus last year, driven by volume growth in Foodservice. As we expected, AOI in Q3 was down modestly, higher raw material costs were partially offset by lower [indiscernible] spend versus an elevated level last year, and the benefits of operational efficiencies and top-line growth.

Moving to Chicken. Sales in Q3 declined 3.2%, primarily due to the pass-through of lower input costs and pricing. While volume is roughly flat year-over-year, as we continue to better align supply with customer demand, it was up approximately 2% from Q3 of fiscal 2022. AOI increased $370 million versus last year to $307 million. Lower input costs, net-of-pass-through pricing, along with the benefits of the strategic actions we have taken and the efficiencies the business has driven across our operations, drove the growth in AOI. We also experienced favorable year-over-year derivative impact of $63 million, primarily related to a $65 million net derivative loss in Q3 last year.

In Beef, revenue was up 5.8% year-over-year in the quarter primarily due to the volume impact of higher average carcass weights, with pricing increasing 1.4%. While revenue increased, AOI decreased primarily reflecting compressed spreads as expected, which more than offset our continued progress on operational efficiencies.

Moving to Pork, Q3 revenue increased a net 10.4% driven by higher price per pound reflecting healthy global demand. AOI also increased $92 million year-over-year, benefiting from improved spreads and better operational execution.

Shifting to our financial position and capital allocation. Our commitment to disciplined capital allocation remains unchanged. Our priorities are to maintain financial strength, invest in the business, and return cash to shareholders all while maintaining our investment grade credit rating. Cash flow from operations remains strong, with year-to-date approaching $2 billion, highlighting improved profitability and working capital management. Operating cash flows was more than double our capex, which came in at $884 million year-to-date. Capex in Q3, of $263 million, declined sequentially for the sixth consecutive quarter, reflecting our focus on controlling capital deployment while continuing to invest for profitable growth.

Year-to-date free cash flow of $1.1 billion is more than 2.5x better than the previous two fiscal years combined over the same period. We ended Q3 with $4.8 billion of liquidity. Improving profits and strong cash management are also benefiting our net leverage, which declined sequentially again, coming in at 3x in Q3, more than a full turn lower than where we exited fiscal 2023. We continue focusing on returning net leverage to our long-term target of at or below 2x net debt to adjusted EBITDA. We entered fiscal 2024 with a plan of applying our controlling the controllables approach to enhance free cash flow generation. We've over-delivered on that plan and remain committed to deploying resources to maximize long-term shareholder value.

Now let's look at our updated outlook for fiscal 2024. We are reiterating our overall sales guidance at roughly flat year-over-year. Based primarily on our improved outlook for Chicken, we are raising our AOI guidance and tightening the range. For the total company we now expect between $1.6 billion and $1.8 billion.

Moving to the segments. In Chicken, given the strong performance we're raising our AOI guidance range to be between $850 million and $950 million. For Prepared Foods, we are reiterating our AOI outlook of $850 million to $950 million as we continue to perform in line with expectations. In Beef, we are tightening our AOI guidance range to a loss between $400 million and $300 million, reflecting well-known challenges in the cattle cycle. In Pork, we are raising our AOI outlook to be between $100 million and $200 million highlighting improved year-to-date results versus expectations. To round out the key P&L items, we continue to anticipate interest expense to be roughly $395 million and our tax rate to be between 23% and 24%.

Turning to capex. We are maintaining our tight controls on spending in line with profitability and cash flows, and are narrowing our capex range to be between $1.2 billion and $1.3 billion this year.

Before I turn the call back over to Donnie, I want to emphasize that our multi-protein, multi-channel strategy is enabling us to raise the midpoint of our full year AOI guidance by $100 million. Now, I'll hand it over to Donnie to wrap up before we move to Q&A.

Donnie King
Thanks, Curt. Before we get to your questions, I want to express my deep gratitude to our incredible team members. Your dedication and hard work are the driving forces behind our mission to feed the world like family and bring high-quality food to every table in the world. Together, we have achieved a remarkable turnaround and our momentum continues.

Finally, I am grateful to our customers and consumers for their trust, loyalty and partnership. I couldn't be more excited for the opportunities ahead of us and remain confident that our strategy will enable us to 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.

