Tyson Foods, Inc.

Third Quarter 2026 Earnings Conference Call

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CORPORATE PARTICIPANTS

Donnie King--*President and Chief Executive Officer*

Curt Calaway--*Chief Financial Officer*

Jeff Schomburger--*Incoming Chief Executive Officer*

Wes Morris--*Chief Operating Officer*

Jon Kathol--*Vice President, Investor Relations*

PRESENTATION

Operator
Good day, and welcome to the Tyson Foods Third Quarter 2026 Earnings Call. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Jon Kathol, Vice President of Investor Relations. Please go ahead.

Jon Kathol
Good morning, and welcome to Tyson Foods third quarter fiscal 2026 earnings conference call. On today's call, Tyson Foods' President and Chief Executive Officer; Donnie King; Chief Financial Officer, Curt Calaway; and incoming Chief Executive Officer, Jeff Schomburger, will provide prepared remarks. Also joining us today and available for Q&A is Wes Morris, our new Chief Operating Officer. Following the prepared remarks, we will have a Q&A session. 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 on 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. Segment results are presented on a segment operating income level and will be discussed on an adjusted basis. Please note that references to earnings per share, segment operating income, 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 will turn the call over to Donnie.

Donnie King
Thank you, Jon, and good morning to everyone joining us today. Overall, I am pleased with our performance in the third quarter. This is the 12th consecutive quarter of doing what we said we would do. Our strategy is working, and I want to take a moment to reinforce what we have built at Tyson, a differentiated and diversified protein-centric company positioned to capture growing demand for high-quality protein.

Animal protein remains a top priority for consumers and continues to gain momentum as a foundational part of a healthy diet. As consumers increasingly prioritize nutrient density and protein quality, including those adopting newer wellness and weight management routines, our portfolio aligns exactly with the foods they are choosing. We are directly tied to and stand to benefit from consumer preference as protein is economically advantaged versus every other food category.

Before I discuss the segment details, I want to emphasize how proud I am of the progress this team has made, improving our operational performance and execution, strengthening our portfolio and positioning this company for continued long-term growth. We are the leader in the industry, have a portfolio of iconic brands that consumers are drawn to, and I am confident in where we are headed.

Our brands are winning in the retail marketplace. In Prepared Foods, all 13 weeks of Q3 showed continuous volume and revenue share gains, including our highest volume share ever, with volume share up 70 basis points, unit share up 70 basis points and dollar share up 50 basis points. This performance was driven by strong consumer demand, disciplined promotional execution and targeted marketing investments. We hold leading positions across lunch meat, dinner and smoked sausage, and we are managing price gaps and promotion with discipline to compete more effectively.

Prepared Foods is a branded protein platform that raises the quality and the predictability of our earnings. Innovation and distribution gains remain key engines for this business with notable brand wins in the quarter such as Hillshire snacking up 18.4%, Hillshire Farm lunch meat up 7%, Aidells dinner sausage up 5.8%, Hillshire Farm and Wright smoked sausage up 3.4% and Jimmy Dean refrigerated breakfast up 2.7%.

Our Tyson branded chicken categories continued their momentum in retail at 0.9% for value-added chicken category and 3.1% for fresh chicken. Innovation is central to our strategy and is showing up across our entire branded portfolio. Last quarter, we launched our Jimmy Dean high-protein platform, which continues to perform, earning broad retail distribution and resonating with younger consumers looking for convenient, protein-centric options throughout the day.

This quarter, I want to highlight Hillshire brand. This is a brand built for innovation, and our portfolio reflects that. Hillshire Farm brand anchors that everyday occasion, smoked sausage, lunch meat and ham that consumers have trusted for decades. The Hillshire brand has also extended into snacking, where the line is rapidly growing with consumers seeking convenient on-the-go options. And with the launch of Hillshire Reserve lunch meat, we're now capturing consumers seeking premium offerings, craft-inspired chef quality lunch meat for a more elevated eating experience.

Together, these brand extensions reach new consumers with a multi-tier offering. These launches share a common thread. They deliver on the priorities driving demand across our business, protein focused, bold flavors and everyday convenience, whether through simple ingredient renovation of our core products, our new high-protein forms. We are innovating exactly around what consumers are looking for, and we see meaningful runway to expand distribution and bring new products to market.

Now let me walk you through our third quarter results, a view of the current and future environment before Curt covers the financials and updated outlook. In the third quarter, Prepared Foods continued to outpace broader category performance in both retail and foodservice. Q3 marks our third consecutive quarter of volume and sales growth, with sales up 1.7% or $42 million year-over-year to $2.6 billion.

Prepared Foods segment operating income was $321 million with a margin of 12.6%. Operating income was down slightly year-over-year as roughly 30 million of higher commodity costs in the quarter outpaced pricing, which continues to catch up. As commodity costs moderate, that benefit will take time to flow through production and inventory. We expect it to be realized later in the fourth quarter and into fiscal 2027. Our results demonstrate continued execution on the controllables and the continued momentum of our strategy and diversified portfolio of leading brands and proteins.

We delivered yet another impressive quarter in chicken with segment operating income of $488 million, an increase of $40 million year-over-year at a margin of 11.2%. Demand remained robust, and our customer-centric approach continued to drive volume gains. Our retail and foodservice volume up 3.8%, nearly 4x our total volume growth of 1%, reflecting the strength of our strategic customer partnership and consumer demand.

