

Tyson Foods, Inc.

Third Quarter 2025 Earnings Call

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CORPORATE PARTICIPANTS

Sean Cornett - *Vice President of Investor Relations*

Donnie King – *President and Chief Executive Officer*

Curt Calaway - *Chief Financial Officer*

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

Devin Cole - *Group President of Poultry and Global Business Unit*

Kristina Lambert - *Chief Growth Officer*

PRESENTATION

Operator

Good morning, everyone, and welcome to the Tyson Foods Third 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 and then one using a touchtone telephone. To withdraw your question, you may press star and two. Please also note, today's event is being recorded.

At this time, I'd like to turn the conference over to Sean Cornett, VP, Investor Relations. Sir, please go ahead.

Sean Cornett

Good morning, and welcome to Tyson Foods' Third 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 and Pork and Chief Supply Chain Officer; Devin Cole, Group President, Poultry and Global Business Unit; and Kristina Lambert, Chief Growth Officer.

We have also provided a supplemental presentation, which may be referenced on today's call and is available on Tyson's Investor Relations website and via the link in our webcast.

During today's call we will make forward-looking statements regarding our expectations for the future. These forward-looking statements made during this call are provided pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include all comments reflecting our expectations, assumptions or beliefs about future events or performance that do not relate solely to historical periods. These forward-looking statements are subject to risks, uncertainties and assumptions which may cause actual results to differ materially from our current projections. Please refer to our forward-looking statements 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 for our fiscal periods unless otherwise noted. For reconciliations of these non-GAAP measures to their corresponding GAAP measures, please refer to our earnings press release.

Now I'll turn the call over to Donnie.

Donnie King

Thanks, Sean, and thank you to those joining us on the call. Let me begin by saying that I'm pleased with our performance this quarter, and we've driven results in line with my expectations. Sales, adjusted operating income and adjusted earnings per share all grew year-over-year, marking our fifth consecutive quarter of year-over-year growth across each of these key metrics. This was no accident. We're driving efficiencies across all businesses while delivering growth with world-class service and value for our customers and with innovation for our consumers.

Our total volume was roughly flat to last year, while Nielsen data shows that we grew retail branded volumes across Prepared Foods and Chicken. We also grew volume and dollar share in aggregate across our top 10 categories, including Tyson branded frozen chicken, Hillshire Farm's snacking and lunch meat as well as Jimmy Dean breakfast products.

Growth in profitability versus last year was driven by our Prepared Foods, Chicken and Pork segments, each delivering double-digit growth in adjusted operating income. The only soft spot in our business is the Beef segment. With cattle availability at record lows, we continue to experience industry market headwinds. But even in this difficult environment, we are improving our fundamentals with increased prioritization on efficiencies, reducing costs and bringing innovative new products to market.

We're poised to capitalize on tremendous opportunity ahead of us, as we believe heifer retention has likely now begun and cattle availability should improve in coming years. We continue to take meaningful steps forward in building our financial strength, with net leverage improving year-over-year and sequentially, a direct result of deliberate actions and disciplined capital allocation. Simply put, our strategy is working, and we are finding ways to win in today's market.

As you know, consumers generally remain cautious and more selective in how they spend. Nielsen data shows food and beverage retail volume remained steady versus last year during the 13 weeks ending in June. However, protein continues to be the right place to play, and beef, pork and chicken are all clear winners with consumers.

Now let's take a closer look at our branded retail performance in Q3. Volume across these products grew 1.5%, far outpacing total food and beverage. Dollar sales grew 2%. This growth was led primarily by Tyson branded frozen value-added chicken, which saw a 10% increase in volume sales driven by our brand relaunch and strong performance. We are meeting consumers where they are, and you can see that in new innovations like our Tyson Simple Ingredient Nuggets, developed for those seeking high protein and simple ingredients with chicken, cheese and seasoning, a great taste without compromise.

We also launched fun, family-friendly products like Mega Dino Nuggets that are driving engagement and incremental eating occasions. Our volume share increased 130 basis points, and we're growing off a base where we are the market share leader. We're especially pleased with the momentum in our snacking portfolio, where volume grew 20% and share increased 110 basis points, led by strong performance from Hillshire brand snacks. Our Jimmy Dean breakfast lines and Hillshire Farm lunch meat also delivered solid volume growth in the 13-week period ending in June.

Innovation, distribution gains and efficient marketing and promotional support are strengthening our brands and keeping us competitive in the marketplace. And importantly, as consumers look to the perimeter of the store, we are also offering high-quality fresh options, where our Tyson branded fresh chicken volume grew 2.3%. As a world-class food company and recognized leader in protein, Tyson Foods is well positioned to meet the robust consumer demand for protein.

Now, let's walk through segment performance. Prepared Foods delivered a strong third quarter, with adjusted operating income up more than 21% and margins expanding by 150 basis points, reflecting continued progress on our multiyear plan to enhance profitability in this business. Importantly, the segment returned to top line growth in the quarter, successfully navigating higher raw material costs and improved product mix within and across channels.

Innovation and expanded distribution remain key pillars of our strategy, driving both top and bottom line growth. And as mentioned earlier, our Hillshire snacking dips and spreads are contributing to volume and share gains at retail.

