Tyson Foods

Q2 2025 Earnings Call

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CORPORATE PARTICIPANTS

Sean Cornett - *VP, IR*

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Brady Stewart - *Group President, Prepared Foods, Beef & Pork and Chief Supply Chain Officer*

Devin Cole - *Group President, Poultry & Global Business Unit*

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PRESENTATION

Operator
Good morning and welcome to the Tyson Foods Second Quarter 2025 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 your touchtone phone. To withdraw your question, please press star then two. Please note, today's event is being recorded.

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

Sean Cornett
Good morning, and welcome to Tyson Foods Second Quarter Fiscal Year 2025 Earnings Conference call. On today's call, Tyson's President and Chief Executive Officer, Donnie King and Chief Financial Officer, Curt Calaway will provide prepared remarks, followed by Q&A. Additionally, joining us today are Brady Stewart, Group President, Prepared Foods, Beef, Pork, and Chief Supply Chain Officer; Devin Cole, Group President, Poultry & Global Business Unit; and Kristina Lambert, Chief Growth Officer. We have also prepared a supplemental presentation, which may be referenced in 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 statement disclaimers on slide 2, as well as our SEC filings for additional information concerning risk factors that could cause our actual results to differ materially from our projections. We assume no obligation to update any forward-looking statements.

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

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

Donnie King
Thanks, Sean. You’ve heard me say before that operational excellence never gets old or goes out of style, and this quarter is another proof point. Our strong results underscore the consistent execution of our strategic priorities. Our teams remain focused on execution and proactively navigating an evolving environment. This marks our fourth consecutive quarter of year-over-year growth across sales, adjusted operating income, and adjusted earnings per share.

Second quarter adjusted operating income is better by more than $100 million, or 27% versus last year, and our margin expanded by 70 basis points. Our Chicken, Pork, and Prepared Food segments, along with International and Other, all delivered year-over-year adjusted operating income growth. We achieved 48% growth in adjusted earnings per share, reflecting improved operating performance and strategic execution. We improved our net leverage ratio versus last year through delivered actions and are maintaining a healthy balance sheet underpinned by our disciplined capital allocation. This reflects our resilience, even as beef remains under pressure.

Now let's talk about demand. As we mentioned last quarter, 71% of US consumers sought to increase their protein consumption in 2024, according to an International Food Information Council study. The latest Power of Meat Report from the Food Industry Association shows that US meat sales at retail hit an all-time high in 2024, with consumers making purchases more than once per week. According to the study, meat had 98% household reach and was included in nearly 90% of home cooked dinners. Meat is the clear protein choice recognized for nutritional value, convenience, and versatility.

Even with that dynamic backdrop, it is evident that consumers continue to prioritize protein, especially from animal sources, underscoring robust, sustained demand across the category. As a world-class food company and recognized leader in protein, Tyson is well-positioned. Our multi-protein, multi-channel portfolio allows us to serve a wide range of consumer protein needs across eating occasions and value tiers. Our broad portfolio of strong brands, Tyson, Jimmy Dean, Ball Park, and Hillshire Farms remain key differentiators in a competitive marketplace, allowing us to drive long-term value.

Now, let's walk through segment performance: Prepared Foods. Prepared Foods continues to be a high-performing and dependable driver of profitability. In the second quarter, we delivered double-digit margins, expanding by 50 basis points versus the prior year. The team continues to execute with excellence on the factors within their control. We see meaningful runway to expand margins over time. Our multi-year plan focused on optimizing operations, launching winning innovations, and expanding distribution is on track.

As a tangible example of how we are driving operational improvement, we have developed and implemented new tools that provide line and process-level visibility of performance versus equipment capabilities. We have achieved measurable gains over the past year with line and labor efficiencies, increasing by 250 basis points and 280 basis points, respectively. These tools coupled with the improved sales and operations planning process enable smarter decisions around product scheduling and labor staffing, which in turn are improving productivity, reducing costs, and supporting stronger service levels. As we continue to utilize these tools and improvements across the business, we'll continue to reduce inefficiencies and drive out waste.

Innovation also continues to be an area of focus where we are making progress. Our Jimmy Dean chicken biscuits recently won the 2024 Circana Pacesetter Award for New Product of the Year. We are continuing to build on that success with new line extensions like the chicken, egg and cheese biscuit that newly launched this spring.

Wright brand continues to resonate with consumers as a leading premium bacon brand. We're now leveraging that equity to expand into smoked sausage, bringing the same trusted quality to a new category. We are also unlocking growth in our Hillshire Farms snacking portfolio as consumers, especially adults, continue to seek convenient protein rich options.

In Chicken we delivered our best second quarter adjusted operating income in nine years and our second consecutive quarter of volume growth. This quarter, adjusted operating income nearly doubled compared to the same quarter last year, driven by strong operational execution across the business, including the best order fill rates we've seen in many years and lower grain costs. We continue to prioritize building long-term, winning relationships with our customers, allowing us to partner in growing the category while stabilizing our earnings profile.

In Beef we are navigating a challenging environment with discipline. We are managing costs and enhancing mix towards more value-added offerings. While limited cattle availability is pressuring spreads, consumer demand has remained resilient. Our teams are executing well across procurement, production, and distribution to meet customer needs and stay on track.

Turning to Pork, we delivered our best second quarter adjusted operating income in three years. This reflects the strength of the improvements we have made in building a fundamentally better pork business. Operational advancements and momentum in value added mix contributed to our results, offsetting tighter spreads. And while hog costs remain a factor, we're encouraged by a healthy demand outlook.