We hold the number 1 brand of chicken, and our differentiated chicken model continues to outperform commodity producers. The outperformance is grounded in structural drivers, including end-to-end execution, live performance, branded and value-added mix and strategic customer relationships. We continue to strengthen live performance, yields, asset utilization, labor productivity and supply chain discipline, supporting our seventh consecutive quarter of year-over-year volume and sales growth and reinforcing the consistency of our chicken business.

Importantly, our chicken results are increasingly driven by consumers and customers rather than commodity markets, supported by a favorable mix of value-added and branded products, disciplined revenue management and strong operational execution. Notably, our net price realization increased versus the prior year even as input markets softened, further evidence that our results are driven by mix, innovation and execution rather than commodity pricing. To put that in context, industry chicken cutout values fell, yet our commercial model anchored in improving mix, volume commitments and value-added pricing structures enabled us to grow net price realization.

In Beef, we continue to navigate the well-documented challenges of the current cattle cycle. Beef segment operating income was a loss of $138 million. Sales reflected that environment. Volume declined 15.9%, while pricing rose 12.1% as constrained supply pushed input costs and pricing higher. Our footprint optimization actions from the second quarter delivered as expected. However, it was more than offset by USDA margin compression.

We remain focused on what we control, customer mix, revenue management, network productivity, cost discipline within a footprint better aligned to current supply environment. The recent announcement of a phased reopening of the Mexican border for the importation of cattle shows potential improvements to long-term cattle availability.

We appreciate and support the USDA efforts to protect and to reopen the border. Although the reopening won't have a material impact on the remainder of this fiscal year, which ends in September, it does provide the potential for some level of improvement in 2027 and beyond.

To be clear, the reopening of the Mexican border will not solve the entire gap of beef losses we are currently seeing. We are not waiting passively for the cattle cycle to turn, and we continue to focus on improving the variables within our control. Simply stated, our mission in beef is to be the best operators in the areas in which we compete. Our Pork segment continued to operate in a stable environment.

Operating income was $60 million with a margin of 3.8%. Consumer demand was solid and hog supplies were adequate. Together, these factors have kept the pork value chain well balanced, supporting more consistent and predictable operating margins. We also continue to benefit from greater integration with Prepared Foods, allowing us to optimize product mix and direct raw materials toward their highest value uses.

We remain focused on improving mix and further integration across the value chain. Finally, our International segment continued its steady performance. International segment operating income was $48 million with a margin of 8%, supported by continued cost discipline and improved execution across key markets. We remain on track with our annual outlook for this segment.

Let me briefly address the macro environment. While consumer sentiment continues to be pressured and inflation remains elevated, demand for protein remains resilient. Consumers are making value-conscious choices, and protein-centric foods, including our Tyson, Jimmy Dean, Hillshire Farm, Ball Park, Wright, State Fair and Aidells are winning that consideration. The breadth of our brand and product offering allows us to fulfill the needs of the consumer wherever they are on their journey.

Foodservice volume remained constructive throughout the quarter, growing 1.8% versus last year, and our retail performance continues to outpace the broader food and beverage category. This reinforces the enduring nature of our protein-centric portfolio across economic cycles.

Our scale, operational capabilities and brand strength allow us to serve customers and consumers effectively even in a challenging macro environment. And we believe these advantages will compound as conditions improve. We will continue to be disciplined and intentional about where we invest, whether in brand support, innovation, automation, supply chain capabilities, or network optimization.

Our focus is on projects that strengthen service, improve productivity and drive cash flow and long-term shareholder value. Looking ahead to fiscal 2027, I am confident in the year ahead. In many respects, we expect it to look a lot like 2026, building on the momentum of our end-to-end execution that has defined this year.

With that, I will now turn the call over to Jeff Schomburger, our incoming CEO, for a few introductory remarks.

Jeff Schomburger
Thank you, Donnie, and a huge thank you for your years of leadership and the strong foundation the team has built. This puts us in a position to build on our strong momentum going forward. I want to take just a minute to introduce myself to our investment community. I'm looking forward to meeting you all soon.

While my title is new, Tyson Foods is not new to me. I've had the privilege of serving on the Tyson Foods Board of Directors for more than 10 years. And over that time, I have developed a deep respect for this company, its people, culture, brands, customers and long-term potential. I've watched this management team navigate complex cycles, make disciplined decisions and build a more consistent organization.

I spent time over the past few weeks meeting with our team members, visiting facilities, engaging with our customers and consumers in their homes, and I'm excited about their energy and passion. As one team, one Tyson, we will remain focused on operational execution, strengthening the iconic brands in our multi-protein portfolio, investing behind differentiated capabilities and generating long-term shareholder value.

Innovation, quality, affordability and understanding what consumers want will be critical so our brands continue to earn a place at tables around the world every day. To our shareholders and analysts on the call today, I look forward to getting to know you better, sharing more about our priorities and continuing to earn your trust through consistent results and transparency.

With that, I'll turn it over to Curt to walk through the financial details.

Curt Calaway
Thanks, Jeff, and welcome. It's great to have you on the call. Total company sales were $13.9 billion, essentially flat compared to the prior year as a 3.4% increase in average sales price offset a 2.8% decline in volume, the latter driven largely by tighter cattle supply in beef.

Third quarter segment operating income was $779 million, an increase of $18 million versus the prior year, driven by stronger results in Chicken, Pork and International, partially offset by lower Beef results. Corporate expenses and amortization were lower by $24 million compared to the same period last year, driven by disciplined cost management. Total company adjusted operating income was $547 million, a margin of 3.9%. Adjusted earnings per share for the quarter were $0.99, up 9% compared to last year.