We're also leveraging our brand equity to thoughtfully expand into new spaces. We're launching new Hillshire Farm handhelds featuring Ham and Cheese, Buffalo Style Chicken and Philly Cheesesteak, all designed to meet growing consumer demand for convenient high-protein options. This marks an exciting step into a new platform for the Hillshire brand and reinforces that we have our most robust innovation

pipeline ever as well as our commitment to innovation across the company.

Our operational execution initiatives contributed to profit growth in Q3 and helped offset continued cost pressure from raw material inflation. We have strengthened our S&OP process and unlocked efficiencies in our plants, driving fill rates above 98% in the third quarter, the highest since 2019. This has enabled us to better serve our customers with greater consistency and reliability. These improvements have also helped by ensuring that we have the right product in the right place at the right time.

We are working to culturize within Prepared Foods, the operational discipline that's critical in our other businesses while adding new tools and analytics to eliminate inefficiencies and reduce waste. There's still more work to do, but we are encouraged by the progress and excited about the long runway for growth and profit improvement in Prepared Foods.

Chicken delivered another quarter of solid top and bottom line growth, including our third consecutive quarter of year-over-year volume growth. Value-added volume grew at more than 3.5x the rate of total segment volume, driving a favorable mix shift that is positively impacting both sales and earnings. Adjusted operating income rose more than 12%, building on a very strong base from Q3 last year. With grain costs roughly in line with last year, profit growth this quarter came mainly from incremental efficiencies we've unlocked across our plant network. We have made significant strides in transforming our Chicken business over the past two years and haven't taken our eye off the ball in driving operational excellence.,

In Beef, as you know, we continue to navigate the cattle cycle. Cattle supply is noticeably tighter than a year ago, which significantly compressed spreads in the quarter despite resilient consumer demand. We are managing this market environment with discipline, controlling what we can across the supply chain to meet customer needs. We're also seeing benefits from the network optimization efforts that shifted further processing volumes back into our harvest facilities. At the same time, we're enhancing our value-added mix with the help of new data and analytics capabilities that support smarter, faster decision-making. These steps are helping to fortify the foundation for a more resilient and agile Beef business, both today and over the long term.

In Pork, we delivered our strongest third quarter adjusted operating income in four years, reflecting the purposeful actions we've taken to improve our operations. Like Beef, we increased our capacity utilization by optimizing our network and enhancing our value-added mix. We have improved labor and asset efficiency through operational excellence. We have built a fundamentally better Pork business, and this quarter's results reflect that progress.

In closing, we are executing our strategy, controlling the controllables and finding ways to win in today's market.

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

Curt Calaway

Thanks, Donnie. Third quarter enterprise sales grew 4% to \$13.9 billion, led by Beef, with solid contributions from Chicken and Prepared Foods, reflecting the healthy demand environment for protein. Adjusted operating income was \$505 million, up 2.9%, driven by strong growth in Chicken, Prepared Foods and Pork, all of which helped offset the decline in Beef. Adjusted earnings per share grew 4.6% to \$0.91. And as Donnie mentioned, this is the fifth consecutive quarter of year-over-year growth across sales, adjusted operating income and adjusted earnings per share. Our multi-protein, multichannel portfolio, combined with our team's attention on operational execution in a dynamic macro environment continues to deliver results.

Turning to the third quarter segment performance. In Prepared Foods, sales were up 3.4% versus last year, primarily driven by progress on raw material cost recovery, while continuing to enhance our product mix. Adjusted operating income increased 21% and margin improved by 150 basis points versus last year. Benefits from mix as well as continued progress on our operational execution initiatives drove the increase in profitability and more than offset ongoing net raw material cost increases.

In Chicken, we delivered another quarter of solid top line performance, with sales up 3.5% year-over-year. Volume contributed two-thirds of the increase, including a notable contribution from value-added product sales, which also drove a favorable mix reflected in price. Adjusted operating income increased 12%, as we continue to drive efficiencies in our plants and capture the benefits of top line growth. As we discussed last quarter, we increased our brand support investment, both year-over-year and sequentially, to continue growing our value-added product sales.

Sales in Beef increased, primarily due to a higher average price per pound, reflecting ongoing healthy demand. This offset lower harvest volume from an increasingly tight cattle supply. Adjusted operating income declined as spreads compressed noticeably versus last year, driven primarily by higher cattle costs.

In Pork, sales were roughly flat, excluding the impact of a legal contingency accrual taken in the third quarter last year. Adjusted operating income increased 64%, highlighting the benefits from network optimization and operational efficiencies, leading to the strongest third quarter results since 2021.

Turning to our financial position. Our approach to capital allocation remains disciplined and deliberate. We are focused on maintaining financial strength, investing in the business and returning cash to shareholders. Year-to-date operating cash flow was \$1.6 billion, and capital expenditures were \$691 million, resulting in free cash flow of \$929 million, well ahead of year-to-date dividends, which were \$524 million. We ended the quarter with \$4 billion in liquidity and net leverage at 2.1x. We have successfully reduced net leverage by nearly a full turn over the past year.

