# Tyson Foods

## Fourth Quarter 2024 Earnings Call

## November 12, 2024, at 9:00 a.m. Eastern

**CORPORATE PARTICIPANTS**

**Sean Cornett** – *Vice President Investor Relations*

**Donnie King** – *President and Chief Executive Officer*

**Curt Calaway** – *Chief Financial Officer*

**Wes Morris** – *Group President, Poultry*

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

**Kyle Narron** – *Group President, Prepared Foods*

## PRESENTATION

**Operator**
Good morning, and welcome to the Tyson Foods Fourth Quarter 2024 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the 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 your 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 Mr. Sean Cornett.

**Sean Cornett**
Good morning, and welcome to Tyson Foods Fiscal Fourth Quarter 2024 Earnings Conference Call. On today's call, Tyson's President and Chief Executive Officer Donnie King and 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; Kyle Narron, Group President Prepared Food; Wes Morris, Group President Poultry; Devin Cole, President International and Golden McDonald's and Melanie Boulden, Chief Growth Officer.

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

Forward-looking statements include all comments reflecting our expectations, assumptions, or beliefs about future events or performance that do not relate solely to historical period. These forward-looking statements are subject to risks, uncertainties, and assumptions which may cause actual results to differ materially from our current projections. Please refer to our forward-looking statements disclaimers on Slide 2, as well as our SEC filings for additional information concerning risk factors that could cause our actual results to differ materially from our projections.

We assume no obligation to update any forward-looking statements. Please note that references to earnings per share, operating income, and operating margin in our remarks are on an adjusted basis unless otherwise noted. For 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, we reported our fourth quarter and fiscal year 2024 results. Performance in Q4 was strong. In fact, adjusted operating income and adjusted earnings per share were both the best results in the past eight quarters, and both more than doubled compared to Q4 last year. The momentum we've built led to significant improvement in full-year profitability in 2024.

For the year, AOI of more than $1.8 billion, nearly doubled versus fiscal 2023, while adjusted EPS of $3.10 increased more than 130%. We're clearly pleased with our performance this year, where a significant turnaround in chicken, combined with strong results in prepared food and improvements in pork offset well-known challenges in beef. Our disciplined capital allocation drove strong cash performance in 2024 as well.

Free cash flow increased by more than $1.6 billion versus last year and came in at more than twice the dividend this year. This result was driven by increased AOI and prudent capex management, while still investing for profitable growth. Overall, our financial health strengthened significantly from where we ended fiscal 2023.

Each of our team members across the organization contributed to this strong performance in 2024. I'm very thankful for the hard work they do every day to make us a world-class food company and recognized leader in protein. I want to point out that beyond the results in fiscal 2024, we're providing guidance for fiscal 2025, which builds on our momentum.

At the midpoint, AOI is growing and our financial strength is improving. It's important to note that our guidance at midpoint for prepared food and chicken reflects AOI expectations of more than $2 billion combined. Our outlook for next year highlights the benefits of our multi-protein, multi-channel portfolio.

Our strategy remains the same and reflects the continued focus on our business fundamentals. Our priority on controlling the controllables has clearly delivered positive benefits in fiscal 2024, and we expect that to continue in 2025. I want to emphasize that I remain optimistic about our future, and I am highly confident in our ability to drive long-term value for shareholders.

Let's move to segment highlights, starting with prepared foods, which has been a solid and stable driver of profitability. AOI results for the quarter and the year came in just as we expected, with the midpoint of our segment guidance remaining constant all year. FY '24 AOI grew 2% year-over-year and was the best performance since fiscal year '18, overcoming headwinds of startup costs at our new Bowling Green plant in a challenging consumer environment.

Overall volume grew nearly 1%, as we continue to broaden our customer base and expand our presence in broad line distribution categories.

Moving to chicken, AOI results came in above the high end of our most recent guidance range. While we benefited from lower grain costs, our focus on the fundamentals of live operations, where hatch and livability again improved year-over-year in Q4, and plant efficiencies also contributed to the strong results for the quarter and the year.

It's clear that we've built a fundamentally stronger chicken business as evidenced by the significant turnaround in AOI from fiscal '23 to '24, which was our best full-year AOI performance in the past seven years. While results in beef were better than anticipated for Q4, we continue to see compressed spreads versus last year, driving the decline of profitability for both the quarter and full year. Obviously, the current cattle cycle remains challenging as there are no clear signs of sustained herd rebuilding intentions. We will remain focused on the things we can control as we've managed through it.

Turning to pork, improved spreads highlighting herd health and solid demand drove a $270 million year-over-year increase in AOI for fiscal '24. As I mentioned, our focus on controlling the controllables has produced solid results for fiscal 2024, and we expect this to continue.

We have five strategic enablers that drive our priorities for 2025 and beyond. This is our roadmap for success, and we're building on this foundation. Let's look at our enterprise priorities for 2025. Operational excellence never gets old or goes out of style. For us, a key element of operational excellence is gaining enterprise scale and unlocking savings in our controllables by modernizing our operations and driving performance to standards. You've seen the benefits of this in our results for 2024, and we've embedded this approach in our guidance for 2025 across the business with a noticeable impact in prepared foods.