Turning to our financial position. Our approach to capital allocation remains disciplined, deliberate and forward-looking, supported by a strong balance sheet. Our priorities remain balanced, investing in the highest return areas of our business, maintaining balance sheet strength and our investment-grade credit profile and returning cash to shareholders over time.

Free cash flow remains central to our strategy, and we are encouraged by the cash generation trends through the first 9 months of the year. Operating cash flow for the first 9 months of the year was $1.47 billion, and capital expenditures were $556 million, resulting in free cash flow of $913 million.

We ended the quarter with $4 billion in liquidity and net leverage of 2.1x. In the quarter, we repurchased $31 million of our shares. And year-to-date, we have returned $652 million to shareholders, including dividends. Since quarter end, we have repurchased an additional $49 million of our shares. Our balance sheet remains very healthy as we continue to prioritize financial strength, our investment-grade credit rating and cash management to drive long-term shareholder value.

Let's take a moment to review our updated outlook for fiscal 2026. As a reminder, our accounting cycle results in a 53-week year in 2026 compared to a 52-week year in 2025. Our guidance is presented on a comparable 52-week basis. We narrowed full year sales growth guidance to 2.5% to 3.5% year-over-year.

Total company adjusted operating income range is now forecasted to be $2.1 billion to $2.3 billion, driven by the challenges in our Beef segment relating to cattle availability. We still anticipate interest expense of approximately $365 million and a tax rate of around 25%. Capital expenditures are now expected to be between $700 million and $900 million, and we have narrowed the range of our free cash flow to $1.3 billion to $1.7 billion.

Turning to our segment outlook. In Prepared Foods, we are raising the midpoint of our full year segment operating income outlook with a revised range of $1.3 billion to $1.35 billion. We expect continued growth in top line and bottom line in the fourth quarter and for the full year.

In Chicken, we are reaffirming our full year segment operating income outlook at a range of $1.9 billion to $2.05 billion. This is broadly comparable with 2025 and supported by our commercial model, operational execution and the impact of our live operations, along with continued volume growth.

In Beef, industry conditions are challenged, and we now expect a full year segment operating income loss in the range of $650 million to $500 million as continued USDA margin compression and higher cattle costs more than offset the benefits of our network optimization actions. In Pork, we are reaffirming our segment operating income outlook of $250 million to $300 million. In International, we are also reaffirming our outlook of $150 million to $200 million. Our corporate expenses and amortization outlook remain the same at $950 million to $975 million. Overall, I remain confident that 2026 will be another strong year for the company.

I will now turn the call back to Donnie for closing remarks.

Donnie King
Thank you, Curt. I am excited for the opportunities in front of us in 2027 and confident in the long-term prospects for Tyson Foods. Let me quickly recap our forecast and focus areas. In Chicken, we anticipate continued strength in our differentiated chicken model, underpinned by our end-to-end execution, live performance, branded and value-added mix and strategic customer relationships.

In Prepared Foods, we expect continued growth in both volume and profit, supported by the strength of our brands, ongoing innovation and sustained consumer demand for convenient protein-centric options. In Beef, we will remain focused on operational discipline and performing competitively within our optimized long-term footprint as we continue to navigate the challenging cattle cycle. In Pork and International, we expect stable results with continued gains in operational execution across both segments.

Before we open the call for questions, I want to take a moment to say thank you to our team members, our customers, our family farmers and ranchers and our shareholders. I would also like to thank our Chairman, John Tyson and the Tyson family, Barbara, John Randal and Olivia, for their support and leadership throughout my time as CEO. Tyson is a strong company because of the people behind it, and I am grateful for the work they do every day.

We operated with discipline throughout another dynamic quarter, and I feel good about the progress we are making. Our strategy is working. Our portfolio is strong, and this team is well positioned for the opportunities ahead. Most importantly, we have a solid foundation in place. We are building momentum, growing the business and staying focused on delivering stronger performance over time. I am incredibly proud of what this team has built and energized by what lies ahead under Jeff and his leadership team.

With a clear focus on accelerating our brands and value-added mix, deepening our connection with consumers, strengthening strategic customer relationships and continuing to raise the bar on operational execution, Tyson is well positioned to build on the momentum and create meaningful long-term value for our shareholders. While I am stepping out of the CEO role, I will remain on the Board and stay closely engaged in the company's performance and long-term direction. This strategy matters deeply to me, and I will continue to support Jeff and the team as we deliver on the commitments we have made to our shareholders.

With that, I will turn the call back to Jon to begin the Q&A session.

Jon Kathol

Thank you, Donnie. We will now open the line for questions. Please note that our cautions regarding forward-looking statements and non-GAAP measures apply to both our prepared remarks and the following Q&A. Donnie, Curt, Jeff and Wes are available for your questions. Operator, please provide the Q&A instructions.

QUESTION AND ANSWER

Operator
We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Andrew Strelzik with BMO. Please go ahead.

Andrew Strelzik
Great. Thank you. And first, I wanted to say congratulations, Donnie, as you take this next step. My question, yeah, you have highlighted strong performance in Chicken and Prepared Foods. I guess as we look forward, what gives you confidence in the sustainability of that performance in '27 against a tough commodity chicken and consumer backdrop? And do you expect to hold or grow profits in those segments next year?

Donnie King
Great question, Andrew, and thank you. And thanks for this particular question. It is a good one. So let me start out with this and see if I can do this. Curt, if I leave something out, you or someone else feel, feel sure, feel, step in. So let me start with what we have done. I mean we are really pleased with our Q3 performance. We have improved volume, gained market share and increased profitability. That is our 12th consecutive quarter of doing what we said we would do.

