FINAL TRANSCRIPT

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PRESENTATION

Operator

Welcome and thank you for standing by. At this time all participants are in a listen only mode. (Operator Instructions). This call will be recorded. If anyone has any objections you may disconnect at this time.

I would now like to introduce Ms. Ruth Ann Wisener.

Ruth Ann Wisener - *Tyson Foods, Inc. - VP IR*

Good morning and thank you for joining us today for Tyson Foods' conference call for the first quarter of our 2011 fiscal year.

I need to remind you that some of the things we will talk about today will include forward-looking statements. Those statements are based on our view of the world as we know it now, which could change. I encourage you to look at today's press release for a discussion of the risks that can affect our business.

On today's call is Donnie Smith, President and Chief Executive Officer; Jim Lochner, Chief Operating Officer; and Dennis Leatherby, Chief Financial Officer.

To ensure we get to as many of your questions as possible, please limit yourself to only one question and then get back in the queue for additional questions.

Be aware that our executives need to get to our shareholders meeting later this morning, so we cannot continue much past nine o'clock Central.

I will now turn the call over to Donnie Smith.

Donnie Smith - *Tyson Foods, Inc. - President, CEO*

Thanks, Ruth Ann, and good morning everyone and thanks for joining us. If you read our press release this morning you saw that we set a record in our first quarter of the fiscal year with GAAP earnings of $0.78 a share or $0.75 on an adjusted basis.

Net sales were $7.6 million, which is about $1 billion more than the first quarter last year. Operating income was $498 million with a 6.5% return on sales. Volume was up 4.5%, while prices were up almost 10%.

Our Chicken and Beef segments performed within their normalized operating margin ranges. The Pork segment was well above its normalized range. And Prepared Foods was just under its range and is making steady progress.

In our press release you will see that we had a $51 million benefit from our grain and energy risk management activities. This included $23 million of mark-to-market gains on positions that were still open at the end of the quarter. As I have mentioned before, we have a very conservative risk management approach and we view these activities as a normal part of running our business. And I would like to point out, even without the mark-to-market gains, our Chicken segment would have been well within its normalized range.

To give you a quick update on our international operations, Mexico had a great quarter. Our startups in China and Brazil are showing improvement, although there is still a significant amount of work to be done. India is still doing a great job, and demand for our brands in India is strong.

Now I would like to turn our attention to our view of protein demand for the rest of the year, beginning with retail. Albeit low, consumer confidence remains at or about the same index as a year ago. Consumers' assessment of the economy and the labor market remains somewhat cautious. Now there are signs that the economic recovery will continue into 2011, but the pace of growth remains slow.

With USDA calling for 2% to 3% food cost increases and forecasts calling for gasoline prices to continue to rise, we believe consumers will continue their cautious stance and volume at retail will remain flat versus 2010.

Turning to food service. Food service sales forecast were recently adjusted up very slightly due to a more positive picture about full service restaurants and the college and university sales, as well as higher than originally forecasted inflation in menu prices of about 2.5%.

Remember, these are food service sales increases and not volume increases. We still believe that there will be little, if any, real volume growth this year in food service due to continued elevated levels of unemployment and underemployment, and consumers' lack of confidence about their personal finances and home-equity values.

Our study of popular industry data services leads us to conclude that we are not likely to see meaningful real volume growth for the industry until 2012.

Now having said all that, my overall view of our business is good. I have been hearing some people out there saying that 2011 is starting to look a lot like 2008. Now prices for grain and gas are high, but the similarities end there, at least for Tyson Foods.

First of all, our Chicken business is in significantly better shape, having produced approximately $600 million in performance improvements over the last three years. This includes yield, mix, live production improvements, additional processing flexibility, less product moving between plants.

Our execution is better; we are more efficient. Our cost structure is much, much better. And we are on track in executing the plans we discussed last quarter. Now Jim will add more detail in what to expect for 2011 in his comments.

Our Beef and Pork businesses are extremely competitive. We reduced debt and interest expense by a sizable amount, which gives us a very strong balance sheet. Our organization as a whole is in better alignment. Our team members have more clarity around what they need to do and they are focused on getting it done.

I am very pleased with our performance and I think it will be another great year. As long as we stay focused on the fundamentals and keep executing, I think you'll like the results.