As we are in service to our customers and consumers, we are building on our iconic brands to value up our core proteins. We have 3 of the top 10 brands in protein behind Tyson, Jimmy Dean, and Hillshire Farm. While our brands are healthy, we have opportunities to expand our household penetration by better serving consumers with innovation for new meal locations, categories, and channels.

One of the ways we will achieve our strategic goals is by investing in our digital capabilities, utilizing big data, predictive analytics, and artificial intelligence for better decision-making and outcomes. Our data and digital delivery priority enables improved yield and mix across many of our operations and is important as we modernize customer engagement and drive consumer insights. We are accelerating digitalization in our end-to-end demand and supply planning, becoming platform-driven with an exception management strategy that optimizes working capital.

Capital allocation is an important strategic priority that unlocks fuel for the enterprise. As Curt will elaborate on shortly, we made tremendous strides in our cash management in '24, and we plan to be just as disciplined in '25 with a continued focus on managing capex and working capital to drive free cash flow. Importantly, we're focused on team member development as the foundation of our planned delivery and to build on our strong history of our winning culture.

With these strategic priorities outlined, let's move to our segment priorities for the next year, starting with prepared foods. There is significant opportunity to drive profitability in prepared foods by operating with an increased level of discipline, increasing throughput and yield by performing to standards, eliminating waste, reducing complexity, and continuing to improve service levels. Our focus on data analytics drives insight into consumer preferences, as well as disciplined investment to support and grow our core products and drive innovation.

As an example, Jimmy Dean is one of our strongest brands, but there is still room to expand its appeal and market opportunities in adjacent morning eating occasions. To capture trends towards spicier foods and convenience, we recently launched Spicy Chicken Honey Biscuits, a restaurant-quality breakfast sandwich. We previously mentioned the success of our grill cake platform, which has strong customer adoption and repeat rates. We're leveraging the success of these innovations and further leaning into our other top-performing SKUs to capture opportunities to expand distribution.

Moving to chicken, there's no clear demonstration of the benefits of operational excellence than the efficiencies we drove in chicken in fiscal '24. We plan to sustain and improve our live and plant operations and maintain a disciplined S&OP process in 2025.

As you've seen, when our live operations are running well and our demand plan is more accurate, we can operate much more efficiently while better servicing our customers and reducing inventory, all in support of generating more stable and predictable results. At the heart of our strategy lies a commitment to long-term partnerships with strategic customers. By fostering these collaborations, we ensure stable demand for our products and create mutually beneficial win-win relationships focused on growing the category with our customers.

Next, I want to touch upon how we can build value through investments in our branded and value-added chicken portfolio. Tyson holds the number one brand position in value-added chicken across both retail and food service. Over the past year, we've made significant investments to enhance and expand our portfolio of high-quality, innovative, and convenient products.

We're also excited to debut our revitalized packaging, which reflects Tyson's relentless focus on quality and generates consumer excitement. The new packaging rollout in October coincides with the launch of our new Tyson-branded advertising campaign, Always Been Tyson. More broadly, our fully cooked portfolio is a high-ROI area where we will continue to deploy capital to expand our market presence and maximize returns.

For example, we accelerated the ramp-up of our new Danville facility this year and are now exploring our next Danville-scale operation. This approach not only strengthens our financial performance, but also solidifies our competitive positioning in the industry. As you know, our beef business is challenged by the dynamics of the current cattle cycle.

Our focus for FY'25 and beyond is to build a best-in-class operation so that we are well-prepared when the cycle turns as we fully believe it will. At the same time, we continue to align every aspect of our operations from procurement, where we are strengthening our relationship with key suppliers, to production and distribution to meet customer and consumer demand. In addition, we continue to improve our cost structure with tight spend management and increased efficiencies while enhancing yield and mix to add value.

We're meeting consumers' demand for convenience with an expanded assortment of pre-seasoned beef available in a variety of new flavors and forms. We are a leader in beef, and we want to be a valued partner for our customers by having the right product at the right time to meet their needs. We made good progress on operational improvement in our pork business in fiscal '24, which allowed us to capture the benefits of a better market condition, and we expect to make incremental progress this year.

The network optimization initiative we completed in '24 is expected to drive better capacity utilization and allow us to improve our mix by leveraging the capabilities of our remaining plants. We're also scaling up our use of data to make better decisions on mix and to improve yield. Like beef, our pork team has been expanding our portfolio of seasoned and marinated products to drive increased value-added offerings while strengthening our partnership with key customers. Across the business, our focus on controlling the controllables can drive sustainable cash flow, better operational execution, and improve mix and deliver a solid performance in fiscal 2025.

Before I hand things over to Curt to review our financials in more detail, I want to share the positive results from the execution of our strategy, demonstrated by the momentum of our value-added businesses in prepared foods and chicken, while we are also managing through and acknowledging the challenges of the current beef cycle. As our value-added businesses grow and drive a larger portion of our profitability over time, we should expect a more stable earnings profile.

Looking at prepared foods in fiscal '24, we delivered AOI growth of over $100 million as compared to the five-year average from fiscal '19 to '23, and its share of overall profitability has increased from a quarter to a half. Additionally, at the midpoint of our fiscal '25 guidance, we're also expecting nearly a $100 million increase in earnings.

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

**Curt Calaway**
Thanks, Donnie. Total company net sales were up 1.6% year-over-year in Q4 and 0.8% for fiscal '24. Beef and chicken were the primary drivers for the quarter, while beef and pork led the sales increase for the full year, partially offset by chicken.

