

FINAL TRANSCRIPT

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TSN - Q2 2009 Tyson Foods Earnings Conference Call

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PRESENTATION

Operator

Good morning and thank you for standing by. All lines will be in a listen-only mode until the question-and-answer session. (Operator Instructions). Today's conference is being recorded. If anyone has any objections you may disconnect at this time.

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Now I'll turn the meeting over to your host for today, Ms. Ruth Ann Wisener, Vice President of Investor Relations. You may begin.

Ruth Ann Wisener - *Tyson Foods - VP of IR*

Good morning and thank you for joining us today for Tyson Foods conference call for the second quarter of our 2009 fiscal year. I want to remind everyone that some of the things we talk about today will include forward-looking statements. Those statements are based on our view of the world as we know it today, which could change. I encourage you to look at today's press release for a discussion of the risks that can affect our business.

First we will hear opening remarks from our Interim President and CEO, Leland Tollett, followed by the financial report from, CFO, Dennis Leatherby. Reporting on our Chicken and Prepared Foods segments will be Donnie Smith, our Senior Group VP of Poultry and Prepared Foods. Reporting on our Beef and Pork segments will be Jim Lochner, Senior Group Vice President of Tyson Fresh Meats. Also joining us on the call today are Rick Greubel, Group Vice President and International President, and Jeff Webster, Group Vice President of our Renewal Products Division.

To keep the call to one hour and to ensure everyone has the opportunity to ask a question, I ask you to limit yourself to one question and one clarifying follow up. If you have another question please get back in the queue. If we have any time remaining we'll take additional questions in the order you queued up until we run out of time. I'll now turn the call over to, Interim CEO, Leland Tollett.

Leland Tollett - *Tyson Foods - Interim President, CEO*

Thank you, Ruth Ann and good morning, everyone. First I want to say that it really feels good to be making money in our Chicken segment again. We may not be exactly where we want to be but we're on the right track and we have made significant progress. The second quarter was somewhat disappointing from an earnings standpoint but I can say that our negative grain positions are mostly behind us. We've reduced inventory to targeted comfortable levels, and we're expecting a normalized tax rate for the rest of the year. With shorter term contracts with our customers we'll be closer to the market, therefore our exposure to the volatile market swings will be less than in previous years. So we will just stick to our plan of being a short-term buyer of input items, corn and soy, and we'll concentrate on being a very competitive producer and marketer of protein products.

In the second quarter we announced two important milestones in our core strategy of valuing up our by-products, and by the way, that is a-- that is the reason that we're participating in these businesses. We have large volumes of relatively low valued product that we want to move up the value chain. So we formed an alliance with Freshpet to market and distribute high-quality refrigerated pet foods. We believe entering the \$17 billion pet food market is a natural extension of Tyson's experience in making innovative protein products which will lead to significant value creation for our Company in the future.

Also our alliance with Kemin Industries is moving forward and a new manufacturing operation opened in March to produce flavor enhancers called palatants for pet foods. On the renewal energy front the construction of our dynamic fuels plant outside Baton Rouge that uses rendered grease and tallow to make diesel fuel continues on budget and on schedule for a December completion. The renewal products group will have additional opportunities to participate in projects that include pet products, renewal energy, nutraceutical and biotech products and you'll probably here more about these in months to come.

On the international front export markets are stronger than in previous months. Our projects in Brazil and China and India are progressing as planned. However we expect no material impact on the next couple of quarters from these two ventures, or three ventures. Of course, the H1N1 flew outbreak has been on top of our mind. It's important to remember that pork is still safe to eat but Jim Lochner will give you an update and a little more color on this subject and he and Rick Greubel will be available to answer Q&A-- in the Q&A segment to answer any questions you might have. I'll now turn the call over to Dennis for a financial update. Will he report-- then Donnie will report on the Chicken and Prepared Foods segment, Jim will do a separate report for Beef and Pork. So Dennis.

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Dennis Leatherby - *Tyson Foods - CFO*

Thank you, Leland and good morning, everyone. As stated in our press release 2Q 2009 we lost \$0.28 per share compared to a \$0.02 per share loss in Q2 2008. On a continuing operations basis quarterly results were a loss of \$0.24 and include the following items: A one-time pretax charge of \$15 million or \$0.02 per share for closure of our Ponca City, Oklahoma processed meat plant. These results also include the income tax expense of \$62 million or \$0.17 per share resulting from a change in the method we used to recognize interim income taxes. While recognizing a tax expense against a pretax loss may appear unusual, let me try to explain. Due to the volatile economy and operating environment in our industry we have experienced rapidly changing operating conditions in earnings this fiscal year. This has resulted in a large range in the estimate of the annual effective tax rate. As a result, we are required to switch from the annual method of estimating interim period taxes to the year-to-date method. The most important take away is that the charge-- change in method of recognizing interim taxes does not impact the full year tax expense.

Additionally this quarter we sold Lakeside, our Canadian beef operation, and recorded a pretax loss on the sale of this discontinued operation. This \$10 million loss included goodwill of \$59 million as well as a currency translation adjustment gain of \$37 million. At closing we received another-- received cash proceeds of \$43 million and expect to receive another \$50 million over the remainder of the fiscal year from the liquidation of Lakeside working capital. In addition we will receive another \$64 million over the course of the next five years from various notes receivable and redeemable preferred stock. \$40 million of this will be received over the next two years and the balance within five years.

The Chicken segment reported an operating loss of \$46 million and it is important to note that \$63 million of that loss came from hedging activities. \$16 million of this hedging loss is related to cost plus customers, which we will recover through product pricing in future quarters. Donnie will go into more detail about these activities and future plans in his review of the Chicken segment.