QUESTIONS AND ANSWERS

Operator
We will now begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you are using a speakerphone, 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 star then two. We ask that you please limit yourself to one question and one follow up. If you have additional questions, please re-queue. At this time, we will pause momentarily to assemble our roster.

The first question comes from Ken Goldman with J.P. Morgan. Please go ahead.

Ken Goldman
Hi, good morning, and thank you. I wanted to ask, I appreciate a lot of the information you gave about each segment, thank you for that. Donnie, as you think about taking a step back, looking at the underlying fundamentals, especially in your two biggest segments, Chicken and Beef, but across the company, what were the more important puts and takes in the quarter versus your expectations, just in terms of how fundamentals came in against what you were initially anticipating?

Donnie King
Good morning, Ken, and thank you for the question. Let me start with we are pleased with our Q3 results, which is the best quarter in the last seven. We are seeing the benefits of our multi-protein portfolio, where Chicken, Prepared and Pork are offsetting the headwinds in Beef. In Q3 momentum continues to strengthen, and all of our businesses are executing better than they have in quite some time. We're executing against the priorities we laid out for fiscal year 2024. In short, we are controlling the controllables, we are optimizing our network, and we remain focused on operational excellence. We have taken decisive action to drive performance and to build financial strength. Our performance has given us confidence to raise our guidance again.

Now let me step into the segments, and I'll start with Chicken. Our focus on the fundamentals behind the number one brand is delivering results. Chicken had a strong Q3. We had the best adjusted operating income since fiscal year 2016, that was eight years ago. Best capacity utilization since Q4 of

2018, six years ago. The best livability since fiscal year 2020. Supply chain and S&OP processes are allowing us to improve order fill rate while simultaneously lowering our inventory and working capital. In Beef, we're managing through volatility and spread tightening. We continue to focus on operational excellence. In Pork, better spreads and ongoing operational execution led to better profitability. In Prepared Foods, our results were in line with our expectations, our brands are strong, and our share remains healthy.

Ken Goldman
Okay. Thank you for that, Donnie. And then I had a quick follow-up. As a company, you have a unique view into how restaurants are performing, particularly quick service. And I'm just wondering, we've heard from some quick service restaurants lately that they're not necessarily seeing real improvements in traffic yet, but maybe there are some green shoots, as they experience some of the initial early benefits as the companies lean harder into promotions and actions that appeal to maybe some lower income consumers. So, I'm just curious what you're seeing from your perspective from the restaurant industry in general, how it affects you, and if there's any real changes to your outlook in QSRs in particular? Thank you.

Donnie King
So, thanks Ken. Just as a reminder, in the protein space there typically are lower levels of elasticity, and protein is a consumer staple. And I'd also remind you, Ken, and then I'll pass this over to Melanie to add a little more color on Foodservice, but in retail we hold leadership positions in 8 of 10 categories, and three of the top 10 brands in protein.

So, with that, Melanie, why don't you speak a little bit to that.

Melanie Boulden
Thank you, Donnie. Happy to do so. And Ken, I'm going to talk to you with my enterprise CGO hat on. First of all, the foodservice industry, as you know, is large, and demand for protein is strong, as consumers see protein as an essential staple in their diets and meal routines. And at Tyson Foods we are advantaged because Tyson's diverse Foodservice portfolio spans major proteins, Chicken, Beef and Pork. And this year, we've also seen a particular interest in our poultry offerings, as quick-serve restaurants have been emphasizing value menu offerings. These factors, combined with our large and flexible manufacturing infrastructure, have been instrumental in driving our performance. For example, our ability to quickly partner with customers on LTOs, or limited time offerings, to meet their business objectives, we're operating is best-in-class. At the same time, that flexibility is also helping us to better partner with our customers to quickly develop innovation.