Q4 adjusted operating income of $512 million, margin of 3.8%, and adjusted EPS of $0.92 were the strongest quarterly results this year, all more than doubling versus Q4 of '23, and as Donnie mentioned, the best performance in the past 8 quarters. Full-year AOI of more than $1.8 billion, nearly doubled, and adjusted EPS of $3.10 grew over 130%. Significant improvement in chicken profitability was the largest driver of year-over-year growth for both the quarter and the full year, with contributions from prepared foods and pork offsetting declines in beef.

Now let's review our segment results for Q4. In prepared foods, Q4 revenue declined 1.2% versus last year, driven by lower retail volume. It's worth noting that we continued to make progress in total volume growth outside of retail in both Q4 and fiscal '24. As we expected, AOI in Q4 increased noticeably year-over-year, benefiting from lower raw material costs, operational efficiencies, and reduced MAP spending as we have focused on reducing inefficient support costs. These drivers also contributed to the best full-year AOI performance in the past six years, overcoming startup costs and unfavorable mix.

Moving to chicken, sales in the quarter increased 2.3% inclusive of a legal contingency accrual recorded in Q4 last year. While volume declined modestly year-over-year, it grew approximately 1% versus Q4 of fiscal '22, as we continued to better align supply and demand. AOI increased $281 million versus last year to $356 million.

Lower input costs, net of pass-through pricing, and improved operational efficiencies and execution drove the growth in AOI. For the year, chicken AOI improved by nearly $1.1 billion, leading to the strongest AOI performance since fiscal '17.

In beef, revenue is up 4.6% year-over-year in the quarter, primarily due to volume, driven by higher average carcass weights and higher head throughput. While revenue increased, AOI decreased, primarily reflecting compressed spreads as expected.

Moving to pork, Q4 revenue decreased 3.7%, driven by lower pricing on dropped credit items, partially offset by increased volume. AOI increased $27 million year-over-year, benefiting from improved operational execution.

For the full year, AOI increased $270 million, highlighting improved spreads. Shifting to our financial position, our commitment to disciplined capital allocation remains constant. Our priorities are to maintain financial strength, invest in the business, and return cash to shareholders, all while maintaining our investment-grade credit rating.

Full-year cash flow from operations increased nearly $840 million, driven by improved profitability and working capital management. Operating cash flows of $2.6 billion was more than double our capex, which came in at just over $1.1 billion for the year, reflecting our disciplined capital deployment while continuing to invest for profitable growth. Fiscal '24 free cash flow improved by more than $1.6 billion year-over-year. This increase was driven by roughly equal contributions from higher operating cash flow and lower capex. Free cash flow of nearly $1.5 billion was more than 2x our total dividend. As you saw in our earnings release, we raised our dividend for the 13th consecutive year, reflecting confidence in our cash flow generation.

We remain committed to the dividend as our primary way of returning cash to shareholders. Additionally, we ended the year with $4 billion of liquidity after repaying our 2024 senior notes in August for $1.25 billion. Net leverage declined again sequentially, ending the fiscal year at 2.6x. This is a full one and a half turns of improvement versus where we exited fiscal '23. We've made good progress, but continue to focus on returning net leverage to our long-term target of at or below 2x net debt to adjusted EBITDA.

Our plan for fiscal '24 was to apply our controlling the controllables approach to improve our financial strength. As you can see in our free cash flow and net leverage performance, we've clearly over-delivered on that plan and remain committed to deploying resources to maximize long-term shareholder value.

Now let's look at our guidance for fiscal '25. We anticipate sales dollars to be flat to down 1%. We expect volume growth in chicken and prepared foods to be offset by lower beef and pork volumes. However, total company AOI is expected to be between $1.8 billion and $2.2 billion, reflecting approximately 10% growth at the midpoint driven by prepared foods and chicken. Rounding out key P&L items, we anticipate interest expense to be roughly $380 million and our tax rate to be between 24% and 25%.

As Donnie mentioned, we're going to maintain tight controls on spending and capex to be between $1 billion and $1.2 billion this year. While there are a range of outcomes for AOI, we expect our free cash flow to exceed $700 million, which is approximately our new expected annual cash dividend.

Moving to the breakdown of total company AOI by segment, starting with prepared foods. While we don't anticipate material changes in consumer behavior, we still see a pathway to significant growth in prepared foods AOI by focusing on operational improvements that are in our control, as you saw in our segment priorities for fiscal '25. We expect AOI to be in a range of $900 million to $1.1 billion, representing double-digit growth at the midpoint driven by these initiatives.

In chicken, we plan to sustain and build on the operational improvements we put in place in fiscal '24. We are reinvesting a portion of these benefits into our value-added portfolio, highlighted by our master brand relaunch and new marketing campaign. We anticipate chicken AOI to be in the range of $1 billion to $1.2 billion, highlighting high single-digit growth at the midpoint.

Now on to our beef segment, where uncertainties remain, including the timing and pacing of meaningful herd rebuild intentions. These market dynamics are reflected in our range of outcomes for AOI for fiscal '25, where we expect a loss of $400 million to $200 million, which reflect a similar level of profitability year-over-year at the midpoint.