As for our other key financial measures we had over \$1.1 billion in cash at the end of Q2 2009 including just over \$300 million of restricted cash. Total debt was approximately \$3.750 billion more importantly though net debt was \$2.625 billion. This \$2.625 billion is the lowest net debt balance we've had in the past seven years and is largely the result of working capital improvements led by our inventory reduction. Since our last quarter inventories are down \$169 million and more than 150 million pounds, mostly from Chicken. Now only did this inventory reduction free up a considerable amount of cash it also positions us well for the future. Our total debt to cap at the end of Q2 was 44.7% on a net debt basis, it's 36.2%. Capital expenditures for Q2 2009 were \$76 million compared to \$110 million for Q2 2008. Accordingly we have reduced our outlook for fiscal 2009 capital expenditures to under \$450 million. At this time it should also be noted that we do not have any plans for any significant acquisitions beyond what has been previously announced.

Q2 net interest expense increased \$16 million compared to the same quarter last year and totaled \$69 million. Interest expense increased due to the recent capital raise and related amortization of debt issuance fees. We anticipate full year interest expense of approximately \$290 million to \$300 million. As you know, during the quarter we successfully completed two important transactions for our capital structure. Our new three-year, \$1 billion ABL facility replaces the previous \$1 billion revolving credit facility. This new credit facility is secured by the Companies' cash, accounts receivable and inventory, and also guaranteed by substantially all of the Company's domestic subsidiaries. Based on our current and future expected cash balances we do not expect any usage under this facility except for letters of credit, and as a result we will not be subject to its fixed charge coverage ratios. In addition we closed an offering of \$810 million of senior notes due in 2014. We used the proceeds from the notes offering to repay borrows and to terminate commitments under our \$600 million accounts receivable facility.

The notes offering and new credit facility accomplished three important goals for our capital structure. The first is ample liquidity. Between unused capacity under the ABL facility and all cash, our liquidity at the end of Q2 2009 was more than \$1.7 billion. Second, we achieved even more financial flexibility. As mentioned previously we are not subject to financial covenants and the considerable amount of excess cash gives us the option to pay off some existing debt early as well as provide funds for future

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financing needs. And third we were able to address more than \$1.8 billion in near term debt maturities. And our cash positions allows to us get off at a great start addressing another \$1 billion due in late 2011.

While the overall economic environment continues to present many challenges my confidence in Tyson Foods continues to grow to not only-- due to not only the great leadership of the team with me on this call but to the many other leaders and team members who are making a big difference for our Company. We're addressing these challenges well and getting stronger every day which positions us for great success in the future. With that I'd like to turn it over to Donnie Smith to report on the Chicken and Prepared Foods segment.

Donnie Smith - *Tyson Foods - Senior Group President of Chicken and Prepared Foods*

Thanks, Dennis, good morning, everyone. The Chicken segment posted an operating loss of \$46 million in the second quarter. However, there was significant improvement in our operations driven by improvements in operational efficiencies, product mix and lower live cost. Our back to basics approach is working and our Chicken business continues to improve and actually began turning a profit in late February. On our last call we mentioned there would be some residual effect to Q2 from last year's hedging activity. The \$63 million negative impact for the quarter result included \$16 million related to hedges for cost plus customers which we will recover through product pricing over the next 12 months. Approximately \$8 million is for fixed price contracts, the remainder or approximately \$39 million, resulted from the unexpected drop in grain and energy prices last Fall. Finally as we mentioned last quarter with the exception of those hedges we have on the books for cost plus type arrangements, the overwhelming majority of the hedging losses are now behind us and because we now have more short-term contracts with customers we don't need to make as many large positions as we have in the past. We think this is the right approach going forward and will reduce these big swings in hedging losses and gains.

Now moving on. Sales were up 9% and volume was up almost 15% over Q2 2008. The bulk of the volume increase came from our international acquisitions, the acquisition of a rendering operation to support our renewal products strategy and a sizeable reduction in inventory. Remember, we're no longer considered a freezer as a customer. Average sales prices were down versus Q2 2008 due to lower export and rendered product prices. And SG&A for the Company improved \$22 million over Q2 2008 with the majority of it coming from poultry operation. This is simply because our people have been running leaner and running smarter.

Turning to demand. Consumer attitude show a glimmer of hope in the retail channel, although the types of products they're buying continue to shift around a bit as they look for value. We understand the economic issues facing consumers and retailers and we have the resources to manufacture a products they want at a good value. In the preserves channel, monthly traffic trends point to January 2009 as a potential bottom when traffic fell to 6% before rebounding slightly in February to a smaller 4% decline. We'll be keeping an eye on this for further insights on a (inaudible) improvement. Our research for the remainder of 2009 indicates consumers will continue favoring quick service restaurants over full-service and fast casual dining for price and perceived value. International liquidity improved which has led to better export demand for chicken. Global inventories are down significantly as well and when you consider the most recent domestic cold storage numbers and production data, it's apparent that chicken supply has tight. So pricing should improve through the summer, although how much will be dictated by the economies effect on demand.

Let me shift now to Prepared Foods segment which had another good quarter. Volume was up 5% and pricing was up almost 3% over Q2 of 2008. Now adjusted for the \$15 million charge for the processed meats plant we'll be closing in Oklahoma, our operating margin was 5%, right in the middle of our targeted range. It's always hard to close a plant because it affects so many peoples lives, but this change will help us significantly in the long run by improving operational efficiencies as we align our capacity with current and appropriate demand for lunch meats, bacon and ham products and then redistribute production to other facilities. Our bacon business performed very well in the second quarter. Year-to-date our bacon volume across the enterprise is 18% above a year ago. The bacon business is good in food service and across all retail channeling. Our business on right brand bacon is improving and we've grown the distribution to 35% ACV in traditional retail.