Prepared Foods raised its guidance at midpoint to $1.3 billion to $1.35 billion on a third straight quarter of volume and share growth. Chicken. Chicken delivered its seventh straight quarter of volume and net sales growth with $488 million of segment operating income and 11.2% margin, a $40 million improvement year-over-year. This is an execution story, end-to-end execution.

So Andrew, back to your question directly to FY27. I need to make this really clear. I do not think about Tyson as a commodity chicken company. About three-quarters of our Chicken segment's operating income now runs on the same model as Prepared Foods, a pull business, built against committed strategic customer demand, our investment in the number one brand in chicken, and direct digital engagement with our consumers.

This is not a push business exposed to the open cut-out market. Industry-wide chicken oversupply is a commodity market dynamic. It pressures processors selling into that spot market. This is not us because most of our chicken volume is already spoken for before we place the baby chicken. Chicken is running the same playbook that has made Prepared Foods so resilient, growing through mix, brand investment, customer partnership and consumer-centric discipline, not by chasing commodity price.

And our portfolio, excluding beef, grew segment operating income $172 million or 6.5% over the first nine months led by Chicken, Prepared Foods and Pork. And by the way, Pork's role in the portfolio is largely a raw material supply to Prepared Foods. Beef. Beef has not performed the way we expected, and we are not pretending otherwise.

But we are controlling what we can control there, and we are not waiting passively for the cycle to turn. Beef is our only true commodity business. All of this taken together, Andrew, it is hard to find another consumer staples food company growing both volume and profitability the way we are, a customer-built business, not a commodity one. And that is why I am confident this will continue in FY27 and beyond.

Andrew Strelzik
Okay. That is super helpful. And maybe just a follow-up. If I heard you correctly, I think you made a comment in the prepared remarks about '27 looking a lot like fiscal '26. And I just wanted to clarify if you were talking about earnings or operating profit? Or was that a broader comment about kind of the strategic priorities, the operational discipline, those types of things? Thank you.

Donnie King
Great follow-up. As I think about 2027, we did say it would look a lot like '26. We think the momentum continues across all of our businesses. I think that would be underscored with growth in the business. That would be growth in volume, growth in profitability. We will continue to execute with our strategic customers. And so I think it is across all businesses, even beef, where I just said that we are not pleased with the performance of that. Our execution in beef is still very good.

And our model, as I just tried to point out, we're not a commodity company, except, for example, beef. And so that's what gives me confidence in that, and I feel good about that. And so in terms of, from a pricing standpoint, even if you use Q3 as a proof point, it's not a price, this wasn't a price story for us. If you look at underlying cut-out values, composite cut-out, the cut-out for commodity chicken on the commodity market was down 45%. And we saw net price realization, and that's driven by our mix, a more value-added mix, which that we've talked about often.

Our pricing models, even for those products in areas that, where they would, they're not quite branded and they're not quite value-added. But we have these customer pricing models that smooth and trim peaks and protect value. And so we feel good about that. In our strategic customer partnerships, we continue to add to that. And all of these are built on service, quality and innovation, not discounting.

A proof point, for example, is 11.2% margin in chicken in our Q3. And we're not chasing share price, chasing share through price. We're growing via mix and execution. And so all of that together gives me great confidence in our ability to not only do what we did in '26, but even beyond and even better.

Andrew Strelzik
Great. Thank you very much.

Donnie King
Thank you.

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

Ben Theurer
Good morning. And thank you very much for taking my question. Also, Donnie, I can just follow Andrew's comments here. Congrats on a great tenure here with Tyson. So let me pick up a little bit on the Chicken business and just the commentary you just had. What I would like to understand a little bit better, as we look at your chicken year-to-date and then obviously, if we just take the fourth fiscal quarter of last year, we're kind of like shaking out at the low end of the guidance for fiscal '26.

So what I would like to understand based on what you've done and what you've implemented over the last couple of quarters, what would take you to the higher end of the guidance versus what would be basically a year-over-year fourth quarter flat? So just a little bit more detail maybe on the fourth quarter, particularly in Chicken, just to understand the high versus low for the full year guidance? That would be my first question.

Donnie King
Sure. I would tell you in terms of fourth quarter last year, it was an all-time record. And quite frankly, the market was exceptional. And so we took advantage of that by producing some product and actually selling that on the market. So we took advantage of that. This year in Q4, it's not going to look that way. So we obviously won't do the same thing again.

But our bread and butter is going to be our branded and value-added portfolio and those strategic customers. So we think Q4 will be a really good quarter. It will be a really good year for us as a company, but you're not going to see the peaks in Q4 that we saw in Q4 of last year because of what I've just described, the actions we took last year to take advantage of the market.

Curt Calaway
Ben, this is Curt. I might just add. Obviously, as you looked at the guidance, we obviously maintained chicken's range that we had last quarter. That would imply somewhere between $430 million and $580 million midpoint, just a little bit over $500 million. I'd just point out, right, our average through the 9 months is running right at about $490 million, just inside of the $500 million mark.

So it's a pretty balanced year in total, I think the high low would be either a 52-48 split front half, back half or at the high end, 48-52. And so as Donnie mentioned, a really strong quarter in Q4 of a year ago for the reasons he illustrated. I think we were more like a 47-53 front-half, back-half split last year. So I think it's pretty balanced in total across the range we provided.