Now we are now well into our second quarter, which is typically the most challenging. As we mentioned last quarter, we expect chickens remain profitable. We are up to this point, and we should continue through quarter's end and the remainder of the fiscal year.

In Chicken none of remaining three quarters will produce numbers we necessarily like, but they should all be in the black. Beef and Pork are doing very well. Prepared Foods is continuing to improve. All that should add up to a strong year overall.

I will now turn it over to Jim for a review of our segment results followed by Dennis and the financial report.

Jim Lochner - *Tyson Foods, Inc. - COO*

Thanks, Donnie. The Pork segment had another outstanding quarter, posting 14.3% return on sales and an operating income of $177 million, as compared to 9.9% and $125 million in our previous quarter, and 6.5% and $62 million in the same quarter last year.

Volume was up 5.8% over Q1 2010, partially due to increased hog weights, while price per pound was up 23.5%. I am very pleased with the work our Pork team is doing as they continue to focus on revenue, cost management and customer service.

The Chicken segment performed near the top of its normalized range in Q1 with a 6.9% return on sales and $181 million in operating income. This compares to 6.5% and $170 million in the previous quarter when adjusted for the goodwill impairment of our Brazilian poultry operations. It also compares favorably to the 3.2% return on sales and $78 million in operating income posted in the same quarter last year.

I know you are aware of how grain is impacting the cost of goods. Until industry supply more closely aligns with demand, our market-based chicken businesses will be challenged. Fortunately, we have a diverse business that includes customers and retail, quick service restaurants and food service distributors.

We serve international customers through both exports and in-country production. We offer products ranging from the most value-added chicken, down to a basic whole bird, and we sell these products through a variety of pricing arrangements with our customers.

Our inventories are at target levels. We have improved our operational efficiencies and optimized our product mix by investing capital in our businesses and focusing on execution. And we will continue investing in our business.

We expect to achieve $200 million in operational efficiencies this year in addition to the $600 million achieved over the past three years. So despite market challenges, we believe our Chicken segment will be profitable for the rest of the year.

Turning to the Beef segment, we produced a 3.6% return on sales, with $116 million in operating income in the first quarter. This compares to 4% and $121 million in the previous quarter, and 4.4% and $119 million in the first quarter last year. Volume was roughly flat, while prices were up 16.4% versus Q1 2010.

I think there is still a widely held belief that our Beef and Pork profitability isn't sustainable. I want to again explain why we don't believe that is true.

If we look at supply, current cattle and hogs production levels can't change much in 2011 because of the limits of the animals' lifecycles. However, there is ample supply in the regions our plants operate. Our plants are located near the fed cattle and hogs, and we closed the ones that weren't.

Beef imports are down with no significant growth forecasted. Our Beef and Pork exports and pricing remain very strong in the last quarter. Our plants and management teams are running very efficiently with experienced team members.

We are projecting our Beef segment will be within its normalized range for the year. And although we don't expect the Pork segment to maintain Q1 level, it should be well above its range.

Moving on to the Prepared Foods segment, return on sales was 3.5% with $28 million in operating income compared to 1.3% and $10 million in the previous quarter, and 7.7% and $55 million in Q1 last year. Although it came in slightly under the normalized range, Prepared Foods made up a lot of ground after facing raw material price volatility early in the quarter.

We still have work to do to get some of the businesses within Prepared Foods where they need to be, but we are making progress, and I think this segment will be within the normalized range for the year.

In closing, I want to reiterate something Donnie said. Tyson Foods is a much better company than it was three years ago. We plan to keep proving it quarter after quarter, especially during times of challenging market conditions.

Lastly, I want to compliment the entire team for their focus on being our customers' go-to supplier and their continuous improvement in managing costs and operational efficiencies.

Now we will go to Dennis for the financial report.

Dennis Leatherby - *Tyson Foods, Inc. - CFO*

Thank you, Jim, and good morning everyone. Our reported of Q1 earnings of $0.78 per share include an $11 million gain, or $0.03 per share, related to the sale of an interest in an equity method investment. Excluding this gain, Q1 EPS was $0.75 per share.

Our operating cash flow was $371 million. Net debt, which includes cash of more than $1.1 billion, was down to just over $1.4 billion, a reduction of $132 million from Q4. Total liquidity, which includes availability under our credit facility and cash was nearly $2 billion.