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Our Mexican Original tortilla business is also very strong in Q2 with record profits driven by record volume. We continue growing our private label lunch meat business and we picked up share in our pizza topping business and crust businesses too although the category has slipped a little. Before I turn the call over to Jim, I know a lot of team members in Poultry Prepared Foods are listening today and I want to thank you all for all you've done to lead this resurgence. Your hard work, and just as importantly your ideas, have fueled our improvement. I know you're pleased with our progress but you're not satisfied and team, that's the attitude we need to succeed. Jim?

Jim Lichner - Tyson Foods - Snior Group President of Tyson Meats

Thanks, Donnie. Good morning, everybody. The Beef segment made \$28 million or 1.2% this quarter with late January and early February strength partially offset by weaker results in the second half of the quarter. A 76% capacity utilization for the quarter was lower than Q2s 77% but we were able to manage to spread according in a difficult environment. Our improvements in execution continue to drive results. Revenues were lower in the quarter but live cattle values generally reflected by the revenue declined -- generally, excuse me, generally reflected the revenue decline, which was primarily driven by three factors: One, a weak drop credit. High markets remained weak on continued lower leather demand and tallow prices reflected lower fat and oil commodity values.

Two, demand for more expensive cuts of meet. Some channels of food service demand remained soft through the quarter as the casual and upscale dining segments continued to experience reduced business. Three, pressure from excess trim supply. Our ground beef and trim demand continued to be strong throughout the quarter, excess trim supplies from dairy cow processing and heavy steer and heifer weights pressured pricing. Finally, as Dennis explained, we completed the sale of Lakeside this quarter.

Looking forward into the Beef segment we expect to see adequate suppliers of fed cattle for the summer and fall. Dressed weights continued to average record highs above a year ago and above the five year average reflecting the slow pace marketings. In Q2, fed steer and heifer slaughter was down over 4% or a around 20,000 head per week over the-- compared to last year. These market dynamics suggest fed supplies are being pushed into the summer and fall. And we expect a seasonal upswing in the weekly steer and heifer suppliers. However, because demand does not appear to support last year's volumes, we predict weekly slaughter rates will remain below year ago levels. Domestic demand for beef will largely depend upon the overall economy, but with middle meat prices at multi-year lows, we expect to see significant retail featuring. International demand for a variety of meats has firmed and pricing has improved. Also other value beef cuts such as plate and thin meats have been moving well internationally. We expect to see continued demand challenges on hides related to the overall worldwide economy. As we said last quarter, it will take-- likely sometime for hide and leather values to recover.

As for the potential effect of the dairy herd buyout, several pieces of information are needed before we can make any meaningful projections. First we don't know the total dollar amount available nor the expected average bid per cow. This will give us an idea of the total number of cattle in the program. Also, the time frame of the buyout remains unclear. This will be critical in determining beef demands' ability to absorb these increased supplies.

Moving on to our Pork Business. The Pork segment had a decent quarter coming in at 3.4% operating margin or \$29 million versus last year's record 8.4%. Despite adequate hog supply, hog prices increased year-over-year while the cut out was flat and the drop credit lower. These positive results illustrate our continued focus on managing a spread business. Year-over-year we processed fewer head, therefore, produced fewer pounds. Capacity utilization for the quarter came in at 87% versus 90% for Q2 of 2008. Q1 to Q2 worldwide demand for pork and pork variety meats recovered very quickly. 2008 U.S. saw liquidation, while less than many anticipated coupled with a reduction in Canadian imports, has resulted in fewer hogs available in 2009 compared to 2008 record supplies but they still should see-- exceed 2007 levels. We'll continue to watch forward hog supplies, monitor demand and especially in light of the developments around H1N1 and we will make appropriate adjustments.

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Export restrictions have and are evolving quickly as states have confirmed cases. Product values declined sharply throughout the week with the initial label of the H1N1 flu. Additionally the live hog prices and CME lean hog futures markets declined sharply. We are monitoring this situation closely and making adjustments where needed. Hopefully demand for pork products will recover quickly and has helped officials disassociate the N1-- H1N1 flu with pork products.

In closing, I simply couldn't say enough about our Fresh Meat Management team and their ongoing efforts to maximize revenue, control costs and manage gross margins. They continue to focus on the important day-to-day details and are doing an excellent job of managing the business, and I appreciate their focus every day. With that I'll turn it back over to Leland for closing comments.

Leland Tollett - *Tyson Foods - Interim President, CEO*

Thanks, Jim. Like most companies we're facing some uncertainties in the economy and we're watching this H1N1 issue unfold. But even with these challenges, I like our position. I feel really good about where we are right now. Overall we've made great progress in the last few months. I'm proud of the work going on here and I want to thank all of our Tyson team members for their effort and for their contributions. I see an attitude around here I have not seen in a long time. So with that I'll turn the call back to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Heather Jones with BB&T Capital Markets.

Heather Jones - *BB&T Capital Markets - Analyst*

Good morning. I had a quick question on chicken. Going back I think it was December or January, so you all have made comments regarding taking down your weights there as you work through inventory. And given that you returned to profitability in late February and I would presume are profitable now are you intending to go bring those weights back up, are you going to maintain lower weights for awhile?

Donnie Smith - *Tyson Foods - Senior Group President of Chicken and Prepared Foods*

Heather, our weight really hasn't changed meaningfully in Q2 versus Q1. We did fall down significantly our inventory. I don't expect a meaningful change in our, the mix, in other words, of our current weight distribution among plants.