Across all segments, we're actively monitoring the evolving macro landscape. And while we're not immune, our experience in navigating past cycles gives us confidence to respond effectively and proactively in scenario plans. Our strategic priorities, operational excellence, customer and consumer obsession, data and digital delivery, capital allocation, and team member development remain unchanged, and our teams are executing them with excellence.

Over the past several quarters, we have shared our actions to optimize our plant network and those efforts are continuing to generate efficiency while also reducing capex requirements. In this next phase of our optimization journey, we're taking deliberate measured steps to evolve our logistics and distribution infrastructure. These efforts are early stage but are critically important as we work towards greater long-term efficiency.

We will sell multiple smaller conventional cold storage warehouses unlocking gross proceeds in a range of $250 million to $300 million. And then transition as a new anchor partner into several large scale, fully automated next generation cold storage facilities. These facilities will reduce network complexity, streamline inventory flow, and simplify processes in ways that will better position us to serve our customers, smarter and faster, now and into the future. This transition will be a multi-year journey, but we believe this will generate around $200 million of annual savings at full completion, which is currently anticipated in 2030. We are confident that these actions will lead to meaningful operational improvements, greater agility, allow future growth, and reduce future capital requirements.

Before I turn things over to Curt, I'd like to take a moment to talk about the thoughtful steps we're taking across our portfolio to align with evolving opportunities around product ingredients and quality standards. As a recognized leader in protein, none of the products Tyson Foods offers through our school nutrition programs include petroleum-based synthetic dyes as ingredients. Today, the vast majority of our retail branded Tyson products, including our Tyson Dino Nuggets, Tyson Chicken Nuggets, Tyson Chicken Bites, and Jimmy Dean Maple Griddle Cakes do not contain any of these types of dyes, and we have been proactively reformulating those few products that do. We expect that our work to eliminate use of petroleum-based synthetic dyes in production will be completed by the end of May, much sooner than the timeline provided by the US Department of Health and Human Services.

With that, I'll turn it over to Curt to walk through our financial results in more detail.

Curt Calaway
Thanks, Donnie.

Second quarter enterprise sales were $13.1 billion, but that includes a reduction of $343 million or 2.6% related to a legal contingency accrual primarily reflected in Pork. Excluding this, sales would have grown as expected year-over-year. Adjusted operating income increased by 27% to $515 million driven by another strong quarter of performance in Chicken and solid contributions from International and Other, Pork and Prepared Foods, all of which helped offset the decline in Beef. Adjusted earnings per share grew more than 48%. As Donnie mentioned, this is the fourth consecutive quarter of year-over-year growth across sales, AOI, and adjusted EPS. Our multi-protein, multi-channel portfolio combined with our team’s continued execution in a changing macro environment is delivering results.

Turning to second quarter segment performance. In Prepared Foods, sales were in line versus last year as higher pricing was offset by softer volume. It's worth noting that pricing was up across retail and Food Away from Home channels, a reflection of our effective brand portfolio and pass through pricing. Adjusted operating income increased nearly 5% and margin improved 50 basis points versus last year. We continue to be more efficient with our marketing, advertising, and promotional support costs, as well as broader SG&A expenses. We also continue to make progress with our operational execution initiatives. These improvements, along with pricing and lapping of startup costs last year, more than offset the impact of the ongoing raw material cost increases.

In Chicken, we delivered our second consecutive quarter of year-over-year volume growth, contributing to a 2% increase in sales. Adjusted operating income increased 95% versus last year, highlighting our best second quarter performance since fiscal 2016. Year-over-year profit growth was driven by ongoing operational improvements and the net benefit of lower grain costs.

Sales in Beef increased primarily due to a higher average price per pound reflecting ongoing healthy demand. Adjusted operating income declined driven by spread compression, emphasizing higher year-over-year cattle costs.

In Pork, sales were roughly in line versus last year, excluding the impact of the legal contingency accrual. Adjusted operating income increased 67%, reflecting the strongest second quarter results in the past three years. Cost discipline and improvements in utilization and value-added mix more than offset tighter spreads.

Turning to our financial position, our capital allocation strategy is consistent and deliberate. We remain focused on maintaining financial strength, investing in the business, and returning cash to shareholders. Year-to-date operating cash flow was $846 million and capital expenditures came in at $464 million, resulting in free cash flow of $382 million. Year-to-date dividends were $349 million. We remain committed to the dividend as our primary way of returning cash to shareholders. We ended the quarter with net leverage at 2.3x and $3.2 billion in liquidity after paying off our $750 million term loan that was due in 2026.

Our balance sheet remains healthy as we prioritize financial strength, our investment grade credit rating and cash management to drive long-term shareholder value.

Now let's take a moment to review our outlook for fiscal 2025. Our total company guidance is unchanged. We anticipate sales to be between flat to up 1% year-over-year. Adjusted operating income is expected to be between $1.9 billion and $2.3 billion, representing growth across the entire range. We still anticipate interest expense of approximately $375 million and a tax rate of around 25%. We remain focused on disciplined cash management with capex expected to be between $1 billion and $1.2 billion and free cash flow in the range of $1 billion to $1.6 billion. The macro environment is dynamic, affecting each of our businesses to varying degrees. But as you can see from our supplemental materials and in our press release, our segment level adjusted operating income guidance remains unchanged as well.

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

Donnie King
Thanks, Curt.