Ben Theurer
Okay. Got it. And then as you look into the Prepared Foods business, I want to maybe understand a little bit as you're balancing that out over the remainder of the year, but then also building on the momentum into next year. Clearly, it's been different than a lot of other food companies, and you've been able to establish a better margin profile. So maybe help us understand what allowed you to reach that level? And how confident are you as it looks into next year to maintain that margin level in Prepared Foods in particular? Are you seeing any cost pressure? Anything we should be aware of that might be a risk as we move into fiscal '27?

Donnie King
Sure. Thanks. Let's start with really two things that are fundamental to every business. We're in the protein, the value-added protein business, where we sell real food. And so that's a big point of difference for us. But in terms of how that looks, looking at the most recent quarter, and we see this continuing, a lot of similarities to all the things I just said about chicken and the overall portfolio, but we had three consecutive quarters of volume and net sales growth, certainly outpacing the industry.

This quarter, again, we gained share in volume, dollars and units. In our Q3, 13 of the 13 weeks, we saw continuous share gain in retail. We achieved the highest ever volume share this quarter. Of course, you look at all of our competitors, and you'll see real quickly that they didn't do that, and you pointed that out. But our brand wins were all broad-based. Hillshire Snacking was up

18.4%. Lunch meat was up 7%. Aidells was up 5.8%. Smoked sausage up 3.7%, and Jimmy Dean Breakfast was up 2.7%.

Prepared Foods is the jewel of our portfolio and delivering as promised. And we're trying to illustrate for everyone that our chicken business is very similar in nature to that. But it's, all this is driven by those strategic customer partnerships that we have, innovation where we continue to gain distribution and increasing household penetration. And so the alignment with the customer and the consumer and with us, it's our success that we're seeing is a result of creating a win-win across all those three constituents.

Curt Calaway
I just add to that as well, similar to the commentary I had for chicken, I know you had a question there. And as we finish the fourth quarter, our range in a tightened Prepared Foods range implies Q4 somewhere around roughly a $290 million to $340 million. That's with an average in the first 9 months of just inside of $340 million. So I'd say it's pretty balanced again in Q4, as you know, and we've talked before. Typically, our second half in Prepared Foods is a little underweight for the first half, the historical kind of 55-45 split.

But as we've really reshaped the portfolio and driven all the elements, as Donnie highlighted in delivering for the customers and consumers, we expect that to be a bit more balanced, and this would be a year that's implying a continuation of that more balanced view somewhere around 52-48 would be about the midpoint. So we will lap a Q4 of a year ago that was a little under for the reasons that we talked about last year, but very positive outlook in Q4 and also carrying through into '27, as Donnie said earlier, expecting growth both in volume and profitability in Prepared Foods for next year.

Ben Theurer
Perfect. Thank you very much. I'll pass it on.

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

Michael Lavery
Thank you and good morning. Donnie, congrats; and Jeff, welcome. Just wanted to come back to Chicken. And I know genetics got some, a little bit of unexpected airtime last quarter. Just curious if you could give us an update there, partly with an eye, I know you've already touched on some of the key kind of moving parts for how to think about next year. But I think it sounds like some of the benefit from genetics and even on that business' own momentum could pick up.

There's a little bit -- I know you made it clear, it's modest, but some potential help from Mexico cattle imports. And I know you called out how some of the easing costs in Prepared Foods would hit next quarter and start flowing through. So I guess maybe am I right to think we should consider those things as well? How big a role could the genetics piece play? And if you put it all together, I know you said similar to fiscal '26, but it sounds like maybe even a step up and better. Is that a fair characterization?

Donnie King
Yes. Okay. So let me -- a lot of questions in there, Michael. Let me start with the genetics question, and I may ask you to be maybe a little more specific on the follow-ons. But let me clear up a few things as it relates to our genetics business. First, I would remind you that the genetics business is part of our Chicken segment. It's an important part of our chicken story, but our entire end-to-

end chicken business is performing well. So let me see if I can explain this. So you start with the Chicken segment. Within the Chicken segment, you have domestic chicken and you also have our genetics company there. Both have P&Ls. Within that genetics company, we have two breeds predominantly. We have one that is small bird genetics, and we have one for big bird.

Now I'll get a little more color on the big bird piece of that, which is really the story we're talking about here. We sell those genetics domestically, internally to our domestic chicken business, but we also sell to outside customers and competitors. That's predominantly today a small portion of what we do. If I look at Cobb -- or excuse me, our genetics business or Cobb P&L, if you go back to 2014, our genetics, our big bird genetics began to decline. They never were as competitive as we needed, and they troughed at about 2024.

And so what that looked like is that not only did the genetics company suffer from a P&L perspective, but also domestic chicken suffered from that as a result because we were disadvantaged in areas like eggs per hen house, livability and, of course, the amount of breast meat you get per live animal. And so what we talked about last time was we have now -- we now have a competitive big bird genetics that is rolling through our supply chain. The status of that is this.

By the end of the fiscal year, end of the calendar year, I should say, we will be harvesting about -- in those locations that use big bird genetics, about 75% will be this new line of genetics that we have. The balance of that 75% will occur in fiscal '27 or 25%. Again, that's only for those chickens that require big bird genetics. And so you should see a P&L impact from the -- to the genetics company and likewise and even more importantly, a bigger impact on the domestic chicken business. That's where the real fruit is born. So let me pause there and let you redirect me.