With leverage continuing to decline and cash flows remaining strong, we restarted open market share repurchases under our share repurchase program late in the quarter, the first since Q1 of 2023. In fact, we returned \$201 million to shareholders through dividends and repurchases this quarter. While dividends remain our primary way of returning cash to shareholders, at current valuation, we believe share repurchases represent a very attractive opportunity. 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 updated outlook for 2025. We are raising our overall guidance based on our year-to-date performance and a solid outlook for the fourth quarter. We now anticipate full year sales to be up 2% to 3% year-over-year. We are raising the midpoint and narrowing the range for total company adjusted operating income, which we expect to be between \$2.1 billion to \$2.3 billion, delivering significant growth versus last year across the entire range. We still anticipate interest expense of approximately \$375 million and a tax rate of around 25%. We remain disciplined in managing cash, with CapEx expected to be at or below \$1 billion and free cash flow in the range of \$1 billion to \$1.3 billion.

Now to provide more color on our segment outlook. In Prepared Foods, we expect adjusted operating income in the range of \$925 million to \$1 billion. Our improvement plan is delivering results and offsetting significantly higher raw material costs. We are raising our adjusted operating income guidance for Chicken to \$1.3 billion to \$1.4 billion, highlighting significant year-over-year growth of 33% at the midpoint. Based on year-to-date performance and the tight cattle supply conditions, we now expect adjusted

operating income in Beef to be between a loss of \$475 million and \$375 million. We are tightening the guidance for Pork to the high end of the range, anticipating \$175 million to \$200 million. Our International business has performed well this year, driven by effectively managing controllable costs, maximizing efficiencies and lowering conversion costs. We now expect adjusted operating income in International Other to be roughly \$125 million.

That covers our segment performance and financial highlights. Now I'll turn the call over to Donnie.

Donnie King

Thanks, Curt. I'm pleased with what we have accomplished, driven by the dedication of our team and encouraged about our future. Our diverse protein portfolio, commitment to innovation, focus on operational excellence and a healthy balance sheet continue to position us as a leader, meeting the growing market demand for protein while delivering value to our customers, consumers and shareholders.

Thank you to our team members for all you do, and of course to those on the call for your ongoing support of Tyson Foods. Now I'll hand things back to Sean as we move to Q&A.

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 to both our prepared remarks and the following Q&A. Operator, please provide the Q&A instructions.

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, at this time we will begin the question and answer session. To ask a question, you may press star and then one on your touchtone phones. If you are using a speakerphone, we do ask that you please pick up your handset before pressing the keys. To withdraw your question, you may press star and two. Again, we please ask that you do limit yourselves to one question and one follow up. If you do have additional questions, you may re-enter the question queue. At this time, we'll pause momentarily to assemble the roster.

And our first question today comes from Leah Jordan from Goldman Sachs. Please go ahead with your question.

Leah Jordan

Thank you. Good morning and great job on the quarter. Given the lowered AOI guidance for Beef in your comments earlier on the call, indicating that heifer retention has begun, seeing if you could provide more detail on how you're thinking about cattle supply and cost for that segment in the near term and as we move through this herd rebuilding phase.

Donnie King

Good morning. And thank you, Leah, for the question. I'll start out and make a few comments, and then I'll let Brady add a little color to it as well. But cattle supplies are tightening, creating a compression spread, as was noted in the remarks earlier. We anticipate that. We think that heifer retention has begun. For example, if you look at Beef, cow slaughter was down 16% from January to June. And so that's an early indicator of heifer retention beginning. In terms of beyond that, we think herd rebuilding will begin in earnest in 2026. And we think that through the next couple of years, after that, that's when we will get back, let's call it 2028 is when we see herd rebuild and seeing the benefit from that and holding back heifers for breeding purposes.

Brady, anything you want to add to that?

Brady Stewart

Thanks, Donnie. And I would just indicate that we're confident in our ability to manage through competitively through this challenging economic time. The Beef business continues to manage through this tightened supply with the record high cutout values as well. The team has really dialed into a strategy where we continue to use data and digital to make the best decisions, understanding the market dynamics that are in place today.

We made some pivots here in the last several months relative to how we manage our business. We've reduced some of our [indiscernible] feeds to allow us to capitalize on the highest possible yield performance in our plants, and we like that strategy moving forward. And then we'll continue to add value to our products and go to market where we see consumers going in the future, which is convenience and protein. And so by using those three strategic pillars, we remain confident that we'll continue to manage through this cycle in a very competitive structure.

Leah Jordan

That's very helpful. And then for my follow-up, I wanted to switch to Prepared Foods. You had a nice profit improvement in the quarter, but you did narrow your AOI guidance for that segment and the midpoint is slightly lower than it was before. Just see if you could provide more detail on the input cost pressure you're seeing in that business and how we should think about the flow-through of further pricing from here?

Donnie King

Yes. Let me start with that. We have seen a significant increase in raw material. In fact, it's been going on all year. And in fact, we talked about some of the recapturing of the raw material increase as those contracts where there is a lag to the market, we're starting to see some of the benefit of that. But we're managing that very well. I think there was roughly \$60 million of unplanned raw material increase in the quarter. And the team was able to offset that by really several things.

From an operational execution perspective, our Prepared Foods business is performing better than, in my opinion, and I've been around here a long time, than it's ever performed. Just the fundamentals of the business, the innovation pipeline is extremely robust, and we're being successful with that innovation that we're bringing to market.