Now our commercial scale is also a strategic advantage. On any given day, you'll find our products in school lunch programs, quick-serve restaurants, fine dining establishments, and hospitals. You'll also find us in travel and entertainment venues such as airports, cruise ships, movie theaters, amusement parks, and concert venues. This allows us to meet consumers where they are. Look, we remain focused on what we can control in Foodservice, including improving our product pipeline with innovation to drive operator value and new customer acquisition. We're also focused on leveraging the diversity and flexibility of our broad manufacturing base to better serve our partners. And finally, we're focused on shifting the mix to advantaged channels. So, because of these actions, we're building momentum going into fiscal year 2025 and are positioned well for continued growth.

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

Adam Samuelson
Yes, thank you. Good morning, everyone. I was hoping to dig into the results in Chicken a bit more and really parse some of the drivers of operating margin improvement between the lower grain costs, which I believe at least on a gross basis in the Q were quantified at $305 million, versus some of the underlying cost and mix actions that you've been undertaking. And how should we think about that progressing? There's obviously implication in the guidance for 4Q, but help us think about what's embedded in the fourth quarter guidance from a net grain cost tailwind would be helpful. Thank you.

Donnie King
Thank you for the question. Let me start by saying I'm going to take this opportunity to pass this question over to our Chief Architect in Poultry, Wes Morris. He's been the person responsible, he and his team, for the Chicken turnaround that we have seen. So, Wes?

Wes Morris
Thanks Donnie. Overall, I'd say I'm very pleased with the improvement in our cost fundamentals, and we're well poised for growth. Nothing's really changed. The big three areas that we've talked about in the last few quarters around our live plant and S&OP. Our live results continued to improve. Our hatch was up 360 basis points versus a year ago, just short of 83. Our livability improved 50 points to 93.71 in a pretty tough grow-out environment. And then our [indiscernible] and a very deliberate focus on our live fundamentals are paying big dividends.

The network changes are paying off. Our capacity utilization, as Donnie said, continues to improve sequentially and we still have room to grow. And then our S&OP process continues to add value. Service was up 100 basis points on order fill, while reducing our working capital around $260 million. We have a really highly functioning demand planning and supply planning team and our total poultry group is engaged in that area.

Now we invested some of that operational improvements back into the business. As you know, we have the number one share in retail and foodservice, and we're focused on investing there. Our Danville fully-cooked plant is well started up. That location is about a year ahead of schedule from what we originally anticipated. We've got a strong innovation pipeline. We've invested in quality and consumer promotions. And so, I think our range is good. We've raised our guidance from 850 to 950. Historically, Q1 and Q3 is our best quarters, with Q2 and Q4 being a little softer and then the ongoing investments. So, I feel well balanced at the midpoint.

Adam Samuelson
Okay, that's helpful. And then if I could just ask a follow-up on Beef. Donnie, you alluded to in the prepared remarks, no obvious signs of herd rebuilding. Just as we think about the implication of that over the next couple of years with just fewer cattle that are still going not going to be coming to market, how do we think about your own capacity utilization and industry capacity utilization in the sector and if you reach a breaking point there that we might have to see some capacity rationalization?

Brady Stewart
Thanks, Adam, Adam for the question. And I'll just start with saying this, it's going to be very challenging to continue to really forecast the outcomes relative to this Beef cycle. Every Beef cycle has some differences embedded within it. And one of the key indicators relative to the cycle is droughts and monitoring drought in specific areas. So, as you alluded to, we haven't seen really any notable retention to date. We've seen some differences relative to specific regions. And I would say that correlates really well relative to what those specific regions have from a climate and drought perspective. So, when you definitely really evaluate as we move forward, what we do know is we're not expecting any incremental supply here in the short-term, which is consistent with these Beef cycles.

However, we're really focused on what we can control. And the highlights for our Beef team have been decreased costs year-over-year relative to our manufacturing and our efficiencies have improved in our assets. We continue to see improvements in our yields, in our plants. We're doing a better job of balancing our supply and demand of cattle to Beef and what our consumers and customers are demanding as well. So, when you parlay all of those things together, we'll continue to manage what we can control and focus on really indications in the future on this rebuild.

Donnie King
So, if I could add one thing to that. Thank you, Brady. Our asset base, we're well invested, and we are capable of running with the very best in the industry. I'll remind you, Adam and others, that the benefits of our multi-protein portfolio, which is driving our momentum with the strength in Chicken and prepared foods and Pork, and we see that offsetting challenges in Beef, we see that continuing for the balance of the year.