In closing, I'm proud of the results our team delivered this quarter and encouraged by the momentum we're building. Despite a complex and evolving macro environment, we're focused on what we can control and executing with excellence. With sustained consumer demand for protein, the strength of our iconic brands and a continued commitment to operational excellence, we believe we are well positioned to drive long term value for our shareholders. To our 138,000 team members, from the front lines of our facilities to our offices around the world, thank you. Your hard work, resilience and commitment are what make our success possible. And our customers and suppliers thank you for your continued partnership and support.

Before moving to Q&A, I'd like to introduce Kristina Lambert, Tyson Foods' new Chief Growth Officer. Kristina was named Executive Vice President of Strategic Initiatives and joined the Tyson Foods Enterprise Leadership team earlier this year. Kristina has more than 28 years of experience in the protein industry. Prior to her most recent role, Kristina led our retail frozen value-added business within the poultry organization, where she maintained full P&L responsibility, expanded our innovation pipeline, and managed the relaunch of the iconic Tyson brand.

Melanie Boulden, our Chief Growth Officer and former Group President of Prepared Foods is retiring from Tyson Foods. I want to thank her for the results she has delivered and the team she has built. We're sad to see her go, but we wish her the best in the future. Melanie will remain a consultant for Tyson Foods ensuring a seamless transition with Kristina.

With that, I'll turn it over to Sean as we open the line for your questions.

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

QUESTIONS AND ANSWERS

Operator
Thank you. 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. Please limit yourself to one question and one follow up. If you have further questions, you may reenter the question queue. At this time, we will pause momentarily to assemble our roster.

Today's first question comes from Alexia Howard at Bernstein. Please go ahead.

Alexia Howard
Thank you. Good morning, everybody. So, you beat consensus expectations this quarter on the profit line, but you didn't raise guidance for the full year. How did the result come through versus your internal expectations and what's coming through better or worse than expected? And then I have a follow-up.

Brady Stewart
Thank you, Alexia. Donnie, before jumping into that, let me share a couple of additional thoughts on Q2. I think this quarter clearly demonstrates the importance of our multi-protein, multi-channel portfolio. We are best positioned intentionally to provide affordable, accessible, and nutritious protein that consumer continues to demand in this very dynamic environment. While beef is experiencing the most challenging market conditions we've ever seen, we increased total adjusted operating income by 27% and every segment grew other than beef. Chicken has standout performance, our best Q2 AOI in nine years. Prepared Foods has continued steady margin performance.

I am pleased with our efficiency improvements through better yields, reducing waste, and a continuing push for best-in-class execution in our plants. We've made significant strides in maximizing the efficiency of trade and map spending, and our innovation pipeline is the largest that we've ever had. And we're committed to growing our Prepared Foods business, both volume and bottom line. We remain agile and work with pace to optimize our operations and distribution network, and I'm excited about the next step on our journey as we transform our logistics network. This will unlock annual savings of approximately $200 million over time and will support our growth into the future. The dynamic environment we and others have referenced includes uncertainty from tariff impacts and pressure on the consumer. But our guidance considers those risks, and we're growing at the bottom line across the entire range.

Now, in terms of guidance, I will add a little, and then I will let Kris add some color to it as well. Overall, we remain excited about our FY 2025. We expect to generate profitability growth over the last year, last part of the year, the entire range of our earnings guidance, while managing through the most challenging beef environment we've ever seen, so we feel good about that overall. And our overall view of the business hasn't materially changed since we spoke last and we’re reaffirming the 1.9% to 2.3%.

I would tell you that we consider all the things such as the chicken business and what that looks like for the balance of the year, we think Prepared Foods to be more balanced across the year. We, as you see what happened in the first half of the year in Beef when we lost $181 million and then you stack on tariffs and consumer pressure and inflation that we’re seeing in the marketplace, we feel good about where we are at this point based on what we know at this point. Curt.

Curt Calloway
Just maybe a couple of comments. I think overall your question included did it come in line with our expectations or what were the differences? I think it came in line with our expectations, kind of reiterating our overall stance on the full year. Certainly, in the prepared comments we made reference to our guidance does include the outlook for the remainder of the year with an assumption for tariffs and consumer dynamics, but I think we’re pleased with where we are and very proud of the improvement we made on a year-over-year basis. And we are growing across all parts of the range that we’ve provided for the full year.

Alexia Howard
And can I follow up on chicken because I think the guidance, you've obviously come through very strongly in the first half of the year, but keeping the guidance the same implies, I think, a fairly big decline year-over-year in operating income. Is there something changing there in terms of the industry dynamics? What should we be aware of? Thank you, and I'll pass it on.

Donnie King
Thanks, Alexia You know, we obviously had a great first half of the year if you look at the numbers. There's just some uncertainty as you look at the back half of the year. If we look and compare it against our adjusted operating income it looks pretty good. But we also look at what consensus looks like as it relates to chicken. I think chicken will be a clear winner for the balance of 2025.

Let me stop with that level of detail, and I will kick it over to Devin Cole, and Devin can give us more detail around the chicken business.

Devin Cole
Thanks, Donnie. Again, we did deliver a very strong quarter. I'd say largely due to the strength and execution of our team, and I want to thank everyone for their focus and execution around those efforts.

Generally, our strategy will remain unchanged, but we do need to stay flexible with our tactics in this environment. I think things that we delivered in the quarter will continue to be a priority and continue to deliver excellence moving forward as we have outperformed the industry in live. We extended our improvements related to plant performance, and then the intense focus on the customer continued. As mentioned, we've now had two consecutive quarters with fill rates over 98%, and our innovation pipeline is resonating very well.