We talked about in the last quarter, I believe, or maybe two quarters ago, that we were on a multiyear journey to improve the profitability of our Prepared Foods business. And we're on that road. We had the best Q3 that we've ever had. I think at midpoint, if you look at our 2025, I think it will be the best Prepared Foods year that we've had as a company.

And so a lot of good things relative to Prepared Foods. Brady, any adders to that?

Brady Stewart

No, I think you covered it really well, Donnie. I would just reiterate what you said. We're extremely excited about Prepared Foods within the quarter with having our best quarter ever. We're really excited about the future as well and the foundation we're setting.

Just relative to maybe adding some context to your question specifically, Leah, I would just assert that at the end of our fiscal Q3 is when typically we will see seasonally high raw material costs. When you think about pork trimmings, beef trim that goes into some of our Prepared Foods products, hams and bellies is really where we peak from a year. So that rolls into our COGS from an inventory build perspective and

it certainly is part of how we guide into Q4 as well.

Curt Calaway

Leah, I'll just add really quickly. I think at the midpoint of what we shared for Prepared Foods, that would indicate a very nice performance in Q4 versus prior year. And as Donnie said on the year, a very attractive improvement on year-over-year, for all the reasons that Donnie and Brady both pointed out.

Leah Jordan

Great, thank you.

Operator

And our next question today comes from Peter Galbo from Bank of America. Please go ahead with your question.

Peter Galbo

Hey, guys. Good morning. Thanks for the question. Brady, I wanted to actually touch back on Beef. Look, in the context of heifer retention beginning, that's obviously a positive. But it was pretty notable, I think, the relatively large impairment taken in the quarter on the Beef business and potentially that's a pushout relative to prior expectations on recovery. So maybe you can just compare and contrast what you're seeing, again, in the market today on retention relative to the elongation of recovery that kind of triggered the impairment on the business.

Brady Stewart

Sure. Thanks for the question, Peter. First and foremost, I think it's important to understand that this cycle has been different than cycles of the past and has created some dynamics that have been more challenging to forecast as we roll through it. So obviously, relative to the fact that we had a prolonged drought period at the midst of the Beef cycle, we have moved into a period that has been more prolonged than the previous cycles over the last several decades as well.

Relative to what we're seeing from a data perspective, that supports Donnie referenced the beef cow harvest being down year-over-year significantly as well, which provides stability from a cow production perspective. The other real data point that we're looking at is feeder calf receipts into feed yards as well and seeing some change and some pivot relative to the amount of heifers versus steers that are going into those feed yards as well. So that certainly sets the base for us to move forward and have increased supplies into the future as well.

I'll kick it over to Curt here to reference the impairment.

Curt Calaway

Yes. Thanks, Pete. Maybe just a couple of other things to think about relative to taking the beef impairment this quarter. We had shared in previous 10-Ks and 10-Qs that our cushion for the fair value exceeding carrying value was less than 10% for that business. And we also detailed, in addition to what you talked about, in our 10-Q this quarter we detailed that as cattle costs have continued to rise, that also caused the carrying value of the Beef reporting unit to increase as well. And all those were contributing factors in the ultimate recognition of the impairment this quarter.

Peter Galbo

Great. Thank you for that. And maybe as a follow-up as well on Prepared, and I'm not sure if Kyle is on as well, maybe it would be helpful to hear from him. But two questions. One, just the elasticity that you're seeing so far as you put through some of the pricing on some of those items? And maybe secondly, it's a category that sometimes has odd competitive behavior, so what are you seeing out of the competitive

set across Prepared Foods, and are folks all behaving rationally? Thanks very much.

Brady Stewart

You bet. Thanks for the question, Peter. And I would just say this. Number one is our ability to manage through these cost pressures that we see from a raw material, we're highly confident in our ability to do that. We're leveraging our strong brands, we have a fantastic innovation pipeline that continues to deliver for us, everything from Jimmy Dean Griddle Cakes to our Jimmy Dean Chicken Biscuit. Our Hillshire Farm snacking portfolio continues to see significant growth. And then on bacon, we're seeing growth as well. So our ability to manage through, we have an extreme amount of confidence on it.

From an elasticity perspective, we continue to track closely. We have a significant amount of data and great expertise sitting behind our ability to understand how consumers are behaving with any price increases that they certainly see at point of sale. And so no real material changes in '25 so far. We do see consumers continuing to prioritize protein, which we believe is pro Tyson. And protein typically has lower elasticity than other categories within the food space as well. So we'll continue to leverage that multi-protein and multi-value-added portfolio and believe it's advantageous as we roll forward.

Operator

Our next question comes from Ben Theurer from Barclays. Please go ahead with your question.

Ben Theurer

Good morning. And thank you very much for taking my question. One quick on the Chicken segment. So clearly you've called out in the last call that you're doing a couple of investments into the business, and that's why you were initially, I would say, hesitant on raising the guidance despite already as of the first six months, having had a very strong performance. Now looking into what you've been able to accomplish in the third quarter and what the implied guidance for the fourth quarter, it really looks solid here. So I just wanted to understand, of these investments, are they still coming together as expected? Are you basically able to offset these costs right away? Just if you could share a little bit more thoughts and ideas around the investments and what you expect from them then as we move into 2026.