Our bond buyback program showed slight progress during the first quarter as we repurchased only $31 million. Further activity was restricted due to the ongoing higher premiums our bonds have garnered since last summer.

Return on invested capital for the last 12 months was just under 26%, a measure we are proud of achieving and are striving to maintain consistently over time.

Capital expenditures were $158 million per quarter. We have a number of excellent capital projects, both carryover projects that were underway at year-end, and new 2011 projects that we believe will continue to enhance production and labor efficiencies, yield improvements in sales mix.

Our effective tax rate for Q1 was 34%, or 35.1% without the gain on sale of an interest in an equity method investment.

So here is an update on our outlook for fiscal 2011. Revenues are expected to be around $31 billion, driven largely by increased wholesale prices for Beef and Pork, along with volume growth in Chicken. We expect 2011 net interest expense will be approximately $245 million, down nearly $90 million compared to fiscal 2010. The effective tax rate should be about 35%.

Our diluted shares for the first quarter were 379 million, and the dilutive effect of options and convertible bonds will fluctuate depending on our stock price performance.

CapEx should be around $700 million, as we continue to reinvest in our business. And our spending will again be focused on improving the efficiency and competitiveness of our domestic operations and completing the build out of existing foreign operations. Depreciation and amortization will be approximately $525 million.

We will continue to use excess cash to repurchase notes when available at attractive levels, as we strive to continue to get our debt back to investment grade.

We do not have any significant maturities of debt coming due until fiscal 2014, as the balance on our 8.25% notes due October 11 were $315 million as of January 1. We plan to retire these notes on the last day of fiscal '11 with correct cash on hand and/or cash from operations.

In summary, 2011 is off to a great start. Although we are facing challenges involving grain prices and a supply/demand imbalance in the chicken industry at this point, I am confident we will come through this year's strong because of our efforts to improve what we can control -- our cost structure, our efficiencies and helping our customers grow their businesses.

All of our segments have made great progress, and we are positioned to have another great year. Our capital structure is strong and getting even stronger. Our credit ratios are continuing to improve. And we firmly believe our performance is sustainable and worthy of a return to investment grade ratings.

To the Tyson team, keep going strong, keep getting better. And thank you for all your hard work to put us in this position to thrive in challenging times.

With that, our prepared remarks are over, and I will ask Stacey to begin the Q&A.

QUESTIONS AND ANSWERS

Operator

Thank you. We are now ready to begin the question-and-answer session. (Operator Instructions). Ryan Oksenhendler, BofA Merrill Lynch.

Ryan Oksenhendler - *Bank of America -- Merrill Lynch - Analyst*

Congratulations on a great quarter. Could you guys talk about the export opportunities across the different proteins, especially what is going on with South Korea with foot and mouth disease, the German dioxide issue, the dispute with Mexico on the trucking issue, and is that getting closer to resolved?

Chicken export demand has picked up. Are you seeing anything out of China? If you could just talk about that I would appreciate it.

Jim Lochner - *Tyson Foods, Inc. - COO*

This is Jim. I will answer that question. Certainly with the foot and mouth issues in Korea and others we are seeing very strong interest out front. We are seeing that reflected currently in the pork prices as the cutout has come up and we have seen that demand.

A lot of the forecasts I have seen before this crisis were for projected increases in exports, and I think this will be additive to it, particularly in the pork complex. But we have also seen very strong interest in beef out front and as well in chicken, because if you look at that October/November export disappearance in chicken, beef and pork, they were much stronger than the prior year's. Pork maybe being in October and November the least growth. In fact, I think it was down slightly, but certainly since then we have seen robust demand.

I am not sure what is going on at this stage with the Mexican trucking situation. But I don't see anything on the horizon that is going to at this point diminish any of the export demand. So thank you. I appreciate it.

Ryan Oksenhendler - *Bank of America -- Merrill Lynch - Analyst*

Thanks, guys.

Operator

Jeff Farmer, Jefferies & Co.

Jeff Farmer - *Jefferies & Co. - Analyst*

You touched on this for the Chicken segment, but can you provide some data points to help us get a little bit better understanding of the year-over-year improvement you have seen in yields, labor efficiencies, price realization? Really any color you can provide on that would be helpful.