Heather Jones - *BB&T Capital Markets - Analyst*

In your mix-- but what about, I mean what about the average weights in Q3 versus Q2?

Donnie Smith - *Tyson Foods - Senior Group President of Chicken and Prepared Foods*

I were not expect a meaningful change in our average live weight from Q2 to Q3.

Heather Jones - *BB&T Capital Markets - Analyst*

Okay. Thank you very much.

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Donnie Smith - *Tyson Foods - Senior Group President of Chicken and Prepared Foods*

Okay, thanks.

Operator

Farha Aslam, Stephens.

Farha Aslam - *Stephens, Inc. - Analyst*

Hi, good morning.

Ruth Ann Wisener - *Tyson Foods - VP of IR*

Good morning.

Farha Aslam - *Stephens, Inc. - Analyst*

Going back to chicken, you-- Donnie you had mentioned that international demand has been strong. Could you highlight more on how the swine flu or the H1N1 virus is impacting international demand for chicken and what's that doing for leg quarter pricing?

Donnie Smith - *Tyson Foods - Senior Group President of Chicken and Prepared Foods*

Hey, Farha, I'm going to let Rick answer that question, he's on the call, okay?

Farha Aslam - *Stephens, Inc. - Analyst*

Great.

Donnie Smith - *Tyson Foods - Senior Group President of Chicken and Prepared Foods*

Rick Greubel?

Rick Greubel - *Tyson Foods - Group VP and International President*

Yeah, good morning, Farha.

Farha Aslam - *Stephens, Inc. - Analyst*

Hey, Rick.

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Rick Greubel - *Tyson Foods - Group VP and International President*

Yeah I-- you're asking really asking about H1N1 and potentially the impact on chicken and I think it's really too early to say if there's been any impact at all on chicken demand internationally and leg quarter pricing specifically. What I will tell you that is impacting leg quarter demand is increased liquidity into the major markets that we export our leg quarters to and more importantly, the reduction in inventory that occurred during the last quarter. And both of those effects, as well as maybe a third effect that some of the export markets their economies are starting to recover a little bit, are having a positive impact on pricing.

Farha Aslam - *Stephens, Inc. - Analyst*

And where is that quarter pricing right now in the international markets?

Rick Greubel - *Tyson Foods - Group VP and International President*

Well, if you look at just kind of the industry reported numbers, we have seen about an average increase that has gone from somewhere in the low 20s at the beginning of Q2 to something right now that is in the low 40s.

Farha Aslam - *Stephens, Inc. - Analyst*

Thank you very much.

Operator

Our next question comes from Ken Goldman, JPMorgan.

Ken Goldman - *JPMorgan - Analyst*

Good morning.

Ruth Ann Wisener - *Tyson Foods - VP of IR*

Morning.

Ken Goldman - *JPMorgan - Analyst*

You guys refer to beef, pork and prepared foods generating financial returns at or near normalized ranges. I'm wondering if you could add a little color about what you mean by normalized? Is that excluding your hedging, what are those ranges, what time periods are those built on and so forth?

Jim Lichner - *Tyson Foods - Snior Group President of Tyson Meats*

Let me start with beef and pork. As we reported the Q2 beef at the 1.2 and pork at the 3.4 and then going forward, the indication normally Q3 and Q4 are the stronger beef months of the year and I expect the beef results to continue to follow their seasonal norm. Pork on the other hand, we did very well in Q2 considering the environment we walked into and right now because the H1N1 situation is really only a week old and it has had some profound influences on pork demand, particularly in pricing as well as lean hog costs, and keep in mind we manage a spread business, so if revenues drop and the price of livestock drops, hopefully we'll be able to be pretty much norm compared to prior Q3s which is always the challenging month in the pork segment.

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And in that regard we're going to hope and work very hard to drive the revenues up and hopefully get the pricing back up fairly quickly in that segment. But again we are a spread business and the lean hog costs or live hog costs follow the product down or in this case actually preceded the product declines.

Ken Goldman - *JPMorgan - Analyst*

When you say normalized -- (inaudible) I'm sorry, guys, I didn't (inaudible).

Leland Tollett - *Tyson Foods - Interim President, CEO*

Go ahead, go ahead with your question.

Ken Goldman - *JPMorgan - Analyst*

No, I just wanted to follow up and get a little more color quantitatively on what you meant by normalized though, just sort of back to the last five years, back to last couple years, just so we can sort of go back to our models and say, all right these guys are about to go back and do ex percent.

Jim Lichner - *Tyson Foods - Snior Group President of Tyson Meats*

Well, typically we talk about beef being 1.5% to 3% and pork being in the 3% to 5% zone. And if you look back over time, over-- particularly over a 20-year period, they're going to hit that high/low and in that zone with the exception of beef having some much lower years in that 2004, 2005 and part of 2006 time frame.

Ken Goldman - *JPMorgan - Analyst*

Yeah, I guess my questions more on chicken. Just because if you look back over time corn and soybean meal were a lot lower than they are now. So I'm just wondering what your expectations are for normalized margins there?

Donnie Smith - *Tyson Foods - Senior Group President of Chicken and Prepared Foods*

Ken, we've made quite a bit of progress in our chicken business and we certainly think we've got the ship turned into the wind and we are picking up a little wind in our sales there. And I'm not sure-- corn was up \$0.50 last week and we've got some demand issues kind of hovering over us, so I'm not sure we would hardly peak into our normalized range in Q3. We like to think of normalizing chicken at 5% to 7% return on sales provided we get-- keep markets about where they are and our forecast stays the same. We feel good about our opportunity to get into that range in Q4, but there's still quite a few things going on around us and we're going to say we're cautiously optimistic, how about that?