Donnie King

Good morning, Ben. Let me start off, and then I will flip it to Devin and he can add some finer points to it. But the Chicken business is running efficiently and consistently delivering solid growth across the top and bottom line. In terms of the inputs, and let's think grain, grain is relatively stable year-over-year. That's a bit of how we see it going forward. But in terms of the \$100 million, we've talked about that investment, and we will wrap up that investment here in the balance of the year in our Q4. But this business, we're driving operational efficiencies and winning innovation. We talked earlier about the success and the relaunch of the Tyson brand. And we've also talked about the new product on the script, that the cheesy nugget, the simple ingredients with cheese and chicken and seasoning, that's doing very well for us. But strategic partnerships are critical to us, and that is a decision we have taken, and we're seeing the benefit of that.

Now our business is running better than perhaps I've ever seen it run, certainly would be in the top 1 or 2 performance as I've seen in this business. And I've been around, as you know, many, many years watching this. But our Chicken business, let's just say it this way, we are back in the chicken business and executing at a very high level. And we have momentum. We saw the momentum in Q3. We're seeing it in Q4. And we think it continues from this point forward.

So with that, Devin, do you want to add to?

Devin Cole

Yes. Thanks. Maybe just a couple of comments. We are continuing to reinvest in this business, and we will continue to do so. I think we're seeing that we're doing a better job of managing, making sure that that investment is driving the volume and the sort of returns that we want across the business. Just to maybe recap a couple of points that prove that, branded chicken did grow 10%. But in total, value-added grew 8.8% for us in the quarter. And that's really across all of our channels and categories. And so going forward, I think you see a very similar strategy from us relative to innovation and how we support that in the marketplace.

But maybe I'll just ask Kristina to talk a little bit about the innovation pipeline and how we're thinking about that.

Kristina Lambert

Yes. Thanks, Devin. I'm really thrilled with how the Tyson retail value-added poultry business is performing under the Tyson brand. That double-digit volume growth is really coming from increased household penetration, which was led by our innovation. We had over 20 new items that we have been launching over the past year.

A lot of those coming into marketplace now. So we'll start seeing that expanded distribution and velocity continue our momentum, along with the product quality improvements and renovations that we've already made in our products and our packaging, the innovation and the marketing support behind that will help us continue to grow. So really proud of the business.

Ben Theurer

Perfect. And then one real quick one for Curt, I guess. As we look into other parts of the guidance, you've significantly lowered the CapEx number versus what was previous out there. But at the same time, you also brought down the free cash flow guidance. Can you help us reconcile how despite lower CapEx, free cash flow got narrowed at the lower end and also considering you're already at almost \$1 billion anyway as a 9-month period. So what are your expectations here for the last quarter? Thank you.

Curt Calaway

Yes. Thanks. I would start by the run rate that we're on for CapEx is a little under \$700 million. That's really on a pace of where we were through the first half of the year. So while we had a range of \$1 billion to \$1.2 billion, I think we shared as well with you that we were probably at the lower end of the range for a CapEx perspective. So I would characterize that as not really much of a change in expectations of where we were supposed to be. Recognizing on a year-to-date basis, we're a little over \$900 million in free cash flow, and we narrowed the range from \$1 billion to \$1.3 billion. The real delta in that, I think, is the level of working capital investment as we continue to see top line growth as well as some investments in working capital for things such as higher cattle costs running through.

Ben Theurer

Okay. Thank you very much.

Operator

Our next question comes from Heather Jones from Heather Jones Research. Please go ahead with your question.

Heather Jones

Good morning. Congratulations on the quarter. I want to start on the Beef segment. So in the last couple of quarters I have noticed a pretty sizable step-up in the amount of cattle that you have hedged. Your guidance was better than I was expecting given the backdrop, so wondering how much of that is a factor

of that, did you have a significant chunk of your Q4 covered? Is this a new strategy? And if this is a new strategy going forward to just consistently have a large proportion of your [indiscernible] hedged on the forward look?

Brady Stewart

Thanks for the question, Heather. I would just say this, we continue to manage our entire supply chain, whether it be hedging or whether it be live cattle purchases, along with forward pricing, export sales and then aligning with our strategic customers in an integrated fashion. So none of these pieces work independent of the other, and it's part of a holistic strategy that we have deployed.

Heather Jones

Okay. And then my follow-up is on Beef too. So given the tariffs that's been imposed on Brazilian beef and those flows slowed in anticipation of this, I've been a little surprised that we haven't seen more of a reaction in pricing because it's a pretty significant piece of the Beef market. So just wondering your thoughts on that and how you expect that impact to evolve in the markets going forward?

Brady Stewart

That's a great question, Heather, and I appreciate you giving us the opportunity to talk to it. Tariff impacts, both on the export side and the import side, obviously have a significant amount of timing associated with it. So when the tariffs actually are imposed relative to the time the product actually hits shelf, there is a significant delay, especially with supply chain challenges from some of our imports on lean beef coming from the Southern Hemisphere as well.