In pork, we also expect a similar level of profitability in '25, as in '24, with AOI in the range of $100 million to $200 million. At the midpoint, benefits of our ongoing operational initiatives may be offset by tighter spreads.

Our international business made strides in improving operations in fiscal '24, leading to a notable increase in AOI. We expect to make further progress in fiscal '25. Our outlook for the coming year reflects the benefit of our multi-protein, multi-channel portfolio. The middle of our range highlights solid earnings growth and continued progress on our operations and financial strength.

Now I'll pass things back to Donnie to wrap up.

**Donnie King**
Thanks, Curt. I'm proud of our fiscal 2024 results. We drove significant improvements in our P&L and on our balance sheet. These accomplishments are a direct result of our team's unwavering discipline in executing our strategic priorities.

I'd like to take this time and opportunity again to thank each of our team members. Your focus and commitment has been essential to our success. Looking ahead, we still have room for improvement, but I'm optimistic about what's to come. We have a solid foundation as one team, one Tyson, and I'm confident we will continue making progress in fiscal '25, building on our iconic brands to value up our core proteins and striving to operate with excellence.

Before we move to Q&A, I'd like to welcome Kyle Narron as our new Group President of Prepared Foods. With more than two decades of industry experience, Kyle is a proven leader with strong operational expertise and a deep understanding of our business.

As you recall, Melanie Boulden came to us as Chief Growth Officer in early 2023 and shortly after agreed to take on additional responsibilities as Group President of Prepared Foods. I'd like to extend my gratitude to Melanie for delivering the fiscal '24 plan and creating momentum for growth in the future. Her role as Chief Growth Officer remains central to our growth strategy, especially as we move forward with the most robust innovation pipeline in our company's history. Her efforts to deliver continued breakthrough marketing and growth initiatives, including digital enablement, will be pivotal as we bring new consumers to the Tyson Foods portfolio. Kyle's appointment has been a seamless transition. We're confident his experience and leadership will ensure continued momentum for the business.

Thank you for your time today, and I look forward to updating you on our progress next quarter. Now, I'll turn the call back 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 star then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. 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 any further questions, you may re-enter the queue at any time. At this time, we will pause momentarily to assemble our roster.

Our first question comes from Ben Theurer of Barclays.

**Ben Theurer**
Donnie and team, congrats on a good finish of fiscal '24, first of all. So, along the line, Q4 obviously was very strong, and the full year came in even a little bit better than you expected. You're still calling for some nice growth looking into '25. So, Donnie, maybe help us unpack a little bit the puts and takes within your outlook for '25, and maybe in a little bit more detail what gives you confidence of growth into next year? That would be my first question.

**Donnie King**
Sure, and thank you, Ben, and good morning, everyone. Let me start with just saying how pleased we are with Q4 and the full year of 2024. We continue to see the benefits of our multi-protein portfolio where chicken, prepared pork, and international are all sitting the headwinds in beef.

In Q4, momentum continues to strengthen. We saw significant cash generation with free cash flow more than 2x our dividend, and substantial reduction of net leverage ratio to 2.6x. In FY '24, and this is why you should be confident, those enterprise priorities continue to deliver results.

Our focus on operational excellence are delivering best-in-class operations by gaining efficiency and eliminating waste. Our focus on the customer and the consumer is allowing us to strengthen our iconic brand to expand reach and deliver innovation for new occasions. Our focus on data and digital tools allows us to use big data, analytics, and AI to improve operational decision-making and drive consumer insights and ultimately actions.

Our focus on capital allocation is improving cash flow by managing capex and working capital. Our focus on team member development is foundational for our culture and delivering our plan. We expect prepared foods and chicken each to deliver approximately 50% of our AOI in fiscal year '25, a significant shift to a more valuable mix.

Approximately 10% of our AOI growth in FY '25 at midpoint is driven by prepared foods and chicken. Now into each of the segments, a little color there. In prepared foods, AOI performance was the best full year since 2018.

Would expect FY '25 AOI to have double-digit profitability growth at midpoint. In chicken, best full year AOI performance since fiscal year 2017, market tailwinds and operational improvements driving results. Would expect FY '25 AOI to have high single-digit profitability growth at the midpoint. In pork, better spreads and improved performance drove significant year-over-year AOI increase. Would expect similar profitability at midpoint in '25.

In beef, spread compression continues driven by a tight cattle supply, but would expect similar profitability at the midpoint. In international, a nice improvement, a nice AOI performance taken with the 4Q one-time adjustments. Would expect FY '25 AOI performance to continue to improve as execution and capacity utilization improves. In total, would expect FY '25 AOI growth to be 10% at midpoint on a range of 1.8 billion to 2.2 billion.

Now, five key takeaways from Q4 and as we think about '25. We will continue to shift our mix from core protein to branded value-added. Number two, we will increase household penetration in branded and value-added. Number three, protein is part of every healthy diet and protein is a clear winner in food. Number four, we will improve the returns on our invested capital and create shareholder value. And number five, we will execute with excellence in all that we do.

In terms of just one adder here, in terms of volume for the year, we expect beef based on tight cattle supplies to be volume to be down slightly. Pork, because of some of the network optimization, should be down slightly. We would expect increases in volume in prepared foods, chicken. So, that's the breakdown on the mix.

With that, I will turn the question back to you, Ben.