Leland Tollett - *Tyson Foods - Interim President, CEO*

Yeah we're not pessimistic by any stretch of the imagination from the standpoint of the progress that we've made from about the third week in February this way-- it's-- we've been pretty pleased with where we are and we're making good progress. Without some real surprises in the grain markets or some aberration in the market itself, Donnie has it pegged about right.

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Ken Goldman - *JPMorgan - Analyst*

Thanks very much.

Ruth Ann Wisener - *Tyson Foods - VP of IR*

Operator can you move on--?

Operator

Okay, Ann Gurkin your line is open for your question.

Ann Gurkin - *Davenport & Company - Analyst*

Good morning.

Ruth Ann Wisener - *Tyson Foods - VP of IR*

Good morning.

Ann Gurkin - *Davenport & Company - Analyst*

Good morning, Donnie, I believe in your comments you mentioned or highlighted that you believe maybe January was the bottom, potential bottom in the food service segment. Can you comment on what you all are now looking for that business for the second half of the calendar year? And then as related to consumer demand as we move into summer particularly on the retail side, can we get an update as to where that's tracking versus expectations?

Donnie Smith - *Tyson Foods - Senior Group President of Chicken and Prepared Foods*

Yeah, Ann, it's still a bit murky. We are hoping that the beginning of Q2 was, was the bottom. But I'll tell you as we look at the unemployment numbers and just whatever economic factor you want to look at, I think the market in general is just trying to find out if we found a bottom. So before I would get too carried away about how to predict the upswing, I'm really wanting to see if we've put a bottom in this thing. We like to think we have. It's probably going to take a few more weeks of data though before we feel comfortable about that. So our forecast, our for sales growth for our business not dramatic, Technomic data would indicate that the food service industry is still going to be down versus the prior year. So we've got that in mind. And we're just hoping that in food service the decline has stopped.

Now on the retail side we have seen some demand shift from food service into retail. Honestly I think we're looking for a pretty good Memorial Day and summer grilling season in retail. We've geared up for that. We're prepared for that. If indeed that customer demand does come our way. So I'd look for pretty solid, pretty solid season this summer in our chicken side.

Ann Gurkin - *Davenport & Company - Analyst*

Great, thank you.

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Donnie Smith - *Tyson Foods - Senior Group President of Chicken and Prepared Foods*

Thanks.

Operator

Our next question comes from Christine McCracken, Cleveland Research.

Christine McCracken - *Cleveland Research Company - Analyst*

Good morning.

Ruth Ann Wisener - *Tyson Foods - VP of IR*

Good morning.

Christine McCracken - *Cleveland Research Company - Analyst*

Just wanted to delve into the Canadian and Mexican situation specific to the country of origin labeling process. And as I understand that Tyson is currently taking those Canadian hogs and the Mexican cattle at a nice discount to the current marketplace. I'm wondering has that had any impact on your margins and your beef and your pork business and if so, are you-- or is it that you're selling that meat then at a discount so you're not really maybe seeing the same magnitude of benefit relative to what you're paying for those animals?

Jim Lichner - *Tyson Foods - Senior Group President of Tyson Meats*

Let me start with a little bit of an overview. Country of origin labeling definitely has added more complexity to both businesses simply because we have a lot of moving parts yet relative to customer demand on categories A versus B and C. And therefore are watching the meat values of those items and then obviously the relative livestock available compared to the shift in demand for Canadian and Mexican-based livestock has created some market challenges on the-- basically a basis for those. And we watch those every week and right now it's too early for me to really say what the long-term trend would be, but we definitely are watching them as an individual gross margin play. And I won't comment exactly on what the pricing differences on the meat and livestock. Early on Mexican-based feeder cattle came into the country considerably, with a considerable discount and that's been evolving very rapidly as well. So it's really boiling down, Christine to how many plants are accepting category B livestock and category C livestock against the offerings and that will drive the basis.

And exactly the same thing on the meat prices, it's how many customers are shifting away from or back to categories B and C and there's been a plethora of differences of opinion on what the meat values will be and they evolve every week. So I apologize for not giving you specific numbers but that's the general theme that's happening.

Christine McCracken - *Cleveland Research Company - Analyst*

Can you say whether or not it had any beneficial impact on the quarter?

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Jim Lichner - *Tyson Foods - Snior Group President of Tyson Meats*

I would say that it added to our costs and we're trying to make sure, because we do have more segregations, and at this point my best number on that would be it was neutral. It was not necessarily beneficial because they had higher operating costs in beef and again that depends upon the plant and the volume of category B and C livestock that we received. And as I said earlier, it's a very fluid event even at this stage depending upon what's going on in the demand. The demand for the meat in those categories is what's going to drive the differential, but we will have higher operating costs depending upon the plant.

Christine McCracken - *Cleveland Research Company - Analyst*

Just one follow up. In terms of this discovery I guess of H1N1 in the Canadian herd, is your policy on Canadian hogs then going to change?

Jim Lichner - *Tyson Foods - Snior Group President of Tyson Meats*

Well, since I just found out about that Saturday night and it's now Monday morning we haven't had a chance really to discuss it, I doubt it simply because I don't think that the-- that it will have any restriction on flow. That herd was quarantined and it's really not an uncommon situation for pork to come down with a respiratory flu. So I don't know that that there'll be any policy change, who knows as the day and the week goes on. The only thing we can do is adjust for it if the market condition warrants that.

Christine McCracken - *Cleveland Research Company - Analyst*

Thank you.

Operator

Ken Zaslow, BMO Capital Markets.

Ken Zaslow - *BMO Capital Markets - Analyst*

Hey, good morning, everyone.

Ruth Ann Wisener - *Tyson Foods - VP of IR*

Morning.