So I'm not sure we've actually seen the opportunity for that to hit retail yet. And then we are in a dynamic market where we've seen significant inflation in trim prices, specifically on fat trim within beef as well, that's creating some changes in the dynamics from that beef complex as well. So we'll continue to monitor that and watch that as timing really hits the point where we'll hit really POS.

Heather Jones

Okay. Thank you so much.

Operator

Our next question comes from Alexia Howard from Bernstein. Please go ahead with your question.

Alexia Howard

Good morning, everyone. Two questions. Can I start with the Beef side of things and how significant the threat from New World screwworms is? I know that the border has been shut down with Mexico, but could this deter farmers from wanting to rebuild the herd? And maybe what happens practically, I mean, if dehorning and castration can't happen in certain regions, does that meaningfully reduce productivity? Is it just infected animals that have to be culled? I'm just curious about how you're thinking about what that could mean if it continues to progress onwards.

Brady Stewart

Sure. And that's a great question, Alexia, and one that we continue to monitor. And first and foremost, I think it's really important to indicate our support of the USDA and the actions that have been taken to protect livestock in the United States from New World screwworm. So I appreciate all of the efforts and forward-looking thoughts that the USDA has taken to protect the US herd.

Impacts to our business in general, I'm referring to the US industry from a beef business perspective, we've had around 500,000 less head imported from Mexico this year so far. And so there has been a supply impact that's been caused by the border closure. And I expect some of that tightening to occur

based on feeder calf placement losses here into the quarter as well.

From an actual producer decision-making standpoint, we certainly have not heard any decisions that have been made from a US producer standpoint that indicates they're making a decision to retain heifers or retain cows relative to a threat of New World screwworm. I think there is good confidence that the actions that are being taken by the USDA and working with Mexico will curtail any additional Northern movement.

Alexia Howard

And then as a follow-up, can I move on to the proposed renewable fuel standard that I think is due to be voted on at the end of October. It's around biodiesel and sustainable aviation fuel, could be fairly meaningful. If that is approved and it leads to increased corn prices but a decrease in soybean meal prices, on the Chicken side of the business, are you able to significantly shift the mix of feed into soybean meal to take advantage of that over the next couple of years? Or is it a fairly fixed ratio? Thank you. And I'll pass it on.

Donnie King

It is a fairly fixed ratio in terms of trying to get the carbs and the protein in, between corn and soybean meal, it's primarily all that's in the formulation in chicken feed, a few vitamins, but it's fairly fixed. Depending on where you are, we've used different carb sources at times, but we're looking at the entire caloric intake per ton, and so I don't see any significant change in that.

But I would also say, at least based on what we see right now, the grain prices, we see them as being very steady. We have a potentially really high US corn crop coming in. So all the thought processes around why you might make a substitution, I don't think will come into play at this point.

Alexia Howard

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

Operator

Our next question comes from Pooran Sharma from Stephens Inc. Please go ahead with your question.

Pooran Sharma

Good morning, and thanks for the question. I just wanted to ask about pork here. Noted strong performance, but just wanted to get a better understanding of the backdrop. I think if you look at the last couple of hogs and pigs reports, a little bit disappointing when it comes to the forward look on supply, except for the most recent one, I think we've got a little bit of green shoots.

And so I just wanted to get your thoughts on when you expect to see a supply recovery. I think in the past, we had said that we expected to see something in the back half of the year, but I think this has just gotten shifted out a tad bit. So just love to hear your thoughts on Pork.

Donnie King

Let me remind you of this. If you look at our performance in Q3, and it's largely true throughout the year, it's the strong execution that's driving profitability. In fact, in Q3 you'll see some tightening of spreads in there, but we were able to offset that based on operational efficiencies, mix improvement. There were some higher carcass weights, and we also had fewer intercompany sales. But from a USDA perspective, for '25, we are projecting a 0.9% increase in pork production. And then for 2026, we're seeing from USDA 1.6% in 2026.

So Brady, anything to add to that?

Brady Stewart

No, I'm just thankful we got a question on Pork because we're really excited about all of the progress that has been made in that business over the last 2.5 years. I really want to thank the team for all of their work in moving that business forward in a very sustainable manner.

Just relative to the supply question, I think there's a few points that are really important. Number one is, if you use the Iowa State University profitability model, we've reached a point here where the last 13 months have been positive. And the expectation, based on futures implied pricing, would indicate the next year is also profitable. And so that really sets the foundation for some expansion. Now the opportunity relative to a headwind for pork expansion just rides simply in the fact that to build additional pork housing in the future for live production housing, there's been some inflationary costs. And so I think the producers are really looking for plenty of sunshine ahead before they make those investments. But continue to feel very comfortable with adequate supply with continued improvements from a genetics and productivity standpoint we see from the industry.

Pooran Sharma

Appreciate the color there. I guess my follow-up would just be on Chicken. Obviously, you've made a ton of improvement over the past couple of years in the business. As we look ahead, how should investors view what a normalized operating margin should be? Do you think we've reached somewhat near peak? Or do you think there's a lot of room to go further in terms of operating margin improvement?

Donnie King

So what I would mention to you this morning, I'll get to has chicken profitability peaked. If you look at the results that we saw in Q3, it was strongly driven from execution, with better fill rates, yield improvements, labor management and S&OP process. We had strategic alignments. We've made some conscious decisions to align with strategic customers and partnerships in a more meaningful way than we have in the past. That's been a two-year process for us.