If you look ahead, we did reaffirm our guidance in the range of $1 billion to $1.3 billion, and I think that takes into consideration the confidence that we have in the operating environment, but also the sustainable progress we've made in the first half of the year. But I think we also have to layer in as a consideration, investments that we'll be making in the back half of the year, primarily to strengthen and extend our number one share and value-added retail food service. We also have to consider our diversified pricing models. It's worth recalling that we utilize those models with our customers, many of which are linked to grain markets to build stable margins over time, and to just factoring in the overall macroeconomic environment.

Operator
Thank you. And our next question today comes from Peter Galbo at Bank of America. Please go ahead.

Peter Galbo
Good morning. Thank you for taking the questions. Donnie, I actually wanted to start on the changes in the cold storage facilities that came out. I think you mentioned $200 million of annual savings, and that's maybe over a five-year period. And as I dug through the 10-Q, it looks like that will mostly be split between Chicken and Prepared Foods. So maybe just two things. One, if we could get a little bit more detail on that breakout that you're anticipating, again, realizing it's over the long term. And two, obviously, this has been an ongoing discussion probably for quite a bit of time, but what kind of led finally to pulling the trigger on this? Is it part of the broader, again, restructuring as we think about the margin profile and sustainability of higher margins for Chicken and Prepared going forward?

Donnie King
Thanks, Peter. I think you largely answered the question in some of your comments, but just let me reaffirm those things for you. We've talked now for a couple of years about assessing every facet of our business. And I'll tell you, when we looked at our logistics network, we identified some things that we didn't like. We identified opportunities for improvement. And Brady Stewart and that team that works on this have been working on this for well over a year in terms of trying to get to this point. Since Brady and his team did all the work, let me ask him to deliver some details behind the project.

Brady Stewart
Thanks, Donnie. And as you mentioned, I specifically want to call out the team for laying out a really appropriate strategy. Today, our network is too complex and too costly, so we saw an opportunity to really right size our network that allows us to continue to grow into the future, but also bring cash into the enterprise as well. And so, we mentioned the length of time associated with this transition and transformation, and it's really important to understand that there's new cold storages that will be built that will get our products closer to customers, which reduces the total number of miles, reduces our carbon footprint in delivering our products to our customers and ultimately, we'll deliver that over $200 million in annual savings as we move out three to five years from now.

Peter Galbo
And Brady, just before I move on to my next question, just a rough split on that $200 million between the two?

Curt Calaway
This is Curt. I don't know that we have that for today. I think go back to the statement, I think this network is principally for our Poultry and Prepared business, very little utilization of the network that Brady is

speaking to for Beef and Pork. So, it is all under the normal or relative share split, if you will, based on the volumes that are moving through the Poultry and Prepared Foods items.

Peter Galbo
Got it, that’s helpful. And maybe just one, I don’t know it is probably a bit of a jump ball in terms of the question, but in Prepared Foods specifically, I think, again, in the Q you called out higher raw material costs, so maybe you got to the margin you did based on SG&A. I'm just curious how we should think about the go-forward there? Listening to some of your peers, they're obviously baking in higher raw materials, but are we getting to the numbers really just kind of on lower SG&A going forward? That obviously has implications for the top line, so just wanted to understand that. Thanks.

Brady Stewart
Sure. And thanks for the question, Peter. This is Brady again. Number one, I think it's really important to understand that we're very excited about our Prepared Foods business, and this comes in a multitude of different areas. Number one is we're excited about the team we have in place and the true management operating system that that team is placing, and we're excited about our brands. We have leading brands that will continue to play a part with our customers and our consumers as well. And so, when you really look out in front, it's important to understand, I think, really in three different buckets that create the excitement. Number one is from an innovation perspective. Donnie in his prepared remarks commented on our innovation coming with Wright brand premium sausage. He commented on the amazing growth we've had from the Hillshire snacking platform, and he commented on the innovation we brought forth with the success with our Jimmy Dean chicken biscuit as well.

On top of that, we have one of the most robust innovation pipelines in the history of Tyson Foods, and we're extremely excited that we have the innovation coming within the next year in every single one of our core categories for Prepared Foods. And that’s going to drive us from a growth perspective into the future.

Second is from a distribution perspective. We continue to see distribution gains. Again, our product is in the right place for our consumers to continue to have access to them.

And then lastly, we are really supporting innovation and distribution with core fundamentals. Donnie mentioned in his opening remarks as well that we have strengthened our foundation through operational improvements, and that comes in the form of both distribution that comes in the future relative to our supply chain announcement. It also comes relative to the improvements we've seen from an operations perspective in our manufacturing assets. So, I think when you parlay all three of those items on top of each other, again, we're very excited about our Prepared Foods business.

Donnie King
So, if I could add just one thing too, a couple of things to what Brady has said. If you think about our Prepared Foods business since we made the major acquisition of Hillshire in 2014, this business today, we're literally putting it together from end to end, from operations through supply chain, through trade and map, efficiency, management, growing with strategic customers, investing behind the brands, we're doing a lot of things. This has been a, let's call it, a 9% to 10% business. We think it's better than that. And we believe the unlocks that we have before us, our proof points for the delivery of something north of a 10% return on sales as it relates to our Prepared Foods business.

I wouldn’t say we're in early innings, but maybe mid innings as it relates to Prepared Foods. But there's going to be a better day in Prepared Foods than even what we see today.

Peter Galbo

Great. Thanks very much, guys.

Operator
Thank you. And our next question today comes from Ken Goldman at J.P. Morgan. Please go ahead.