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

Andrew Strelzik
Hey, good morning. Thanks for taking my questions. So, my first question on the Chicken business, you're certainly seeing very strong improvements. But my question is about opportunities for -- yes, further improvement from here. And where I'm coming from is the margins were in the lower end of what typically is your normal range despite those internal improvements, the seasonality benefits in the quarter, the strong external environment. So, can you maybe reflect on where the business is versus where it needs to be longer term and the path to more sustainably getting into that kind of normal Chicken margin range?

Wes Morris
Yes, this is Wes. I would say that we continue to focus on the fundamentals. We have a little different business mix and business volatility than some of the commodity players as we don't sell a lot of outside raw materials where price is immediate. We've got several pricing models. Some are grain-based and so as grain has come off, we pass that on to the customers, and that's fair. And then we have a high percentage of packaged goods and so we're going to stay focused on stabilization of earnings over time, strong relationships with key customers, and sustainable value creation. So regardless of what markets are doing, I expect us to deliver best-in-class results over time and stay focused on the controllables.

Andrew Strelzik
Okay, that's helpful. And then on Beef, I guess the guidance implies for the fourth quarter, bigger losses. And so, I guess just directionally, and I appreciate your comments on the difficulties with forecasting this part of the Beef cycle here. I guess, is there any way that you want us to think about directionally 2025 versus 2024, or what the implications are for the fourth quarter into next year? And then when you talk about controlling the controllables in Beef, what are some of those key controllables that you're most focused on or the levers that you can pull from here? Thank you.

Donnie King
Sure. Andrew, let me just say this. In terms of 2025 outlook, it's a little bit early for us. We'll be happy to discuss that at length in Q4. So, look forward to that. Just a reminder, data doesn't support herd rebuild at this point, but on a positive note, pasture conditions and feed costs are supportive of a herd rebuild. Interest rates, for example, might be a headwind, but there's no clear sign ahead for retention.

Brady, why don't you go deeper into that?

Brady Stewart
Sure. And thanks for the question, Andrew. And specifically on our Beef performance, we are completely dialed in to making sure that we have cost-effective operations. And so, everything from our harvest efficiencies and our assets to our yields to making sure that we are dialed in with our customers and consumers and balancing that to the type and kind of cattle that we're procuring and making sure that we understand those value equations, is where we've seen improvements in our operations. And the real call out for us, again, is the significant year-over-year decrease in our manufacturing cost and our assets. We're running a much better operation today than we were a year ago, and we're certainly proud of that and thank the team for their continued improvements in these areas.

Operator
The next question comes from Heather Jones with Vertical Group. Please go ahead.

Heather Jones
Good morning. Congratulations on the quarter. I want to start with Chicken and specifically the strong improvements you all made there. And Wes, I think you said hatch was up 360 bps year-on-year, so nearly 83%, which is far better than the industry is doing. So just wondering if you could help us understand how much of that is sustainable improvements in the breed or in husbandry versus, I would assume there's been some early liquidation of some flocks related to plant closures, and so I'm just trying to figure out how to model that going forward.

Wes Morris
Yes, sure, Heather. Thank you for the question. We see the USDA data and no question the industry [indiscernible] are well up, but the birds simply aren't making it to the plant. And so, our genetics and strategic focus are just the opposite. I did say our hatch is up 360 basis points. I do believe it is sustainable. I think we've got the right programs in place. We're seeing intense focus on the execution. Our grower partners are buying into the performance and our livability is up 50 points even in a tough grow-out environment. So we're obviously outperforming in live. And yes, I believe that to be not only sustainable when we hit the fall cooler weather, I expect it to improve.

Heather Jones
Okay, thank you for that. And then my follow-up is on Beef, and I hate to beat a dead horse, but just there's some big differences between the last cycle. So, the rebuild has been very slow in coming and it's likely to be more extended. You've got plants being added this time. Your imports are far larger than they were last time. So, I’m just wondering if you have a sense of how long you think this downturn could last and if Tyson needs to maybe permanently reduce days of slaughter at certain plants or just how you are all planning on tackling that?