Jim Lochner - *Tyson Foods, Inc. - COO*

Okay, I will drill down just a little bit. We have seen about $600 million of improvement over the last three years, like we have talked about. Now this year our forecast coming into the year, based on some of the CapEx last year, plus the additional CapEx we are doing this year, is for about $200 million in additional operating efficiencies.

Now in Q1 we got about one-quarter of that or so. And the rest we feel confident will come in the rest of the year. I tell you what, on those operating efficiencies it is pretty well broken evenly among yield increases, among labor efficiency, line efficiency, and maybe to a little bit of a lesser extent on some of our other plant spend categories.

So it really is a matter of unbottlenecking some plants, adding some efficiencies into other plants, being able to change to a more profitable mix in some other plants, which opens up some yield opportunities for us.

So think of it as a pretty well-balanced approach of what the $200 million will accomplish. And, also, you probably need to add this as well. I think you will see residual effect moving on into 2012. These operating efficiencies -- as we gain those they stay with us, and that obviously has become a pretty effective hedge against some of the market conditions. So hopefully that is a clear enough picture for you to look at it. And appreciate the question. Thanks.

Operator

Robert Moskow, Credit Suisse.

Robert Moskow - *Credit Suisse - Analyst*

I didn't catch if you gave a sales growth number for your Food Service division during the quarter. Your comments are actually pretty muted and conservative about volume growth in Food Service. I want to know what you are seeing from your customers, what are they telling you? And is it different in different channels? Are you seeing a different tone maybe in casual dining, is there any hope of a rebound there? Thank you.

Donnie Smith - *Tyson Foods, Inc. - President, CEO*

Thanks, and you are right, we don't typically break out sales by channel, but I will try to give you a little bit of flavor. In terms of Food Service sales we see slight, very slight, uptick. Now remember, a lot of that is coming from your full-service restaurant, which is improving a little bit in '11 versus what it did in '10, but most of that improvement we feel like is coming from menu pricing, and that will be pricing all over the menu.

The QSR has continued to outperform full-service, although we have seen a rebound in full-service. I think, the final comment, some of the other segments, college universities is picking up little bit. But there again in B&I and some of the other segments in Food Service you are continuing to see weakness.

So overall very -- in food service very slight increase in total sales. We don't think that is going to drive a lot of volume in chicken. If you are making menu replacements, for example, if you're going to pull a beef menu item off and replace it with a chicken item, you ran that play a couple of years ago.

So we feel like menus are where they are, and it is really about when will we see increased foot traffic. And with unemployment and underemployment where it is, I just don't look for volume growth in Food Service in 2011; maybe in '12, but not in '11.

Robert Moskow - *Credit Suisse - Analyst*

Do you have a pricing outlook for Chicken for the next six months or so? Do you think pricing can be up to the year in Chicken or is it going to be down?

Donnie Smith - *Tyson Foods, Inc. - President, CEO*

As we look at the market today there is a little more supply on the market now than what we had forecasted coming into this year. As we -- if you look at the popularly used price forecasters, for that pricing that is not already baked in, for example, if we have a fixed price contract or we have a pricing agreement that might extend for some period of time, we are just using those forward projections in our models. And then, obviously, layering that up against the cost side of the equation. So, okay, thanks.

Robert Moskow - *Credit Suisse - Analyst*

Okay, thank you.

Operator

Heather Jones, BB&T Capital Markets.

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

Excellent quarter, very, very impressive. On the Chicken side, just wondering if you could give us some kind of color as to the magnitude of the seasonal reduction you have continued into Q2?

Donnie Smith - *Tyson Foods, Inc. - President, CEO*

Okay, I am going to drop back into Q1 just a little bit. In our last call we talked about -- we got a little ahead of ourselves and were overproducing in Q1. So we decided that we would begin some production cuts, so that by the end of March our inventories would be at our targets. We did that; that began November, mid-November-ish.

Now I will hasten to add, our sales teams did a great job of working on our inventory problem from the sales side as well, not just the production side. If you'll notice our volume was up. And these guys did a great job about selling their way as much as they could out of the production problem. So our inventory in Q1 actually ended higher than we had planned, but frankly less than we were expecting whenever we were on our last call.

So as we continue through this quarter our production cuts, along with our sales curve for the quarter, and we do believe that our sales will be on plan and our production cuts are exactly on target for where we thought they would be, or where we planned for them to be, so that the end of this quarter our inventory will be exactly at target. And then we will continue with the production plan that we had in place whenever we began this fiscal year.