Kenneth Goldman
Hi, to follow-up on that last question, I really do appreciate all the efforts that are being made in Prepared Foods and certainly it seems just optically from an external angle that there is upside to margin. I think what the question that I get sometimes and that I wanted to put to you a little bit is when do we start to see a real uptick, meaningful uptick right above 10% on a sustainable basis? Obviously, not perfectly above 10% every quarter, so a little bit on the timing. And then secondly, sort of what's different this time, I guess, is one of the questions I get also? We've heard from Tyson a level of optimism for many years right now about Prepared Foods getting above 10%, it hasn't really stuck at that level. So just kind of wanted to get a sense for those two if it makes sense.

Donnie King
Sure, Ken. Good morning and fair question as it relates to Prepared Foods. If I look at Prepared Foods and let's call it earlier days, prior days, Prepared Foods, depending on the quarter and the timing, you would see one element of the business performing well, and that was typically large enough to get us into 9% to 10%. What we're describing to you today, and Brady can speak in greater detail to this, is that we have process in place for every phase of the game from end to end to improve the performance of this business. We believe there is tremendous upside to this Prepared Foods business. And I would tell you, and I don't know how to correct the fact that we haven't done what you thought we would do in the past other than to be able to show you that we're going to deliver what we said we're going to do, but this Prepared Foods business, operationally, supply chain, from a trade and map perspective, from a customer relationship growing across multiple channels is doing all the right things today, and it's on purpose and led by Kyle Marin [ph] and Brady and that team.

Brady, do you want to add anything to that that I haven't?

Brady Stewart
Thanks, Donnie. Really, really well said. And number one is just to get back to the foundation, the team has really laid in a management operating system that is truly sustainable. And so, to be able to continue to improve on our manufacturing costs and supply chain costs, really highlighting our line and labor efficiency, our yield improvements we've seen as well and in benchmarking against engineered standards across our entire network, really lays the foundation for us to continue to build on. And then lastly is this innovation pipeline that we have, I am extremely proud of the team to put this together with our growth team, the R&D team and our business management team as well. This really provides us a huge platform to leapfrog into the future.

Kenneth Goldman
Okay, thank you. I appreciate that. Then just a quick question on chicken demand. It feels like within Quick Service more items are being added to menus every week. There are articles increasingly on that topic. And so, it's becoming I think apparent to some observers that maybe chicken demand at QSR would be a little bit better than what people had initially hoped. At the same time, the QSR channel maybe has some of its own challenges. So just kind of want to get a sense for what's in your guidance for QSR chicken demand now as opposed to a few months ago in light of some of those puts and takes?

Donnie King
Sure. Well, I mean, I will give you my short answer to that. And if you look at the macro environment, when food will be consumed away from home, typically in an environment like this you would see QSR

growth. And particularly within the QSR business you're going to see chicken perform. I think that it would be reasonable to think that that will occur again. I think that we see signs of that going on today. And the demand there for our business, even in food service is still quite strong.

So let me flip it over, Ken, to Devin and I'll let him add some color around that.

Devin Cole
Maybe just a couple of points there. I mean, I think relative to the QSR arena, we did see strong growth within the quarter with double-digit growth within that portfolio. We see the same thing you do with continued promotional activity throughout spring and summer, so we're encouraged by that. But I'll also tell you that it's bigger than that for us. We have a broad portfolio across all of our foodservice categories as well as retail, and we did see growth within retail at our value-added and deli offerings. So, I would just say that as we look across all of our customer base, we do continue to partner with them and we're able to provide options that consumers are increasingly looking for, for convenience and value, so we feel good about our overall volume outlook.

Kenneth Goldman
Great, thank you.

Operator
Thank you. And our next question today comes from Ben Theurer with Barclays. Please go ahead.

Benjamin Theurer
Hi, good morning, Donnie and Curt. Just a first question maybe on beef and just the general environment. So, it feels like you only had a small volume drop in the quarter that could almost be explained by just the leap year and some of the calendar effect. So just wanted to understand a little bit better what you're seeing in terms of supply of cattle and the cost of that into your operations and how you think about the earlier signs maybe as to some of the heifer retention, is that building or not? So how should we think about just beef throughout the cycle, are we at the bottom or is it just still too early to tell? That would be my first question.

Donnie King
Sure, Ben. Let me add a little bit to the demand softness that you talked about in our 2Q. That happens every year with us. It's not unusual to see a seasonal demand softness in Q2. So, we didn't see that as anything notable really other than the fact that it was that time of year. But I'll give it to Brady to talk about the supply heifer retention and volumes.

Brady Stewart
Thanks, Donnie. And Ben, I think it's important to note that cattle on feed from a weight perspective are extremely heavy. We're at record weights throughout the business as well. So, we're seeing some weights that is offsetting from a volume perspective. Some of the lower headcounts we're seeing as the supply has been obviously lower than a year ago.

Relative to heifer retention, I would just say this, and Curt has mentioned this before, if we're not at the bottom relative to cow inventories, we can definitely see it from here as well. And I think a couple of reference points behind that certainly would be we've seen an extreme drop, almost 18% in beef cow harvest numbers. And then secondary to that is we have seen a drop relative to heifers on feed, which means that the heifers are not on feed they're being retained by farmers and ranchers as well, and we're seeing a 4% drop in heifers year-over-year as well. So, I think the signs are really aligning to a rebuild to start to occur. And from a liquidation standpoint, really seeing the bottom at this point as well.

Benjamin Theurer
Okay, perfect. Thank you very much for that. And then my second question really is just about the international business. Clearly, there was a pretty significant improvement on a year-over-year basis, and we're looking at it on a six-month basis, it's a massive difference versus last year. So, help us maybe understand, and I know in past you've talked a lot about international being an important part of the growth journey, but what have you done different and actually executed on to start to see the fruits and the benefits of all these investments that you had in years past to drive international? And what's the level you think about international could contribute on an annual basis beyond maybe what is your fiscal guidance for 2025?