Ken Zaslow - *BMO Capital Markets - Analyst*

How quickly can you get your chicken margins up to the normalized levels? You think you're going to be able to see some of those levels in the summer? How does that look going forward?

Donnie Smith - *Tyson Foods - Senior Group President of Chicken and Prepared Foods*

Ken, we're anticipating -- well, I want to rephrase what I said a little bit earlier. We're not too sure that-- but we feel comfortable we'll get close to that range in Q3. We like our chances going into Q4 but remember, corn was up \$0.50 last week on late plantings. We've got this economic cloud laying over top of it. So there's still some things around us that we've got to be mindful

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of but we have made significant improvements in our business and like our chances going forward. We feel cautiously optimistic about our Chicken business.

Leland Tollett - *Tyson Foods - Interim President, CEO*

We've had some product lines that have lagged quit a bit. We've got those much better than they've been, to say that we've got all of them-- that we even have a majority of up to the, a normalized range would be a little stretch, but as Donnie says we've things heading in the right direction.

Ken Zaslow - *BMO Capital Markets - Analyst*

Great. And its-- from your commentary, it seems like you're making money in all your businesses now, is that the understanding that I'm getting from the commentary and is that expected to go through to the end of the year?

Leland Tollett - *Tyson Foods - Interim President, CEO*

As of today we're making money on all our businesses.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay and then my other question is, if you're not spending on CapEx, you're not spending on acquisition what are you going to use your cash flow for given that you have, excluding the restricted cash, about \$800 million? It seems like a lot of cash to just kind of hang out on the balance sheet.

Dennis Leatherby - *Tyson Foods - CFO*

Ken, we're going to delever-- our plan is to drive cash through this business and use cash to fund any CapEx we need, any future acquisitions we need and to be opportunistic and buy back debt when we can too.

Ken Zaslow - *BMO Capital Markets - Analyst*

So what is your expectation for the end of the year in terms of debt-to-capital? Or do you have any sort of targets for paying down debt?

Dennis Leatherby - *Tyson Foods - CFO*

Aggressive pay down of debt is our plan but we're not going to give guidance in that regard.

Ken Zaslow - *BMO Capital Markets - Analyst*

Great. Appreciate it.

Ruth Ann Wisener - *Tyson Foods - VP of IR*

Thanks.

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Operator

Tim Ramey, D.A. Davidson.

Tim Ramey - *D.A. Davidson & Co. - Analyst*

Good morning. Donnie's comments on chicken were very helpful, but I wonder if Mr. Lochner would give us some similar color on his view of the chances of getting to or sustaining normalized margins in beef and pork in kind of the latter half of the year?

Jim Lichner - *Tyson Foods - Snior Group President of Tyson Meats*

Good morning, Tim. Beef, we came through Q2 a little better than I thought with the tougher part being in March and then into early April. But again the spreads kind of corrected, we ran the cut out up fairly strong and even though it kind of topped and gave back a little bit. The supplies are seasonally coming on and I do expect to see, as I said in my comments, the fact that the industry probably isn't going to run, the demand doesn't seem to warrant over running the demand with excess supply which will work favorable from our regard simply because we could see we push cattle forward. I think it's interesting when you look at the cattle feed numbers that are perpetual inventory that compared to January 1 we've made up over 350,000 of that deficit and we're into 532 zone and that's a combination predominantly of less marketings. And so I think the balance of offerings relative to the demand seems to be in reasonable harmony and so I'm fairly optimistic on beef. I'm not concerned that in the next two quarters we're going to run into a major supply deficit.

Pork I would come back, and had-- would of one weeks ago had a considerably different view simply because I saw so much price pressure throughout the week on products is this hysteria over H1N1 was evolving and particularly on items, hams most notably but even boneless loins and bone-in loins and butts, every category of the animal took some pricing pressure and we'll have to just see how fast this will come up. But again the lean hog index in the western corn belt prices dropped. We are going into a seasonally tighter supply. Normally our Q3 is our most challenging quarter and our job is going to be to try to maximize the revenue, try to get as much back on the live hog cost and keep our spread. So-- but I am, as it stands right now, I've-- my hope is that the H1N1 situation blows over. I think it might because of just all the commentary on the CDC this week, this weekend and we'll just have to see if Mexico's consumption of hams comes back up and that's where the major price pressure was. We didn't see a lot of run away from export particularly in loins but we have seen weaker demand domestically as well over his confusion. So that's throwing a wildcard into this Q3 and Q3 is always, usually our challenging quarter.

Again even with the supplies coming down, with the herds coming down particularly in the U.S. and Canada, you always have to look at one component and that is productivity efficiency is still gaining which is offsetting some of that decline. And the worldwide supplies of pork are still down. So I'm expecting really a fairly quick rebound in pricing and again optimistic that we can get into that zone. Our pork division is run very well. Our plants are running very well. Our overall maximizing our mix and revenues within that mix has been very well throughout the last several quarters and certainly nothing in the performance area has shifted.

Tim Ramey - *D.A. Davidson & Co. - Analyst*

But-- and just as we think through maybe beyond the fourth quarter, I know you alluded to kind of a whole in the cattle supply, does your optimism on supplies or capacity utilization extend beyond the fourth quarter?

Jim Lichner - *Tyson Foods - Snior Group President of Tyson Meats*

Yeah, I really-- the herd, beef cow herd dropped to 31.67 and then we'll see the dairy cow heard come down with this from the 9.33 so that will take some supply out, but we're not going to be really looking at those supply shifts out until probably 18

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months and I don't see a real radical drop. And the other thing that's encouraging is I have seen the rebound of Mexican imported feeder cattle that have come back this, the last three months, and we're watching just how the economics of the Canadian imports work as well which is very much driven by function of the dollar. And then overall as COOL, if there are any major changes related to country of origin labeling. But I don't see a real radical drop off. I see maybe a slow steady erosion of supply. And the industry's felt in reasonable balance to me.