But our Chicken business is running well. Execution is well. We have capacity to produce more value-added branded products within our portfolio, and it's setting up very well. I would tell you that the improvements that are made, and let me add that if you look at the supply picture we've had for '25 thus far, I think it is about the right size. I think you have to remember that meat is essential as viewed by the customer and the consumer, so high protein, it's a priority for them. It's a nutrient-dense option for them, and they're choosing protein more often than they have before.

But back to Chicken, I don't think we've peaked in Chicken as a matter of fact. We've had a generally positive operating environment this year. There are things that are cyclical in nature. For example, you see higher-priced breast meat and lower-priced wings. But in total, they're fine. We're executing, and we'll continue to execute, against our manufacturing efficiencies, growing our business, continue with innovation that our customers and our consumers prefer. We'll continue to grow these strategic partnerships that I talked about. We'll continue to shift our mix to value-added and branded within the poultry complex and have higher value offerings.

We're excited about where we are. Our foundation is in good shape as it relates to Chicken. And we look at the balance of '25, even into '26, and feel very comfortable with our business and the ability for this business to not only perform through the balance of '25, but even through '26 and beyond.

Pooran Sharma

Appreciate the color.

Operator

Our next question comes from Michael Lavery from Piper Sandler. Please go ahead with your question.

Michael Lavery

Thank you. Good morning. Just wanted to come back to Prepared Foods. You got a strong price lift or I guess, price mix, maybe it's just a lot more robust than what we're seeing with a lot of other packaged food companies having to give back on price in many cases.

Can you just maybe talk to how much is mix driven? And what's behind it? Is it really just the protein demand? Is there just a mix lift that's a big part of that? How do we think about the momentum there?

Brady Stewart

Yes, Michael, thanks for the question. Again, we're really excited about our progress in Prepared Foods. And we laid out a strategy last year relative to how we're going to move forward and make sure that we were focused and executed on our value-added platforms within Prepared Foods as well, which tailors very, very nicely into your question on mix. And so you're exactly right. The price lift is really a combination of a favorable channel mix and it is also driven by the strength of our retail business and the strength of the brands that we have within these specific categories in the portfolio as well. Now, compounding on top of that is the fact that we have seen some raw material inflation, and we have formulas with a lot of our customers and customer base. And so that certainly flows through from a pricing perspective as well.

Last point is we do continue to like pricing. As I mentioned, we walked out of Q3 with really the highest raw material pricing of the year, but we'll continue to operate the business in a very rational manner and understand where those elasticities are and use data to drive the right decision for the business. But continue to expect to grow both top line and bottom line as we move forward well into the future on Prepared Foods.

Donnie King

So maybe a couple of things to add to that, Brady. And I mentioned this earlier, that meat is viewed as essential being a nutrient-rich option. Consumers are continuing to prioritize protein. And so, for example, the way that manifests itself, when a consumer goes to a grocery store they're not looking for the nonessential stuff, they're looking for protein and food, and we happen to offer chicken beef, pork and prepared. We believe protein is the right place to play, and we're certainly doing that.

One thing I need to point out as it relates to our Prepared Foods business, I could not be prouder of our Prepared Foods team. They've been on this journey that Brady just referenced, and I referenced earlier today, but they are absolutely performing across every phase of the game, from innovation and successful innovation and also in terms of shifting their mix to more valuable products.

You talked about the pricing, well, the benefit from an AOI perspective, yes, there was some price recovery that we had already incurred. But the operational execution across this business, I've not seen that at this level in our business. And there's so much more that we can go do, and are going to do in this multiyear journey. So a lot of upside to Prepared Foods, not only for the balance of the year, but as we continue to move further.

Michael Lavery

Thank you. I'll pass it on.

Operator

Our next question comes from Saumya Jain from UBS. Please go ahead with your question.

Saumya Jain

Hey, good morning. So your leverage continues to drop, now at around 2.1. So could you elaborate on how we should expect to see that going forward? Should we expect more excess cash going to shareholders? Or how is management thinking about capital allocation going ahead?

Curt Calaway

Thanks for the question. I think you should continue to expect us to follow our capital allocation priorities. I'd just call out the significant improvement we made from where we were not only a year ago, but two years ago as leverage had peaked at 4.1x. And so tremendous execution by the team, absolutely disciplined in following our capital allocation priorities, and they would remain unchanged.

We'll look to continue to maintain our financial strength, invest in the business and return cash to shareholders. I would note, as I made comment earlier at the opening, that we did restart our share repurchase program, although at a very small pace. The first time we restarted that since Q1 of '23.

Saumya Jain

Got it. And then International margins continue to be strong. What are the key factors driving that? And do you see those drivers continuing over the rest of the year? Or what are the key risks to that segment in the near term?

Devin Cole

Yes. This is Devin. Thank you for that question. I would just mention at the very onset that much of the strategy that we've talked about in other parts of our business domestically, we have employed with our International business over the last year or so. And I think the results that you're seeing are certainly from things that we control primarily. So operational excellence has been one of the key tenets for us. We've got very specific initiatives that have achieved better efficiencies, lowered our conversion costs. And also, we're actively managing the controllable costs within that business.