Devin Cole
Sure, this is Devin. I appreciate you bringing that up, and I'll make this perhaps sound simpler than it really is, meaning that it's really about the work that our team has accomplished. It's one thing to have a strategy, and it's a completely different thing to have execution against the strategy, and we have both in this area. We have simply improved our operational fundamentals and we've also executed a very good commercial growth strategy. You can see that in the results. And in fact, it is our strongest quarter on record.

Looking ahead, there were some overall benefits in the quarter related to one-time impacts; however, we expect to continue on this path. That will be favorable certainly in the prior year and in line with our expectations. I do expect the performance in the back half of the year could be affected by the macroeconomic environment because certainly, the consumer around the world is not immune to some of the economic challenges that we see. But listen, overall, we feel great about the team, we feel great about the strategy and the future of the global business and our portfolio remains important to us.

Benjamin Theurer
Thank you very much.

Operator
Thank you. And our next question today comes from Thomas Palmer at Citi. Please go ahead.

Thomas Palmer
Good morning and thanks for the question. Maybe just to start out, any help as we think about third quarter expectations? I mean if I look at industry trends and general seasonality, it would seem like chicken typically is better in the third quarter than the second quarter from a profit standpoint, maybe pork a little bit weaker, just any help us kind of thinking through what we just saw this past quarter and kind of what you're anticipating as we roll into the third quarter? Thank you.

Curt Calaway
Thanks. This is Curt. Maybe start off with how we're thinking about the year. Obviously, we don't give individual quarter guidance. But I think the basis of your question was, look, from a chicken standpoint, the first half of the year, generating about $680 million. Obviously, as Devin had said earlier, still a range of $1 billion to $1.3 billion, but we acknowledge it definitely is a constructive operating environment that we're in. But hurry on to repeat Devin's comments, we'll continue to make some investments but a little heavier weight in the back half of the year. But for the overall year, we would still expect to be at or above the midpoint in the upper half of the range for chicken.

Certainly, pork delivering well so far, $114 million on a year-to-date basis with a range of $100 million to $200 million, so we'll leave it to you to kind of imply where that will be. Certainly, it is a business that generally has a positive strong our Q1 and a strong first half of the year relative to normal historical cycles but acknowledging at $114 million over the low end of the range thus far.

Donnie King
So maybe add a couple of comments to the guidance. Just speaking very generally about the business, if you look at our Beef business, and I realize it's losing money today, but our beef business, the team that lead our beef business are operating at a very, very high level. The execution from what I've seen has never been better than what we see today from our beef business.

From a pork perspective, our Pork business is performing very, very well. You saw it in the numbers. Just the management operating systems that we have in place in both beef and pork, some technology that we've deployed against those businesses is certainly helping with that. You saw in chicken a very constructive Q1, got a lot of momentum and there will be some investments in brands on the Tyson brand in the back half of the year. That's the kind of the $1 billion to $1.3 billion kind of conversation.

And then if I think about Prepared, I laid out earlier today that there's a lot of upside to Prepared. We're in kind of mid innings, if you will, in terms of performance in Prepared, but there's a lot of upside for us as a company.

In our International business, it's a smaller business that we have, but their strategy they have in place and their execution against that strategy is really, really good.

And then maybe finally, as it relates to consumers and customers, we're aligned with strategic customers and feel good about those relationships, and we're growing their business and thereby growing our business. But from a consumer perspective, in this environment, wherever that consumer is we're intersecting with that consumer and we provide high-end or value tier propositions for those consumers. So, we feel good about all of those and the business in general.

Thomas Palmer
Thanks for that walk-through. Maybe I could just follow-up quickly on International. Why has it been so strong in the past couple of quarters and I guess how persistent do you think the drivers of that might be?

Devin Cole
So maybe just to repeat, I mean, it really is as simple as we set out a year ago with a very defined strategy knowing that we needed to be better at our operational fundamentals. And I think the result of that is, one, we run more efficient operations, more profitable operations. But what it's really done is allowed us to go to our customers with a case that's equal to or better than what we see from our competitors, meaning we have innovation pipelines, we have competitive costs, we have talent, we have everybody aligned against that strategy. So again, it is around the operational fundamentals and getting our facilities where they need to be from a commercial growth strategy, and I don't see that changing. Those things are very well defined. We have a great leadership team in place, and everybody is working towards the same strategy.

Thomas Palmer
Okay, thank you.

Operator
Thank you. And our next question comes from Andrew Strelzik of BMO. Please go ahead.

Andrew Strelzik
Hey, good morning. Thanks for taking the questions. My first one is back on the outlook for chicken. You mentioned some uncertainty and also the investments. I was just hoping you could elaborate a little bit on both of those factors. So, can you maybe compare or quantify the investments in chicken in the back

half of the year versus the front half of the year, and has that expectation changed at all over the last several months? And then on the uncertainties, are those really trade related or is there something else? I guess I would have thought with some of your lags on pricing, you'd have visibility through the third quarter at this point.

Devin Cole
So maybe let me break that up just a little bit. The investment itself, we've talked about an incremental $100 million year-over-year in FY 2025, and that's going to be weighted more towards the back half. We do have some new product launches, and we've also got some work going on with our strategic customers. But I would say, too, that it's not just about trade and marketing spend, necessarily. We've also made some significant investments to make sure that we've got the right quality, particularly with our retail products, branded retail products, and we've also made sure that we got the right packaging in place to make sure that we're meeting the needs of the shopper, including those that are increasingly utilizing delivery pickup.