Brady Stewart
Thanks for the question, Heather. And again, I just go back to that drought monitor, the USDA and NOAA publish and produce. And so through the last cycle, obviously, we saw a drought in that 2012, 2013 and then a relatively good rebound in 2014, 2015 and 2016. And then really, from a drought perspective in beef cow country, really, really low persistence relative to drought into 2019 that led into some really good numbers here within the last three to five years.

And so, we'll continue to evaluate and understand and focus on that. That's really a prerequisite to this rebuild. Donnie outlined some of the other factors that are in play relative to the rebuild as well. But just to reiterate what Donnie said as well, we've made really good investments in our Beef operations, and we like our asset base. We like our team. We like the supply partnerships we have, both on the cattle supply and the partnerships we have with our customers as well and really have laid out a variety of range of outcomes and understanding where the cycle really go and when, most importantly, and we'll continue to evaluate that as we move forward.

Donnie King
And if I could, I would add this to Brady's comments. Once again, Heather, the benefits of our multi-protein portfolio and the momentum and the strength which we have there for Chicken, Prepared Foods, Pork and even our International business, offsetting this cattle cycle that we're in. So, we've been able to do that, did that well in Q3, and I would expect that for the balance of the year, and we think we will have a good overall fiscal 2025. It's too early to talk about that in great detail, but we're very optimistic about 2025.

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

Michael Lavery
Thank you, good morning. I just wanted to come back to Prepared Foods. You said the volume growth was driven by Foodservice, but overall price was pretty flat. I'm just trying to get a sense of the promotional environment. And maybe if you could give us a little split between Foodservice and retail, how they looked and just what price expectations you have going forward. We're hearing from a lot of companies that consumers are kind of balking at some of the prices. Are you having to promote a little bit more. Can you just give us a finger on the pulse of where the consumer is these days?

Melanie Boulden
Yes. So, thanks, Michael. Let me give you first an overview of our Q3 performance, and then I'll dive a little bit deeper into the promotional environment that we're seeing. So overall, our Prepared Foods third quarter performance, as you know, was in line with our expectations, and we're pleased with the results, as we delivered both volume and sales growth. But as you know, we made a number of investments in our plans to add new capacity and capabilities. That's important to remember, as our profit was roughly flat to year ago when you adjust for the incremental expenses associated with the ramp-up of those additions.

Also important to note is that our results were accomplished despite lapping a period of higher merchandising levels and lower input costs. And there's really three key factors that drove our performance in the quarter: First, our operational excellence has improved dramatically. We've had tremendous commercial success. And then as you noted, our Foodservice volume growth was strong. Now as I think about our promotional environment, please know that our teams closely monitor in market pricing dynamics, elasticities, and promotional performance at a granular level. We have a disciplined approach to pricing and promotions, and we make changes to our strategy as the consumer landscape evolves. Now this doesn't mean that we're just reactive. The strength of our brands, our customer relationships, our data-driven consumer insights, and our leadership position across multiple categories affords us the opportunity to act fast when the marketplace changes.

And now pricing and promotion, there are a couple of the key levers, but we're also focused on ensuring that our items are in the right package and in the right channel to meet consumers' needs. I would say it's also important to remember what Donnie highlighted that protein, which consumers see as an essential staple, enjoy lower elasticities than other food categories. Therefore, we believe consumers will continue to prioritize protein. I'd point to all these factors as the reason that Tyson's retail volume grew in the quarter.

Michael Lavery
Okay, great. Thank you so much.

Operator
The next question comes from Ben Theurer with Barclays. Please go ahead.

Ben Theurer
Yes, good morning. Donnie and Curt. Thanks for taking the questions. So, I just wanted to dig a little bit into like the cadence 3Q into 4Q because if I remember right, roughly three months ago, you've talked about potential downside risk in the third fiscal quarter, atypical seasonality, it seems like that did turn out. So maybe can you help us understand what was different in the quarter versus what you initially expected to come out to that close to $500 million in operating income and how that then relates into, call it, maybe the higher end versus lower end of that remaining guidance for 4Q, that would be my first question? Thank you.