**Ben Theurer**
One quick one on chicken, and this is really just like kind of maybe stretching a little bit of the expectations here. If we go back 12 months in time, you were kind of looking for maybe up to $700 million in AOI for chicken, and then it turned out to be more than a billion in FY '24. So, as we think about this, and obviously how the market conditions performed over the last couple of months and quarters now, how much of that do you think you can potentially carry over? And what are potential upside scenarios that would take you even beyond the current chicken outlook of call it maybe $1.2 billion at the higher end?

**Donnie King**
Ben, I would just say we have a fundamentally different and better chicken business than we had even a year ago, certainly two, three years ago. But our guidance for '25, the range is from $1 billion to $1.2 billion, which is really a high single-digit growth at midpoint. We're doing that at the same time we're investing back in the business with the new ad campaign, product innovation, and so forth, something on the order of about $100 million.

So, with that, Wes, do you want to add anything?

**Wes Morris**
Yes, I'd love to. Ben, thank you for the question. And let me give you a little background so that it'll clear up a little bit. And I'd like to answer specifically your question around '25. And so, we executed our strategy in '24. It was a great team effort as we drove over a $0.5 billion in operational improvement across live plants and then matching up our supply and demand.

And so, we delivered our strongest Q4 in history. But here's the part that most people don't know. While we were working on the cost side, we were also resetting the stage for the revenue side and winning with consumers. And so, Donnie mentioned our number one shared retail value added. We did a complete do-over in which we upgraded our quality to the point that our testing exceeded consumer expectations. Not I like it, but it exceeds my expectations.

We've got a big innovation pipeline, both experimental and better for you. And experimental is form and flavor, what I call where food meets fun. And then the better for you is capitalizing on the protein content. We upgraded our packaging, and it's based on basically decision trees of shopper's shop, brand, and then form and flavor.

Donnie referenced our new advertising campaign. And what's exciting about that is that campaign resonates with our core shopper. Just as importantly, it resonates with the younger shopper, creating sustainability of demand over time. And so, we do have a stronger business and an impressive leadership team. We're well-positioned into '25 and beyond to have a successful, sustainable business.

And let me make one more comment about commercial, because that's something we've not talked about on the calls and a big step change going into '25. Our speed and improvement and go-to-market has been greatly increased. And so, business growth and R&D are a highly functioning team to not only understand them by consumer needs, but to create products and get them to commerce quickly.

We've got the strongest pipeline of new products that I've seen in my career across any segment. And so, with that, let me transition to your question around 2025 outlook and how good is the number. And let me start with, hey, last year, my team surprised me with the speed and intensity of the improvement, right?

So, yes, we did say $700 million and we continued to perform faster and better than I anticipated. We think we've got good balance, good analytics, and good insight into what 2025 looks like. I'm very encouraged by 2025 as we've got a good team, we've got better fundamentals. Overarching markets appear stable. We've got a plan, performance improvement plan more than offsetting inflation. Then we'll spend around $100 million driving that mixed change of value added.

And while our volume looks a little soft last year, our fully cooked mix was up 5%. So, we've already started that mix adjustment to improve profitability. And so, all-in-all, we got a better cost structure, we got strong value added go-to-market hitting with a lot of intensity in 2025. And so, our guidance, based on current market outlook, understanding we're more insulated than most companies, I feel good about.

Now, we also think we're realistic about the macroeconomic impact of total demand, what's the industry supply potential, any impact to exports, ongoing weather patterns, which seem to be more frequent, and feed costs and global feedstocks. And so, we feel very good that based on what we know, our guidance is more accurate than any time in the past.

**Operator**
Our next question comes from Heather Jones of Heather Jones Research.

**Heather Jones**
My first question is a follow-up to Ben's. As far as on the chicken guide, you all have made a lot of changes in your operations there. You've pulled some complexes. So, I was just wondering if you could give us a little more specificity as far as your year-on-year growth for that cycle. How much of that is, things that Tyson can control as far as cost savings, more productivity, and how much is it you're assuming as far as the overall market dynamics?

**Donnie King**
Sure. I will tell you that the chicken business is performing. Wes, just a moment ago, talked about a number of those things. Think of this as a continuous mindset, continuous improvement mindset, operational excellence. Those are the gifts that keep on giving if you will. And for us, that's not going out of style. And we'll do many of those same things as here in 2025. We're off to a good start in 2025. Wes, why don't you touch on some of those specifics around controllables?

**Wes Morris**
Yes. I think in an effort to keep it fairly simple, if you use 2023 as a baseline, we have materially made a step change that has nothing to do with markets of over $500 million, right? We know where the continuous improvement opportunities are from there. So, I'm going to bake in another 185 that has nothing to do with markets. And so, we've made a major step change that regardless of meat values or corn values, those fundamental improvements are worth between

$500 million and $700 million a year.

**Heather Jones**
Then, my follow-up is on beef. And basically, production there, just due to new feed additives, longer time on feed, just production has come in much higher than anyone would have expected this year. And those weight gains are likely to continue in 2025. So, given that we haven't had this hole in supply that was expected, the wholesale price gap between chicken and beef has been pretty narrow, as narrow as in two years, whereas the retail price gap is the highest ever. And so, just wondering what you all are hearing from retailers, given that supply has not been as bad as people thought, is there a possibility that retailers start promoting beef more at the expense of chicken in 2025? So, would love your thoughts on that.