Certainly, it's a dynamic situation, both geopolitically and some of the economies that we operate in around the globe. But that team is working very well together. We expect to have a very good year. And quite frankly, all the things that we put in place and the momentum that we're seeing should translate going into FY '26 as well.

Saumya Jain

Thank you.

Operator

Once again, if you would like to ask a question, please press star and one. To remove yourself from the question queue, you may press star and two.

Our next question comes from Andrew Strelzik from BMO. Please go ahead with your question.

Andrew Strelzik

Good morning. Thanks for taking the question. I wanted to go back to the Beef side to start, now that we are seeing the start of the heifer retention and maybe have a time line to think about on profit recovery. Can you talk about your expectations for the magnitude of the herd recovery or maybe compare what your expectations are for this herd recovery versus prior cycles? And how does that inform your view of the Beef profit potential in 2028 and beyond?

Brady Stewart

Thanks for the question, Andrew. I think you probably highlighted when we really see that turnaround into

the future as well. And so it's been challenging to really get a forecasted read here as we've moved through the last two years, just because what we've seen from a supply perspective has not necessarily matched what we've seen from a demand perspective on the packer side as well. So we've moved into more of a prolonged period of time. The good part is, as we move forward, we definitely have a tailwind relative to drought that we probably haven't focused enough on relative to some of the commentary as well. And so that has certainly provided a great opportunity for us to get some rebuild momentum across the industry as well.

Outside of that, again, it's been a very dynamic environment. We're seeing historic highs relative to beef and beef demand. The consumer has been extremely resilient in their demand for beef and how we rationalize the entire supply chain of beef from feeding and cow production into feeding into packers, and we'll continue to monitor that as we move through the next couple of years as well.

Donnie King

Yes, I just want to add one comment, just to call out to our Beef team, this has been very challenging, as you well know, and we talk about this in terms of controlling what we can, and we've done that. I would tell you that our beef assets are running better than they ever have before. And that's not just my assessment. That's the assessment from the people who are in our organization who've been in our Beef business for a long time. In fact, they removed over \$100 million of controllable costs out of our Beef segment this year. And so we're obviously very proud of that. We're trying to do what we can with what we have right now, and we look forward to herd rebuild and to a better day in our beef business.

Andrew Strelzik

I guess what I'm trying to get at there, and I appreciate those comments very much. But is there anything that you're seeing that would lead you to believe your normalized or mid-cycle or what have you, Beef profits are different in this cycle than in prior cycles?

Brady Stewart

I'd just say that we continue to analyze where we walk out of the cycle and gauge where we'll end up from a mid-cycle profitability perspective. So if you looked at the last six beef cycles, inclusive of this current cycle, there are some differences in it. Again, the prolonged drought that we saw right at the bottom of the cycle created this elongated bottom of the cycle. And that has created some challenges just relative to forecasting a very dynamic environment relative to the supply of cattle. Traditionally, we've seen more changes or pivots from a demand perspective than we have the cycle as well. So those two pieces will come together and really shape where we end up as we move into the midpoint in the years to come.

Andrew Strelzik

Got it. Okay. If I could just squeeze one other quick one in. In the past couple of quarters, I think you've quantified the efficiencies that you've gotten in Prepared Foods. So I was hoping you could maybe give us an update there. And then maybe if you could help us think about the size of some of the incremental efficiencies you're talking about in Chicken, that would be helpful as well.

Brady Stewart

Thanks for the question. Just relative to Prepared, Donnie did a great job earlier of framing up all of the advancements we've made from a Prepared operations perspective. And there are certainly a number of dynamics that go into these calculations, raw material increase, packaging and ingredient increases as well, labor inflation, how you monetize that with and without these particular inflationary factors. Here's what I'll tell you today, is there's a sustained process, with audits in place, to make sure that the advancements we're making from a manufacturing efficiency perspective in Prepared Foods is here to stay, and we're seeing those advancements really hit the bottom line significantly from a Prepared Foods

standpoint.

Donnie King

Yes. And Andrew, let me add this. If you think about what I'm about to say, this applies to Chicken, Beef, Pork, and our International business. And every function and activity we have at Tyson Foods, we are focused on operational excellence. What does that mean? It's scaling the enterprise, leveraging all the assets and capability of this multi-protein behemoth that we have, driving cost savings across the enterprise, addressing inefficiencies and eliminating that where they exist, but also being aligned with customers in terms of those relationships and what we've characterized as partnerships. And we've got more of that today than we've ever had. And then from a consumer perspective, just the constant innovation, and we've got the most robust pipeline we've ever had.

And then you can layer on top of all of that, things like data and digital delivery. Our tools are such today that we're able to make better, smarter decisions across this enterprise, and of course the disciplined capital allocation and prioritizing cash flow, which has made up the CapEx and working capital specifically. So that discipline we have exercised across this entire enterprise. And so I'll leave you with that.

Andrew Strelzik

Great. Thank you very much.

CONCLUSION

Operator

And ladies and gentlemen, with that, we'll be concluding today's question-and-answer session. I'd like to turn the floor 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

And ladies and gentlemen, with that, we'll conclude today's conference call and presentation. We do thank you for attending. You may now disconnect your lines.