I think too about the innovation piece of our business will be not only critical in the quarter and the year but beyond, and everything that we're doing starts with consumer insights. We are reaching our consumers through digital platforms, and that's part of the spend that we've talked about. And then we use data to make sure that we're getting a return on those investments. But across all those things, that's really where that spend is occurring, and we feel very good about what that will mean for the future of the business.

Again, you mentioned pricing, just to touch on that. Overall pricing is very healthy. We did see a slight decline on average sales price in the quarter primarily due to some cost plus pricing models that we have. But think about it this way. We mentioned before, we utilize a very diverse set of pricing models by design, and that's everything from negotiated to fixed price. We have grain-based, cost-plus formulas, and we've even got some margin-based pricing. And ultimately, those are all designed to evolve our commercial relationships, build these long-term relationships, and allow us to focus on growing the category and really stabilize our earnings.

Curt Calaway
Maybe just to add a couple of things really quick. I think your question touched on consumer or customer uncertainty or the impact of trade flows. I think what we intended to talk about there is the consumer will continue to move around in what they're choosing to buy and elements of the population will see value. I think we're set up to be able to position our offerings to the customers and consumers to meet those needs. And that investment in the back half that we talked about will be a little more incremental in the back half than the front half. But reiterate what we said, we're still expecting to be at or above the midpoint of the range that we gave, which with a $680 million first half of the year, even at the high end of the range, $1.3 billion, that's $620 million in the back half of the year. That's the context we want you to make sure you understand from that.

Andrew Strelzik
Got it. Okay. That's helpful. And then my other question was just more specifically on tariffs. Have you seen any changes in export trade flows related to that or any impacts on your business so far, either pull forward on demand, shifts away from the US to other countries? I'm just curious how you're seeing that so far and how you're handicapping that in your outlook. Thanks.

Donnie King
Sure. Let me give you the punchline first. We do not expect global protein consumption to change. That's our top line view as it relates to that. There could be temporary short-term disruptions that as global trade flows adjust, we anticipate that. But as we talked about last quarter, we've been contingency planning to

minimize disruptions to both trade and supply chain. And frankly, we've been doing this for 90 years. There have been tariffs, there have been nontrade tariff barriers, there have been all of those things, and we're confident in our ability to tap and succeed. We're certainly interested in working with the administration and Congress to try to resolve this sooner rather than later, but we feel good about where we are and what we have done, we have factored everything as it relates to tariffs and consumer pressure and so forth into our guidance.

Andrew Strelzik
Great, thank you very much.

Operator
Thank you. And our next question comes from Michael Lavery with Piper Sandler. Please go ahead.

Michael Lavery
Thank you, good morning. I just want to come back to beef. Obviously, there's a lot of challenges there, but one thing that's proven to be better than we'd expected or feared is the consumer demand even as pricing has been sticky and going up, the revenues have been growing nicely. So maybe any sense of just what you're seeing there. Is it driven by more of a higher-end consumer? Help us maybe understand just what's helping keep that sales growth momentum going.

Donnie King
Yes, it's a great question, Michael. And obviously, the consumer has been extremely resilient relative to beef. We've seen appropriate strength on middle meats, but I think what's really held [indiscernible] at such a high level has been some of the values that are being derived through the grinds complex as well. And regardless of format, if it's in the format of a patty, if it's in ground beef and chubs, we've really seen a lot of resiliency in it. That provides us some benefits all the way from the chuck to the round as well. And so, I would highlight the resiliency and opportunity for a consumer to potentially move from middle meats down into ground beef and consumers are going to continue to eat beef. And I think that's really the highlight is they still have the opportunity to move into these grinds complexes from some of the middle meats as well.

Michael Lavery
Okay. That's great. That's helpful. And just a follow-up on the regulatory environment. Is there a sense for what your exposure is to SNAP recipient households and if there's some cutback or dial back in what those benefits look like, have you been able to quantify what, if any, risk you think that might give?

Donnie King
This is Donnie. This is a little bit across the board or all over the board, I should say, but interestingly enough, here in Arkansas, about a month ago, our Governor sought a waiver from USDA to substitute rotisserie chicken into the SNAP program as opposed to some candy and sweet goods and so forth. And so, we see that catching on across the country. We see protein, as we talked about or I talked about in the earlier comments, we're seeing US meat sales at all-time high. In 2024, 98% of household penetration. So, protein is clearly a winner in the marketplace, whether that's chicken, beef, pork or turkey. So, we feel good about that. I have no specifics as it relates to what the economic value is in terms of SNAP and how that may trade and how the administration may do it. But once we know, we will certainly make you aware of that.

Michael Lavery
Okay, thanks so much.

Operator

Thank you. And our next question today comes from Pooran Sharma with Stephens Inc. please go ahead.

Pooran Sharma
Great, thanks for the questions. Just wanted to ask, operationally, we had a pretty cold winter across many parts of the US. I just want to understand if you could help us qualitatively or if you could quantify any cold weather impacts. I will say I was impressed, continue to be impressed by chicken, but I get the sense that maybe you were impacted with the cold weather and you could have done a little bit better, but I'll stop there and see what color you have to share.

Donnie King
Sure. I would tell you that early Q2, we certainly had weather disruptions in the central part of the country, up and down the East Coast. We often see snow, ice, tornadoes, hurricanes. I mean, honestly, you get to see it all. But we manage our business to be able to deliver in spite of those things and we try to keep our team members safe through those processes and our animals safe and alive during those processes. And I think we fared very well early in the quarter, but it did cost us some money.