Michael Lavery
No, that's really helpful. And I had a jumbo-sized question. The other piece was just kind of rolling it all into the overview on just the look ahead because it seems like that genetics flowing through should be a tailwind next year and same with some of the Prepared Foods cost pressure easing and even maybe a lift from cattle imports. So that plus some of the commentary you'd already added on how to think about the moving parts next year, it sounds like there's room for some nice improvement. And maybe I was just trying to make sure I understood how to potentially nit-pick your wording when you say similar to fiscal '26, it sounds like there's lots of reasons to believe fiscal '27 could certainly be better or possibly nicely better. Is that fair?

Curt Calaway
Michael, it's Curt. Let me pick up on a couple of things there. I think, look, I appreciate where we are in the cycle. It's -- we're not giving guidance yet for '27. Certainly, we need to finish '26 before we get there. So give me a little bit of liberty there, if you wouldn't mind. But I think what -- the message we were intending to deliver qualitatively is, first and foremost, we expect to continue on the trend that we've been on in Prepared Foods to grow volume and ultimately, profitability. We've demonstrated that, differentiated than most anyone else, and we expect to continue to deliver that.

I think Donnie's messages in the first question were really around the differentiation that we believe we have in our Chicken business and not being a commodity company, not being a chicken commodity company. And so we expect another constructive year in chicken. Not ready to give guidance yet for the reasons I illustrated earlier, but we expect it to be another constructive year. I think we've done well in these last couple of years, and we believe a lot of those things are within our control, and we'll continue to manage those.

And in total, right, certainly, there is a lot of market pressures in the beef business. But what you can expect from us is to run our beef business as efficiently as we can and control the controllables, which is the message that we've been sending over the last year plus, certainly as it's been a challenging beef business. So a little early. We'll certainly give more commentary as we get there in our next call. But I wanted to leave you with some qualitative thoughts in '27 by each of the segments. Hopefully, that helps with some context there.

Michael Lavery
Really helpful color. Appreciate it. Thanks so much.

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

Heather Jones
Good morning, and Donnie, I just want to say it's been wonderful to work with you all these years, and you're definitely will be truly missed. And Jeff, wanted to extend a welcome and looking forward to working with you…

Donnie King
Thank you, Heather.

Heather Jones
Yes. I guess I want to start out with the balance sheet capital allocation question. Your balance sheet is the strongest it's been in a while. And so just wondering if you could give us updated thinking about how you're thinking about capital allocation. You mentioned some share repurchases you did recently. So just updated thinking on that? And is there potentially any large-scale M&A that could be on the table given how strong the balance sheet is now?

Curt Calaway
Yes. Thanks, Heather, and thanks for noting certainly. We worked very hard through the business all the way through the capital allocation and the choices that we've been making over the last couple of years. So I appreciate the notice. And as always, I start out a capital allocation question around our priorities and reemphasizing maintaining that financial strength is always first in the list. But we also invest in the business, both organically and inorganically to your question and as well as returning cash to shareholders. I'll comment on the share repurchases in just a second. But I think we've demonstrated consistently that we intend to build that financial strength.

And as you noted, we have an incredibly healthy balance sheet. We're right at about $4 billion of liquidity, about 2.1x on a net leverage basis. We've taken gross debt down about $800 million this year, over $900 million of free cash flow. And with that, we've invested about $550 million in CapEx, and we've shared a range a little tighter, but we shared a range this morning, $700 million to $900 million of CapEx, and so far on a year-to-date basis, returned about $650 million to shareholders through dividends and repos.

But to your comment, we did make an earlier comment in the prepared remarks around we've already done some share repos already in the early part of Q4 of about $45 million or so. I think that represents certainly an attractive valuation for us to allocate capital to. And it's been a good return for us, we believe. But we still continue to see great opportunities to invest in the business. And we'll take a balanced view as we have, and we'll certainly share guidance in the upcoming call next quarter relative to our thoughts of CapEx. But we continue to see really great opportunities to invest organically in our business.

Heather Jones
Okay, thank you for that. And then my follow-up is, I've just been trying to reconcile a couple of things on the chicken business. So, Donnie, to your comments about the genetics improved yield, improved hen production, egg production, just basically improvement across the board on the productivity. During y'all's Q3, the industry grew volumes like 4.7%, but y'all's volumes were only up 1%. I'm just trying to reconcile disparity there. Is that just lower external purchases? Or just how should I think about that so that I can think about it correctly going forward?

Donnie King
Sure. You know, your numbers in terms of supply, if I understood correctly, they do go up from an industry standpoint. I would remind you that very simply said, we match our supply to our demand. That being said, remember that we are growing our branded and value-added offerings at a faster pace than we're growing the overall. In fact, it's almost 4x what we're growing overall sales.

So, if you go back and look through history, you would find that we probably sold more whole birds, or we sold more of a product with bones in it, meaning could be whole body, could be eight-piece, it could be any of those things. But we're selling a more value-added mix today that looks more like a portioned boneless skinless chicken breast or a ready-to-eat chicken tenderloin or things like that. But our business is growing, but it's growing in the places where we want it to grow. And as I referenced, that's growing about 4x the total sales of about just over 1%.

Heather Jones
Okay. Thank you.

Donnie King
Thank you.

Operator
Our next question comes from Leah Jordan with Goldman Sachs. Please go ahead.

Leah Jordan
Good morning. Thank you for taking my question. And Donnie, I wanted to say thank you for everything you've done for the company and shareholders over the years, wishing you the best. And Jeff, definitely looking forward to working with you, and congrats on the new role.