Curt Calaway
Yes, thanks. This is Curt. I'll kick it over to Wes in just a minute. But principally speaking, right, we talked about the back half of the year and a little bit of seasonality challenges that we perhaps could have. But to be specific on your question before I turn it over to Wes, it was really some stronger Chicken performance than we had anticipated when we talked three months ago. But overall, kind of the construct that we thought about the back half of the year relatively in line. But certainly, as we said earlier, increased the overall midpoint of our guidance by $100 million, really with the strength of Q3 and I'll turn it over to Wes to talk a little bit about Chicken’s performance.

Wes Morris
Yes. I'll take a big part of that change and it's pretty simple. Our poultry team is improving faster than I expected or that we modeled in a lot of different areas, like live for instance, that we just talked about or our supply demand planning group. And so, we haven't called a different play, we've just executed it faster than I expected.

Ben Theurer
Okay. And then my follow-up, I know it tends to not get that much of attention, but it feels like it's coming together a little bit better on the international side. Could you share some of the initiatives you're currently doing and how that international business, how you think about this in the medium term because I know, Donnie, you always talk about the demand growth is in the international market, so just to understand how you think of investing and positioning yourself to even further accelerate the growth in the international segment?

Donnie King
Sure. Our international business does continue to grow. And if you'll recall, over the last couple of years, we've invested heavily behind a number of assets in China and Southeast Asia. I would tell you, in those marketplaces, there are a number of macroeconomic and geopolitical headwinds. We have seen a little better improvement in raw materials. But to go any deeper into that, let me introduce Devin Cole, who is new to this call, but not new to Tyson and he's just returned to our company in March. He's been the Head of our Global McDonald's business. And now we've added the International business on to him. And so, with that, Devin, welcome, and please go ahead.

Devin Cole
Thank you, Donnie. Of course, it's pretty early in the process of evaluating this business from my standpoint. But I would tell you, I'm encouraged by the quality of our team, assets that I've had the chance to see around the world. We're really focused on some very key metrics, and that's just to keep our team members safe, make sure we've got the best food safety, the best product quality innovation for all of our customers around the world and also focused highly on operational excellence as we bring these new facilities up to speed. And I am convinced that we have the assets and the team to deliver

the portfolio of products to meet both customer and consumer needs around the world. And really what this will allow us to do is to provide the growth in results that we expect and that we need to drive the operational efficiencies and capacity utilization in these assets.

Donnie King
So, if I may just add one other thing to that, Devin, and thank you. As many of you will recall, Amy Tu was the leader of our International business. Since we were together last, Amy has decided to retire. And I know she is probably listening today, and I just want to say that we miss her and thank her for many contributions to the company. We wish Amy and her husband Christian well. But we have Devin in the seat now and look forward to many exceptional things as it relates to International.

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

Peter Galbo
Hey guys, good morning. Thanks for taking the question. Donnie and Wes, maybe just a quick one on Chicken because I know we've spent quite a bit of time on it on the call. Just help us parse out maybe as we think about sustainability of Chicken profitability in 2025. How much in the quarter do you attribute to market factors relative to the underlying, and not looking for specific numbers, but if it's percentages or however you think about what drove the Q3 over delivery, again, as we try and project that forward into 4Q and 2025?

Wes Morris
Yes, thanks for the question, Peter. As I've said, we had solid improvement in our fundamentals, and we partially offset those by investments. If I had to call the year today, I'd call it 40% performance base, 60% market-based. But if I adjust for the investments, I'd call it around 50-50. But it's important that my team stay focused on sustainable performance and driving value over time regardless of what those market conditions are.

Peter Galbo
Great, no, that's very helpful. Thanks Wes. Curt, maybe, welcome to the call, nice to hear you on the call. I think there's a pretty big bond maturity coming due in the fourth quarter. So maybe you can just talk a bit about how you're thinking about approaching that, I saw the lowered interest expense guidance, but how we should think about that particularly large debt maturity? Thanks very much.