Curt Calaway
Yes. This is Curt. I wouldn't call it anything where it was materially different than historical norms. I think to add to what Donnie said, the benefit of our network and portfolio as we prepare for winter storms, specifically as you referenced, moving within the network and optimizing as best as we can. And while it was certainly a challenging Q2 given the weather, we are accustomed to dealing with that.

Pooran Sharma
Great. Appreciate the color there. I guess my follow-up will just be just pork related. Hog supplies have been coming a little bit lighter than expected. I wanted to get a sense if you think the industry is continuing to rationalize production or supplies or if this is just temporary disruptions, i.e., weather, disease related. How do you expect supply availability to trend through the back half of the year?

Brady Stewart
Great question. I think the real reference point is the fact that if you look at a lot of the models that are published, the pork producer is able to be profitable, which is a great reversal from a couple of years ago as well. So that certainly provides some financial continuity and stability to continue to keep the sows productive.

Second part of that is we continue to see opportunity relative to genetic improvement in herd health from a sow perspective. And so those productivities in terms of pigs per litter continue to be on an upward trajectory, which is positive relative to supply as well.

And then lastly, as we come out of our fiscal Q2, I think it's important to note that we kind of move out of disease season relative to pork production, so you see some of those impacts that certainly flow through. But from a supply perspective, we don't see any large disruptions and our outlook for the rest of the year is really to continue to layer into our operational improvements that we've seen year-to-date. We have plenty of runway left that the team is executing to that we would expect to offset any supply disruptions.

Pooran Sharma
Thank you for the color.

Operator
Thank you. And our next question today comes from Heather Jones with Heather Jones Research. Please go ahead.

Heather Jones
Good morning and thanks for the question. I'll try to be quick. My first one is on beef and then my follow-up will be on chicken. The first one, beef and pork, if I remember correctly, I don't think your initial guidance included an impact from tariffs and it now does. So, is it fair to assume that if those are resolved relatively quickly, there's potential upside to guidance?

Curt Calaway
This is Curt. I think I'll start out really quick. In the last quarter, we did reference that our ranges included our outlook and impact associated with tariffs. Certainly, it was early days when we were on the call last quarter, but we did consider that in the prior quarter.

Heather Jones
Okay. And then on the chicken front, I hate to belabor this, but it's obviously a very constructive setup and you all tend to be long dark meat, which has been on fire. So, I was just wondering, you referenced the $100 million investment, which I've talked about all along. I was wondering, given your move to feeder plants and just the inherent advantage that gives you relative to your peers, are you also planning on investing more in the pricing side to protect and gain share? I'm still having trouble reconciling your second half implied guide with the backdrop we have and it doesn't seem to add to just $100 million, so just trying to figure that out? Thank you.

Donnie King
Sure. I'm not sure I can help you, but let me give you some of the components of this. If you think about from a dark meat, I'm not clear about what you're meaning with that. What I can tell you is 95% of the dark meat we produce is sold domestically, so that's one proof point. If you look at what we've done relative to adding value to dark meat, whether that be boneless, skinless, retail, or more value-added products as it relates to dark meat, we've been on a journey to convert more of the commodity into value-added or premiums and we haven't stopped that journey. So, we feel good about that. We also said from a guidance standpoint that we thought we'd be middle range to upper range. The factors we considered there were really two. One was the year-to-date momentum would push you to the top of the range and the investment back in the brand, plus any consumer pressure or tariff unknowns or activity, we've built that into this model. So, we're comfortable with the $1 billion to $1 3 billion. Devin, do you want to—

Curt Calaway
This is Curt. Let me add just for a second. Just to go back, Heather, on the reference I made on an earlier question, we made $680 million in the front half of the year. At the high end of our range, that would imply a back half of $620 million or down to 60 versus the front half. Again, we said we'd be at or above the upper half. Hopefully, that gives you a little bit of context relative to the spend of the $100 million. And so, to reiterate, the dark meat comment, from an overall perspective, overall chicken, about 95% of the total revenue in chicken gets sold domestically.

Heather Jones
Okay, thank you so much.

Operator
Thank you. And our next question comes from Manav Gupta with UBS. Please go ahead.

Manav Gupta
Thank you for squeezing me. I'll ask two questions very quickly. You continue to generate significant amount of free cash flow, so what could be the policy for better shareholder returns given the amount of free cash flow you're generating?

And my second question here is, given the downturn we are generally seeing in an economy and your strong balance sheet, any opportunities for small bolt-on acquisitions that you see out there and in which business segments could you target for small bolt-on deals? Thank you.

Curt Calaway
This is Curt. Thanks for the question. From a free cash flow standpoint in the first half of the year, we were just a little shy of $400 million. We still provided a guidance range for the full year of free cash flow between $1 billion and $1.6 billion. At our run rate of dividends, we've spent about $700 million on dividends for the full year. Our leverage, certainly acknowledging we've made significant improvement over the last six quarters going from 4.1x to 2.3x, our long-term goal is still at 2x. So, we have a little bit of ways to go before we get to our ultimate goal.

And with respect to M&A, our stance remains the same. We look at opportunities, but we're very selective in what we choose to look at. But overall context, still looking at opportunities more in the value-added parts of our portfolio.

Manav Gupta
Thank you.

CONCLUSION

Operator
That 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 time and continued interest in Tyson Foods. We look forward to sharing our progress with you next quarter.

Operator
Thank you. This concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.