So, this has all been really helpful color today, and I know we'll have more discussions about '27 going forward. But I just wanted to dig into Prepared Foods. You're taking share, but the category has broadly decelerated recently, and we're in a mixed consumer backdrop. So maybe you could just comment on the competitive environment overall, what you're seeing in terms of promotional activity.

And then in an earlier question, you talked about you still expect volume growth into next year. So, I was just curious how you're thinking about category growth versus share gains as key drivers to that volume growth in Prepared Foods.

Donnie King

Great question. But let me say this, in all of these categories in which we participate, I think it's important to remember, we're the category leader. Being the category leader requires you to grow the category. And that's a responsibility that we take very seriously. And I get the overall categories are trending down and we're growing. Most of that is driven by new product innovation, improved distribution and the momentum there just continues. We're connecting with younger consumers. We've talked about that in here that our consumer was aging and that we had an opportunity with younger consumers.

Some of our new Jimmy Dean high protein, for example, is resonating with younger consumers. But we've also targeted products like Hillshire Snacking for on-the-go growth. And so, think of it in terms of the point of difference. It's protein-focused, bold flavors and everyday convenience. And we see a lot of meaningful run-way ahead to expand distribution and launch new products. So, we feel good about where we are. But even in '27 and beyond, we see tremendous opportunity behind the iconic brands that we have, not only in Prepared Foods, but in Chicken and look to continue to grow there.

We have what I would say is the best-in-class tools across the whole commercial front that -- we've invested in digital tools, and we're seeing the benefit of that with consumers and that first-party data and those type of things. That's a point of difference for us, I believe. We have done work with and tested a number of products using Agentic AI. And that's looking good, and we'll expand that as we move forward.

So, we're getting closer to the consumer. We have the products that they want. They are -- they taste good, they're affordable, they're nutritious and they're convenient. And so, the intersection of all that and all this taken together leads to growth, efficiency and a lot of run-way ahead. And it all starts with the consumer.

Leah Jordan
Okay. That's great color. Thank you. And then for my follow-up, I did want to stick with Prepared Foods a little bit more here in your comments around we should get some cost recovery later in the fourth quarter. Just more detail on how we should think about the timing of that in the quarter and into next year? And then what are you seeing and how are you planning across the different inputs? What are you seeing in terms of inflation or deflation? Any helpful color there?

Donnie King
Sure. If I look at -- in Q3, we had about $30 million of higher commodity costs in Q3. That was concentrated predominantly in beef trim. Pork commodities have begun to decline. Our pricing continues to catch up on beef. The pork benefit that I just mentioned from declining commodities didn't really show up in Q3. It was in inventory. The pork benefits will flow through in Q4, and we're seeing that and into '27. The -- if I think about fuel cost, that's starting in, what was it, about mid-April, we saw fuel costs go up, fuel and distribution costs were a bit of a headwind in Q3 and have been since April.

And -- but remember that fuel for us or particularly customer freight is a pass-through. It may lag, but a quarter or 2, but we ultimately recapture that. We do not subsidize that. And so, we think all this is baked into our plan. And as you might expect from us, it will be conservative in our approach. And -- but at this is -- we're extremely proud of our Prepared Foods business. I don't -- I personally don't believe there's another packaged goods company that is performing at the level of our Prepared Foods today, and there's significant runway ahead.

Leah Jordan

Very helpful. Thank you.

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

Peter Galbo
Hey, good morning, maybe just one on beef. Again, going back to your comments about, I think you said potential for improvement next year, it would be slow on the back of Mexico reopening. But just I think if I look at Street estimates for next year and understanding you're not giving quantitative guidance today, they're looking for you to though like halve the losses almost that you're going to see this year.

I just wanted to push on whether that's even like within the realm of possibility given the update today or whether there's probably a more conservative approach directionally that we should all be looking at?

Wes Morris
Yes, Peter, this is Wes. Thanks for your question. The administration opening the border to Mexico historically, about 5% of the U.S. harvest comes out of Mexico. And so, as you know, that starts August 24 in Arizona, then goes to New Mexico and then ultimately to Texas. And so that creates some tailwinds for us going forward. And most of those are feeder cattle, so it will take 6 months plus after they go on grass or into the feedlots. And then heifer retention up 3% is a positive move forward. It's not the rapid rebuild we saw in '14, but another set of tailwinds going forward.

Peter Galbo
Okay. Thanks for that. And I guess just to pick up on the comment, Donnie, on pork inputs moving lower. Obviously, that's a favorable tailwind from a margin standpoint. I think there's been some discussion just how much of that is supply driven just, hey, we have more availability.

And so that's creating a better environment versus has there been demand destruction, not necessarily for Tyson, but just at an industry level in some of these subcategories, and that's kind of pushing down the input costs. Just wondering if you could kind of elaborate a bit more from that perspective, what you're seeing kind of on a category level for the industry? Thanks very much.

Donnie King
Sure. Thank you for the question. Yeah, we have seen them go down. And of course, from a pork perspective, it looks to me to be stable from a supply chain perspective. And so there was -- you saw lots of concern or questions about PRRS. That was top of mind like in Q2 and about the supply.

And for us, we've not seen the real impact of that. I mean, our -- the hogs that we have are predominantly in the Midwest. And so, we weren't impacted at all by that. I think hog supplies will be adequate moving forward. Demand is solid. I think if there's any negative to this, I don't think we've seen pork -- the pork business pick up as much volume as you might expect with high-priced beef. I think chicken took most of that.