**Brady Stewart**
First of all, I think it's really important to point out just where we sit from a beef demand perspective, just kind of set the stage. And when we look at '24 versus '23, we saw it from a choice cutout perspective increase just relative to the wholesale price as well. And it was up a little more than 2%, which signals really good beef demand. And we've seen that in our business as well. Then when we go and we kind of dissect it by primal and by product, it gets a little bit more interesting as well. And so, really kind of flattish prices across the board on the rib and loin. But we've seen a significant increase in price on the grinds. And so, I'm not sure that every single one of the products on beef is really a clear substitute with chicken and with pork. But where we have seen that increased demand in price has really been on lean trim. It's been on the grind. And we've seen some substitution opportunities between the round complex and the lean complex as well.

From a retailer perspective, we have seen several different strategies deployed. And because we've seen the steady demand for beef, we know that the consumer is going to stay in there, continue to buy beef. And so, some retailers have certainly taken that promotional opportunity to work on that rib and loin complex to drive those market baskets higher in general. So, I guess the overarching sentiment, just relative to beef, is really good demand, even with these higher prices, and expect that to continue into 2025.

**Wes Morris**
I was so focused on the cost side of your question, I think I should have mentioned a big unlock on the revenue side as well as we go into 2025. So, as you know, we opened five fully cooked lines in our Danville, Virginia, new plant earlier in 2024. Through great efforts from both retail and food service, that plant is actually sold out. And so, that mixed change that I referenced earlier, also changing economics, is baked into our 2025 plan. And I'm excited to announce that we're already starting to work on the next five fully cooked lines.

**Operator**
The next question comes from Ken Goldman of JPMorgan.

**Ken Goldman**
I'll stay with chicken. And thank you for all the help, both of you, in terms of the mixed changes and, Curt, in terms of some of the permanent dollar changes to your operating income that you would expect.

I wanted to ask, though, is it possible that there's a potential partial offset coming in the next year just from higher supply? And I know we're getting some mixed signals there, but we have seen chick placements increase to some extent. I'm just curious, not trying to rain on what's a pretty great parade here, but just wanted to get a sense for what's in your guidance for potentially higher industry chicken supply in the coming months?

**Donnie King**
Let me start out and answer that question. And if we want to go into more detail, I'll give it to Wes. But I would tell you in our guidance that $1 billion to $1.2 billion, we have contemplated all those things that you just mentioned. So, we're comfortable with the guidance that we've given. I think one thing that I'll just add to in terms of how this mix is shifting for us, not only in chicken, but for the other businesses, but for chicken specifically today.

If you look at volume, while it is positive or projected positive for '25, what you don't see in that is this, that the outsized growth of the value-added branded business is up about 5%. Thus, we're filling up the Danville, Virginia plant, and then we're looking at another plant to do that.

So, what we're doing in shifting this core or commodity into more value added is working, which has been part of the Tyson history for many decades now. And so, we'll do more of that. And we're aware of the market conditions, but we're trying to operate and be a company that is a little different in terms of what we do.

**Wes Morris**
Yes. I'll share my perspective. If I could, I'll share my perspective real quick. We see the record exits, and I think it's reflecting strong demand for poultry, plus the industry's continued challenge in hatch and livability.

Fortunately, Tyson's performance has dramatically outpaced the industry. We're able to service our customers. We referenced the 2.6% increase for the full year. But given the robust demand, I think there's good reason to believe that supply and demand are fairly balanced. But I want to be clear on something that we talk about internally. We really grow chickens for two reasons.

We don't grow a lot of chickens to sell for whatever they're worth next Wednesday. We grow a lot of chickens for strategic customers to create win-win solutions who are looking for a continuity. And that has built-in mechanisms that if we perform, we make money. And then the second reason we grow chickens is as ingredients to our fully cooked and par-fry business, which we're growing exponentially. So, the industry will do whatever it's going to do. I think we're well-positioned to win either way.

**Ken Goldman**
And if I could just ask a quick follow-up, you have a new administration coming in the White House. I think a lot of uncertainty, maybe both on the upside and downside. I'll leave this question open-ended, but just in terms of labor tariffs in both direction, regulations, is it possible to even analyze what might be some upside and downside drivers at this time, or is it just way too early to say?

**Donnie King**
Well, there's a lot that we don't know at this point, but I would remind you that we've successfully operated this business for over 90 years, no matter the party in control, the environment. We look forward to working with the incoming administration. Like all businesses, we'll assess any new policies and plan accordingly. So, we're going to control, again, what we can control in this environment.

So, I'll leave it at that, Ken.

**Operator**
The next question comes from Pooran Sharma of Stephens Inc.

**Pooran Sharma**
I was hoping just to gain a little bit more clarity for myself on beef and kind of your outlook, and more specifically, just wanted to understand just heifer retention or herd rebuilding dynamics. I understand we haven't seen that yet, but just looking at your guidance at the midpoint for beef, we're kind of looking flattish. My understanding is if you see signs of heifer retention, you are going to see the number of head going to slaughter plants going even lower, which fundamentally to me would put more compression on margins.

Does the lower end of your operating income range factor in potential heifer retention? Or help me kind of think about potential heifer retention in your beef outlook for next year.