Tim Ramey - D.A. Davidson & Co. - Analyst

Thank you.

Operator

Robert Moskow, Credit Suisse.

Robert Moskow - Credit Suisse - Analyst

Hi, two questions on chicken for Donnie. I guess the first one is, the 14% increase in volume in the quarter, when you strip out the acquisitions and maybe some inventory liquidation, I want to know was there any sign of Tyson taking market share given Pilgrim's Pride bankruptcy, I wanted to know if that was continually at all? And then secondly I was pleasantly surprised in the leg quarter prices being as high as they were, you mentioned that liquidity issues were kind of fading maybe it's less of a problem than it was before. Can you give us a little more color internationally about the export market and the ability of say Russia for example to be a better credit and buy, I suppose? Thanks.

Donnie Smith - Tyson Foods - Senior Group President of Chicken and Prepared Foods

I'll let Rick handle the last one. On the first one we did pull quite a bit of inventory out during Q2. As far as us gaining share I would say there's a chance but I wouldn't attribute it necessarily to any particular other company. As we go out in the marketplace and we talk to our customers, some of our customers are growing and we're growing with them and we're winning some bids and that type of thing. So, yeah, I think there's categories where we're gaining share. Now you got to be careful about that particularly in food service because we may be holding or gaining a little bit of share in our declining categories as well, too. So maybe a little bit is your answer but I wouldn't attribute it to any other company.

Robert Moskow - Credit Suisse - Analyst

Okay.

Donnie Smith - Tyson Foods - Senior Group President of Chicken and Prepared Foods

Rick?

Rick Greubel - Tyson Foods - Group VP and International President

Okay. Let me just take you back and maybe the way you should think about that is as we move through Q1 inventories built here in the U.S., as a result of the lack of liquidity in the global markets, the uncertainty around the economic crisis as well as what was happening in the currency markets, okay? As we started moving into Q2, and call it the middle of Q2, what we saw was liquidity started to improve and currency also stabilized and both of these drivers had the-- then the opposite effect because as our inventories built domestically what you were having was international inventories being drawn down in our major export

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markets. So the channel inventories were being reduced at the same time. So when liquidity started coming back in, currency started stabilizing, you saw an increase in demand and that allowed to us reduce our inventories throughout the second part of Q2 and into Q3 and that's had a positive impact on the pricing.

Robert Moscow - *Credit Suisse - Analyst*

Okay.

Rick Greubel - *Tyson Foods - Group VP and International President*

Is that helpful?

Robert Moscow - *Credit Suisse - Analyst*

Yeah, it is. Rick, just with respect to Russia can you be more specific there? Is our chicken a very good deal still compared to their ability to make it domestically?

Rick Greubel - *Tyson Foods - Group VP and International President*

Yeah I would say our-- it really is still a good deal but I also want you to think about it in the terms of there's a couple of different market segments there. There's fresh chicken produced in Russia that largely goes into retail offerings. Most of the imported chicken that comes from the U.S. or other places in the world into Russia moves into more food service items, sometimes sausages et cetera. So there's a couple of different market segments and there's also distribution, separate distribution channels but we do track the pricing of the local produced chicken in Russia versus the imported product and we're still a what I would call a good value.

Robert Moscow - *Credit Suisse - Analyst*

Interesting. Okay, thank you very much.

Operator

Christina Mcglone, Deutsche Bank.

Christina Mcglone - *Deutsche Bank - Analyst*

Thank you. I just wanted to get kind of a bigger picture of you. I mean we have a very cloudy demand outlook, we have the economic weakness globally, dairy herd reduction and now we have the impact of H1N1, and I wanted to get your idea if we're going to run into a protein glut or if you see consumers shifting their preferences among different proteins and how does that affect Tyson in particular?

Leland Tollett - *Tyson Foods - Interim President, CEO*

I would assume that there will be a certain amount of shifting going on but I think all of that is fairly temporary. I do not expect a protein glut, no.

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Christina Mcglone - *Deutsche Bank - Analyst*

So this summer, because of the liquidation and maybe lower pork values depending on how long this H1N1 impacts, you don't see that adversely hurting breast meat prices or certain beef cuts?

Leland Tollett - *Tyson Foods - Interim President, CEO*

Not particularly, no.

Christina Mcglone - *Deutsche Bank - Analyst*

Okay. Thank you.

Operator

Chris Bledsoe, Barclays.

Chris Bledsoe - *Barclays Capital - Analyst*

Good morning.

Leland Tollett - *Tyson Foods - Interim President, CEO*

Good morning.

Ruth Ann Wisener - *Tyson Foods - VP of IR*

Morning.

Chris Bledsoe - *Barclays Capital - Analyst*

So if I were to just kind of put together all the comments on normalized earnings on the various segments and if I were to assume that on kind of consolidated basis that normalizers maybe kind of a 3% to 3.5% to 4% type of range, are you-- what I'm hearing you saying, and tell me if this is wrong, what I'm hearing is that it's not out of question for the back half?

Dennis Leatherby - *Tyson Foods - CFO*

That is possible but it's the lower end of that probably to be safe.

Chris Bledsoe - *Barclays Capital - Analyst*

Okay. And then just to follow up on H1N1, and I realize that kind of the impacts on consumption behavior maybe temporary and whatnot, but I just want to-- what I'm a bit more concerned about is that the trade impact with some of the key export partners and that's not just-- doesn't seem to just be influencing movement of pork product, but also that sort of location of some of the states bands and the critical role that ports in those states plays in moving product out of the country. I'm just

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wondering if you're seeing, across any of the proteins, a bit of inventory building in just the last few days in responses to some of those major ports being shutoff for product movement into some of the key export countries?