And so that was a bit surprising -- well, a bit surprising. But I think we're well balanced from a Tyson perspective in terms of the hogs. And remember, our hog supplies are predominantly an input for our Prepared Foods business. And so, we expect stable, predictable raw material cost as we move forward and certainly an advantage as we optimize that through Prepared Foods.

Peter Galbo
Thank you.

Donnie King
Thank you.

Operator
Our next question comes from Thomas Palmer with JPMorgan. Please go ahead.

Thomas Palmer
Good morning and thanks for the question. Donnie, congratulations and Jeff and Wes, welcome to your respective roles. Jeff, I know it's still early, but I did want to maybe ask on kind of your key focus items and initiatives coming in the context, especially of you come from maybe a more traditional CPG background rather than one that's more protein-centric.

And to what extent that might signal a bit of an ongoing change in kind of Tyson's focus in having you kind of head up with so much focus on value add that Donnie has been commenting on here for the last couple of years? Thanks.

Jeffrey Schomburger
Yes. Thanks, Thomas. And I think Donnie has been pretty clear about what our strategy is and more importantly, very clear that it's working. So as you would expect, as I come in, we're going to stay the course and accelerate the strategy that is already delivering great results.

So, I'll have a lot more to say about that in the future next quarter. But let me just say a couple of things, Thomas. And the first is, I can't tell you how excited I am to be on this team. I've spent an enormous amount of time in the last few weeks listening and learning, meeting with team members, several customers, plants, and I visited the homes of consumers to see how they experience our categories and brands.

And as you can tell from this call, we have a great foundation in place for our next chapter of growth. We will win. Our people, our culture and our brands are strong and the customers I talk to, they want us to help them grow. So like I said, I have a lot more to say in the future, but I really like where we are, and I really like our chances. Thanks, Thomas.

Thomas Palmer
Thanks for that. I had another question on chicken. Look, for several quarters, feed costs have been a cost tailwind. I think they were pretty neutral this quarter. In your view, what's kind of the path forward when we think about the input cost environment for the chicken business? And then to what extent we should think about the business having maybe price escalators to mitigate the impacts? Thanks.

Donnie King
Sure. I mean, I look at the futures on that, and we do see some moderate increase in that as we move forward. I think what I might say to that, Tom, is that, I think it's important to remind everyone that we have alignment with strategic customers where we collectively manage the risk associated with input costs, and we have a diversified pricing models that try to mitigate these things as well.

So, we're not uncovered in this. We're not trying to outguess the market, but we're trying to be on the market and try to get just stable commodity prices. And I feel good about what we're able to do there, not only what we've done, but as I think about moving into 2027, I think the process is in place to mitigate those risks. Those risks or increases will be real if they occur. But based on all the projections I've seen based on corn and soy, I feel good about where we are.

Thomas Palmer
Thank you.

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

Alexia Howard
Good morning, everyone, and congratulations to Donnie, and welcome to Jeff. Can I just start with beef? Can you talk about how many -- how much more cost-cutting productivity savings and benefits there are? I know you've been working really hard to close plants to improve capacity utilization and get the business rightsized given the state of the herd. Is there more of that to come? And what would it take to get beef profitability back to positive? Is that within reach at this point?

Wes Morris
Yes. Thanks, Alexia. I've been in my role for 7 weeks, and certainly, beef has been a top priority. We do have a great cross-functional team effort going on as we speak to control everything we can in this period of tight cattle supply. Our past optimization delivered on plan, but unfortunately, was offset in the quarter by live-to-cut out spread differences.

Alexia Howard
Thank you. Yes, I mean I'm just curious about whether there's a path to profitability here. But -- okay. And then separately, freight cost inflation has come up as a problem for other companies. My understanding is that you've got a lot of owned freight, so it shouldn't be an issue for you. Can you just elaborate on that? What is your exposure there if freight costs continue to rise?

Donnie King
Sure. Yes, we have seen the inflation from fuel cost in the quarter and essentially since about mid-April. But I would remind you that customer freight is a pass-through. We don't subsidize it. Recovery can lag 1 or 2 quarters. But to your point, our large internal fleet that we have helps us mitigate our overall cost impacts. And so that is performing as well. But it is higher, but we mitigate that through our process.

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

Donnie King
Thank you.

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

Pooran Sharma
Good morning, and thanks for the question Congrats on a successful tenure, Donnie, and looking forward to working with you, Jeff. Maybe -- just 2 quick ones for me. Or maybe just we could loop

this into one really. It's on comment on heifer retention, Wes, you got to it before I did. I did want to ask about this because I was a little surprised seeing that number as high as it was. We were hearing concerns of drought in key cattle-producing states.

So, chatter was heifer retention or herd expansion would get delayed. So, A was that 3% to 4% upside, was that a surprise in your view? And maybe as just a follow-up, what -- you mentioned 5% of head slaughtered for the border reopening, and we're doing it phased. How long do you think we can -- it would take for us to get a full 5%?

Wes Morris
I think it's going to take up to a year by the time you move through the process in Arizona, then New Mexico, then Texas, knowing these are younger cattle that will go to grass or feed yards, it will be close to a year before you see the positive impact of that border opening. As for your question on heifer retention, no, there's been enough positive environmental conditions that I wasn't surprised by the 3% heifer retention. But I would point out that's not a number that's the rapid rebuild we saw in the 2014-time frame. So, encouraging. It's starting, but still a long way to go.

Pooran Sharma
Okay. Thank you.

Conclusion

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

Donnie King
Thank you for your time and continued interest in Tyson Foods. We look forward to sharing our continued progress with you next quarter.

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