**Donnie King**
Sure. Let me start off with that. In terms of the guidance, we're guiding to a loss of $400 million to a loss of $200 million. So, the challenge continues. But as I mentioned earlier, this 2025 will be similar based on all of our modeling to '24. There's some influx, yes, heifer retention, and we're not seeing meaningful heifer retention. But there's also the influx of heavier weight cattle. There's the influx of some dairy into the supply and a number of other things.

I'll flip it to Brady to let him give you some of the finer details of that.

**Brady Stewart**
Sure. Thanks, Donnie. I think it's also important to understand what Tyson can control. I'm proud of the team relative to some of the improvements we made in '24. To have operating costs in our plants that are lower in '24 versus '23 when we saw some inflation and some lower headcount numbers is really meaningful to the outlook of our business as well and provides some visibility in terms of where we can control. This is one of the most dynamic beef environments in history, and we've gone through these cycles approximately every decade.

But this one's really unique, and we've seen record cutout prices, some record weights that you referenced as well, and how all of these different pieces shape into the outlook is very interesting. So, we've layered on a significant amount of data platforms to help us analyze our business better than we ever have before and make better business decisions that really drive outcomes that are important and meaningful.

And so, from a cutout perspective, I mentioned earlier that we've seen really, really good demand, and we need to continue to understand that that good demand and really high cutout values provides greater importance now on our yields than it ever has in the history of the business as well.

And so, there's initiatives to continue to move forward and continually improve in that area as well. Grind is very, very important. I mentioned the record high prices we've seen on lean trim. How we convert lean trim into chubs or patties or their grind material to meet the consumer wherever they want to go is a good opportunity for us, and we've seen great initiatives and move in that area.

Donnie mentioned the seasoned marinated progress, and we want to provide convenience to our customers as well and provide different platforms for them to purchase our beef products.

Really proud of the team to continue to innovate and come up with different solutions for the future.

And then just lastly, I just want to go back and reiterate the efficiency improvements that we have made year-over-year are absolutely meaningful as well and will help us navigate through whether we start to see additional heifer retention and potentially some lower harvest numbers, or it's more of a static demand case.

**Pooran Sharma**
I guess for my second question, just kind of wanted to shift over to the work you've done to optimize your network. If maybe you could just remind us of all the work that you have done, how many plants you've closed, and then do you see further kind of work being done? You guys are really kind of seeing benefits from operational excellence. So just want to kind of get a sense for how you're thinking about it in the future.

**Donnie King**
Sure. Great question. And I won't hit on every specific location, but I will tell you how we start. We start with controlling the controllables in the business. And then we began, as many have talked today, about executing with excellence. We simply want to be best-in-class operations end-to-end. I don't care if it's chick or beef, pork prepared, international, or a function across Tyson Foods.

So, let's start with that. So, when we look at the network, we consider a number of things. We consider the age of the asset. We consider the profitability of an asset. We consider the scale of an asset. We consider how competitive it is in the marketplace. Can it win? And we also then look at what future capital would be spent on that particular asset.

And as we run all these things through a funnel, we make a long-term decision. And I must tell you, these are always challenging, painful decisions to make. But I think we have demonstrated the ability to look everywhere, to challenge ourselves to be the best, and then make decisions accordingly based on what we find.

**Operator**
Our next question comes from Thomas Palmer of Citi.

**Thomas Palmer**
I was hoping to get a little more specific on the expected drivers for prepared foods. Sounds like mix is a factor. I wondered maybe about your outlook for other items, anything maybe quantifiable on volume expectations, and then kind of thinking about cost inflation and productivity. And then just kind of in context to that expected improvement in prepared foods, would you expect to see this 10% operating profit growth starting in the first quarter, or is there a period later in the year where we might see outsized growth?

**Donnie King**
Thanks. Yes, great question, and thank you for that. I would remind you that in 2024, it was the best year we've had since 2018. I've said on calls, this call before, that there's upside to our prepared foods business. What we are doing, what we did in 2024, 2023, and we'll do in 2025 and beyond, is continue to drive out waste from our business. We'll continue to connect with that consumer and our customer with new and meaningful innovation.

I've talked about what protein impact is and where it sits relative to inside the category of food, but we're literally pulling every lever within prepared foods. We're already seeing benefits of that. We saw it in 2024. We see that momentum continuing in 2025 and beyond. And a reminder, we're at midpoint. We are expecting a 10% growth from 2024 to 2025.

Now let me introduce you to Kyle Narron, who now leads our prepared foods business. Thank you, Melanie, for outstanding 2024. And Kyle, give us a little more color relative to the question.

**Kyle Narron**
Yes, thanks, Donnie and thanks, Thomas, for the question. As I look at 2024, we were entering the beginning of our multi-year strategy focused on operating our business with discipline, and that's exactly what we did, as Donnie mentioned, the best performance in six years and in line with expectations.

I guess I'll start by thanking all of our team members for their contribution to the improvements that we recognized in 2024. The key drivers for that performance were really along three pillars. Our operational performance is delivering tangible results. We experienced significant improvements in yield and throughput. Our service levels improved over 170 points year-over-year. Distress sales down 26%.

When you look from a commercial execution perspective, we're delivering some sizable wins.
We continue to see distribution increases across our core business, gaining over 240 TDPs on our core items that have proven to add value to our customers and consumers. We continue to see momentum from an innovation perspective relative to the launch of our Jimmy Dean griddle cakes and our chicken biscuit. We continue to realize increased distribution on those items on the backs of high trial and repeat rates. And then we continue to leverage our data and digital to drive promotional efficiency and long-term share growth.