Curt Calaway
Thanks Peter. Yes, you're right. Maybe the best way to handle that is think about our liquidity. And we finished the quarter, right, with about $4.8 billion of liquidity. And that was partially driven by a bond offering that we did earlier this year to effectively prefund that, if you will. So yes, the bond maturity is coming up here in August of $1.25 billion, and we'll look to pay that off this month.

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

Alexia Howard
Good morning everyone. So, a couple of quick ones. Can you -- talking about Chicken again, what are the key risks from here, is it as simple as if grain prices go up again, that could put pressure on the business, I'm just wondering where the growth from here comes or whether we're kind of approaching peak at this point? And then I have a follow-up.

Wes Morris
So again, Alexia, thank you for the question. We're laser focused on the fundamentals of our business. Certainly, grains have an impact. Our commercial relationships, we continue to work with some key customers to help stabilize earnings and create win-win solutions with those key customers. So, for me, it's about staying focused on what we do and getting better at it every day.

Donnie King
So, if I could add one thing to that Wes has mentioned two or three times, but just to make sure it's clear, that from a mix perspective, Wes and his team are continuing to value up the mix from, let's call it, more commodity-oriented products to more value-added branded across Retail and Foodservice.

Alexia Howard
Great, thank you very much. And can I just pick up on one word that you used early in the prepared remarks. You talked about collaboration across the businesses improving or being as good as you've seen it. Can you be more specific about what has improved on the collaboration side and how that's manifesting itself in the organization? Thank you and I will pass it on.

Donnie King
Sure. If I look at the team that's sitting around the table here this morning, we have some of the best people in the industry, in their specific discipline. They have a great deal of experience, and they are very passionate and competitive in everything they do. But the mantra that we have here at Tyson is one team, one Tyson, all behind our mission, feeding the world like family. And at the same time, making sure that there's high-quality protein on every table in the world. But the collaboration component of that is a team coming together and really being united around this one Tyson approach.

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

Thomas Palmer
Good morning and thanks for the question. Maybe start out on the prepared foods side. The midpoint of guidance implies profit in 4Q, might not have as big of a seasonal pullback relative to 3Q as it might in a typical year. I know you mentioned this possibility a quarter ago. Could you just give us a reminder as to why this seasonality might not be as pronounced as normal? Thanks.

Curt Calaway
Tom, this is Curt. I'll add a couple of things and then let Melanie add to it. But we are hopefully very clear last quarter where we talked about a midpoint of the guidance of $900 million and implying obviously $400 million in the back half, and it would be split relatively even. I'll add to that, right. While we've tightened the guidance range throughout the year, our midpoint has been consistent across the whole year. And specifically, as well, our thoughts around Q4 and the profit outlook also were very unchanged and consistent as we've thought about it. But I'll let Melanie add a couple of elements from her perspective.

Melanie Boulden
Yes, so thanks for the question. And as I think about the future seasonality and Q4, we expect to have a strong Q4 compared to prior years. First, the cost associated with the new capacity and capabilities I touched on earlier, will be significantly reduced as those assets ramp up. This is true both sequentially and versus year ago. Second, the operational excellence initiatives we're driving are accretive. And -- or additive, I should say, meaning the total dollar impact will grow each quarter as we reduce cost and drive out inefficiencies. We also expect to continue strong commercial performance behind our Food Service business. And then finally, I'd also point to our growth in bacon, which is enabled by the

successful start-up of our Bowling Green Facility and because of the new capacity and capabilities that we brought online, we're growing and gaining share in bacon. So, as I think about Q4 as well as the momentum going into 2025, we're confident in our path forward. And a lot of this is obviously driven by our team that has been working really, really hard and is focused on delivering our goals.

Thomas Palmer
Thanks for that. And then just on an income statement item, SG&A has been trending sequentially lower throughout the year. What's driving this and is there a segment where we would see these reductions being most apparent?

Curt Callaway
Just a couple of comments from me. I think we've had a fairly disciplined approach over this last year relative to our SG&A management. It will feel a little lumpy in a couple of quarters because we've got some higher performance-based compensation impacting each of the quarters. But overall, a very disciplined focus on our cost control spending this year.

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.

Donnie King
Thank you 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.