Jim Lichner - *Tyson Foods - Snior Group President of Tyson Meats*

It's Jim Lochner and I'll start with-- yes, over that course of last week you, and you saw it reflected in prices which would imply that disappearance both domestically and internationally with pressure and then we'll just have to wait and see country-by-country what happens, some with and some without in any export restrictions. And I'll let Rick comment on kind of country-by-country what's going on.

Rick Greubel - *Tyson Foods - Group VP and International President*

Yeah and it-- this is Rick Greubel here, and it really does depend a little bit on the-- on a market-by-market analysis here. Just to give you some color around that, our major export markets in order of priority are Japan, this is for pork, okay Japan, Mexico, Canada, then I would call it kind of Taiwan, Hong Kong, South Korea and then way down the list, Russia. Okay. So we have-- we continue to see pretty good demand from all of those markets with the, with Mexico being the big question mark, right, because without a doubt pork consumption in Mexico as a result of H1N1 has impacted pork demand in sales there. And it's really going to be a function of how fast that market turns around as the media continues to get probably more accurate information into the public.

Chris Bledsoe - *Barclays Capital - Analyst*

That's helpful. And if the export bans, if the duration of those bans are not necessarily short-lived, what's the resolution for the industry, is it kind of a rewiring of how product gets allocated into whom and then how that moves across from kind of one border to another outside of the U.S. or are there kind of contingencies in place that allow for pretty effective clearance of that product out of the U.S.?

Rick Greubel - *Tyson Foods - Group VP and International President*

Yeah I don't think that bans as they have occurred to date, and let's be real clear on this point, are going to have a big impact on our ability to clear volume, okay. Russia is the only country that's been of any of our significant export markets, and I'll just tell you that year-to-date Russia's pork exports would be less than 2% of our total, okay, so it's a small volume.

Chris Bledsoe - *Barclays Capital - Analyst*

I was wondering for chicken in particular.

Rick Greubel - *Tyson Foods - Group VP and International President*

Yeah in chicken what Russia did was they implemented some bans on some states where the H1N1 virus has been reported in humans, okay. So Texas and New York, et cetera. And there's a list of states. None of our major export producing locations have been affected by that and we don't see any impact on our ability to export chicken, okay.

Chris Bledsoe - *Barclays Capital - Analyst*

Great. Very helpful. Thank you.

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Operator

Vincent Andrews, Morgan Stanley.

Vincent Andrews - Morgan Stanley - Analyst

Hi, good morning, everyone. I guess just on these normalized chicken margins I guess if you're moving more towards cash raising costs, which we can try to calculate, and then also looking at what the cash prices for the different chicken parts and I recognize that you've got a value-added mix and so forth, but we are not calculating anything close to normalized margins at current cash prices and raising costs and cash prices or selling prices have kind of hit a ceiling for awhile now. So I'm just-- what am I missing here in terms of your ability to get to normalized chicken margins in the next couple of quarters?

Leland Tollett - Tyson Foods - Interim President, CEO

I don't know what you're missing. I really don't know what to tell you.

Vincent Andrews - Morgan Stanley - Analyst

So is it that you're just achieving excellent short-term contract prices with your customers?

Leland Tollett - Tyson Foods - Interim President, CEO

Well--

Vincent Andrews - Morgan Stanley - Analyst

Is my math wrong?

Leland Tollett - Tyson Foods - Interim President, CEO

I don't know what kind of math, usually don't know what exactly what kind of pricing you're using in there. I can tell you that we're very competitive from a production standpoint both field and through the plant. We have paid particular attention to the product mix and maximizing the value of every single chicken we've got and every part of that chicken. Now, are we getting more than the next guy? I can't tell you.

Vincent Andrews - Morgan Stanley - Analyst

Okay. And so do you-- so you're not sure whether your margin, if you're going to get normalized margins whether the whole industry would be anywhere near that level? Because I guess the next question would be if everyone is going to get back to normalized margins so quickly what's going to happen from a production perspective? In other words, are these kind of 5% to 6% X that reductions that we've been seeing, would you expect those to continue?

Leland Tollett - Tyson Foods - Interim President, CEO

I don't know that I would have a real hard opinion on that other than to tell you that the breeder flock, the potential breeder flock as it's coming home, that is pullets place for egg production has been down for what now, Donnie, seven months?

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Donnie Smith - *Tyson Foods - Senior Group President of Chicken and Prepared Foods*

Yes.

Vincent Andrews - *Morgan Stanley - Analyst*

So-- right and the majority of that seven months everybody was losing a lot of money. So I guess my point is that now that profitability is coming back I'm trying to understand what would your expectations be for your own level of production, have you started to add anything back yet?

Leland Tollett - *Tyson Foods - Interim President, CEO*

We will add back when our market demands it and not before. We will not put chickens down on the come.

Vincent Andrews - *Morgan Stanley - Analyst*

So normalized margins you would not necessarily add anything else back unless you felt you could continue those margins unequivocally?

Leland Tollett - *Tyson Foods - Interim President, CEO*

That would probably be a fair statement.

Vincent Andrews - *Morgan Stanley - Analyst*

okay, thanks very much.

Operator

Thank you. At this time we'll turn the call back over to your host, Ms. Ruth Ann Wisener.

Ruth Ann Wisener - *Tyson Foods - VP of IR*

Thank you very much for interest in the Company and for your attendance on the call today. We look forward to speaking with you next quarter.

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