And so, as I wrap that up, Thomas, and I think of the momentum we carry into 25, which would be year two of this multi-year strategy, I would just call out that over 100% of the step change in profitability is built on controllable improvements. Those key drivers will remain unchanged.

We will continue to be focused on the growth initiatives that I mentioned on core distribution and launching items from our robust innovation pipeline. And from an operational perspective, we are laser focused on our performance to standard. We'll continue to focus on running our assets at standard on every line every day. We'll continue to be focused on reducing complexity and eliminating waste.

And so, again, expect to carry that momentum that we gained in ‘24 into ‘25 as we continue to execute this multi-year strategy.

**Curt Calaway**
I might add just on top of Kyle as well. Part of your question, I think, was around kind of the cadence that you might see it materialize. I think this would be a year where it might be a little more balanced across the year, different than kind of more of our historical norms, a little bit of seasonality, which is really what Kyle was speaking about relative to the operational efficiencies we continue to gain throughout the year.

**Operator**
The next question comes from Michael Lavery of Piper Sandler.

**Michael Lavery**

I just wanted to come back to chicken supply. I know you gave some thoughts on how you're factoring that in and thinking about it. I guess just would love to follow up on you cite the USDA expectations for around 3% supply growth. More recently, we've seen that the egg set and chicks hatched up closer to 6%. Do you expect that to come in? I guess, how do you think about just reconciling those two data points?

**Wes Morris**
Yes. I'd be glad to take that. The industry's continued challenges on both hatch and livability. These increased egg sets and chicks placed physically aren't making it to the processing plants. And so, that makes a big difference. It's been a much tougher grow out environment between avian influenza, metapneumovirus.

And so, I think you'll continue to see that disconnect as we go through 2025. The only offset being in higher bird weights, and that's actually driving the 2.6% increases through bird weight per head.

**Michael Lavery**
And just back on prepared foods, I know you're lapping the plant startup costs. Can you just help us remember how to quantify that?

**Kyle Narron**
Yes, thanks for the question, Michael. Startup cost year-over-year, or what we realized in FY '24, was somewhere around $20 million. But I would remind you, certainly, that we would be lapping a first half with lower depreciation from an overhead perspective as well.

**Operator**
Our next question comes from Andrew Strelzik of BMO.

**Andrew Strelzik**
My first one, I wanted to go back to some of the operational improvements in the beef segment that you're talking about. My understanding or assumption was that there wasn't a whole lot internally that you could do to really cushion against the market environment. But you sound more optimistic on that now, and certainly listed a number of things that you've been working on. So, I was just curious if you could quantify how much you think that can move the needle, similar to what you said in chicken, or just maybe give a framework for how that could impact the business relative to kind of underlying margin environment.

**Brady Stewart**
Yes, thanks for the question, Andrew. Just relative to how we look at the business, 85% of the business really is somewhat uncontrollable relative to these market spreads. And so, that obviously provides some outsized weighting.

But when you talk about the amount of resources that we deploy from a labor perspective, the amount of opportunity we have at $3 plus cutouts to continue to improve on yield, it's certainly meaningful on how we push forward and move forward in the business as well. And so, I'll just say that there's a great opportunity for us to continue to march forward towards world-class. We want to make sure that we minimize the losses in this challenging cycle. And we really have the right to win relative to the utilization of our six harvest assets as we move forward throughout the bottom side of this cycle.

**Andrew Strelzik**

And my other question is just on capital deployment and cash flow generation, I guess. Leverage has been coming down. I know you're not quite to the target levels yet, and this will be still a pretty disciplined year.

I guess I'm just curious if the business is headed in the direction that it seems to be. Are we getting closer maybe next year to a time when maybe you can start to loosen the purse strings a little bit on that front? Or how are you thinking about whether it's capex or other investments returning cash to shareholders kind of more broadly over the next several years? Thanks.

**Curt Calaway**
Thanks for the question. And I appreciate the comments. And we certainly did have a very disciplined approach from cash, cash deployment scenario in 2024, and drove net leverage down from 4.1x to 2.6x across the year, but we did still invest $1.1 billion in capex. At the guidance range that we've provided for next year, we would invest between $1 billion and $1.2 billion in capex in 2025.

And we also had a comment in our guidance relative to free cash flow that would exceed our annual dividend, expected to be in the range of about $700 million. But we'll stay very constant relative to our capital allocation priorities around build financial strength, but also investing in our business and returning cash to shareholders, as you said. And obviously, make note, we did increase our dividend announced this morning, as well.

And very proud of the accomplishments we've made, but we stay committed to our investment grade credit rating, and our long-term target leverage of at or below two times.

**Donnie King**
So, Andrew, if I could, just maybe one additional comment, just to make sure the takeaway from the first question I answered this morning, we will continue to spend capital and return money to shareholders. But one of our focal points right now is to improve the return on the capital that we have already invested. And so, there's a lot of upside in that. And so, that's also a priority as you think about this in terms of the whole mix.

**CONCLUSION**

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

**Donnie King**
Thanks for your continued interest in Tyson Foods, and we look forward to speaking with you again soon.

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