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

So these are not sustained pullbacks?

Donnie Smith - *Tyson Foods, Inc. - President, CEO*

No, no. Thank you.

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

Thank you.

Operator

Ken Goldman, JPMC.

Ken Goldman - *JPMorgan - Analyst*

So is Tyson better-than-average right now in AgriStats, because the average chicken processor is losing a lot of money in AgriStats right now? So for you to be profitable this quarter you either are a much better than average processor, which given all of your cuts may be the case, or your hedges are a lot better than what may be known. So I am just curious about how to think about that.

Donnie Smith - *Tyson Foods, Inc. - President, CEO*

I am not going to argue with the premise of your question. The only thing I'm going to argue with is what is driving the results. I'm not going to give credit to grain purchasing or production cuts as a reason for improved performance.

The reason our performance is better is we are running a better business. Our yields are better. Our line efficiencies are better. Our labor efficiencies are better. Our mix is better. So, yes, to where I believe we are in relationship to the industry but, no, as to why. Thanks.

Operator

Farha Aslam, Stephens.

Farha Aslam - *Stephens - Analyst*

Congratulations on a great quarter. Have you seen any pickup in chicken demand so far from the tight supplies of beef and pork, either in food service or retail?

Donnie Smith - *Tyson Foods, Inc. - President, CEO*

I really can't. There is probably some mix shifts. I will tell you this, we have not seen so far this year a different shift from either food service to retail or back and forth. We really haven't so far in the year seen a meaningful shift in feature activity, for example, at retail or major chicken promotions at food service.

But remember the time of the year. You are typically not going to see that during November and December. But now maybe a little bit later on in the summer it could happen, but this is not typically the time of the season for us to see that type of thing.

Farha Aslam - *Stephens - Analyst*

Okay, and then just to follow-up. Your guidance for the year, are you anticipating any production cuts or are you -- in chicken -- or are you running it as the current industry stands, and then if there are production cuts that would be upside to numbers?

Donnie Smith - *Tyson Foods, Inc. - President, CEO*

Yes, I think -- well, I think you're right. What we are doing is we're running to our plan. As we forecast our forward demand we have an obligation to our customers to fill those orders, and so we matched our production to our demand.

Now like I said, we got a little ahead of ourselves in Q1, but we have made the correction as quickly as we can to get our inventory right, so that our production can get back on plan and we can continue through our year. But we will typically seasonally see an uptick in demand for our products, and we've got to have the production there to meet that. So we will be back on plan come April 1.

Farha Aslam - *Stephens - Analyst*

Just a final question. In terms of beef, the dynamic fuel facility that you have built, how is that running right now, and is that adding to earnings for Tyson?

Jim Lochner - *Tyson Foods, Inc. - COO*

Well, it started up. We have had some mechanical issues not related to the chemistry at all. The chemistry works fine and we just had a lot of pump failures and some other mechanical failures. And we are hoping to get that thing up and running to its motor plant capacity.

Donnie Smith - *Tyson Foods, Inc. - President, CEO*

We meet need to move onto the next question.

Operator

Christina McGlone, Deutsche Bank.

Christina McGlone - *Deutsche Bank - Analyst*

Donnie, in the press release it talked about in fiscal '11 outlook in terms of chicken that, in addition to operational and mix improvements, you talk about pricing. I guess I'm confused how the industry will get pricing if there is a supply and demand imbalance, because customers are well aware of that.

Donnie Smith - *Tyson Foods, Inc. - President, CEO*

Okay, I am not going to argue with you around your statement. What I will say is that not all of our volume is tied or correlates to the market pricing. Some does, but we've got a very diversified product mix. We've got chickens in every category -- small bird, deboned, deli, food service, medium birds, big birds.

We've got birds in every category, and then we've got different pricing structures among each of those categories, so that in times like this we are not just tied to what the market prices may be throughout the year.

So I think that is our best answer. It really boils down to -- I guess what I'm trying to say is it really boils down to our mix. So I think -- hopefully that will clear up your confusion on that deal, because our business model is not a pure commodity model, and obviously, you're saying that in our performance today. And you will continue to see that in our performance through the year.

Christina McGlone - *Deutsche Bank - Analyst*

Okay, thank you. That's helpful.

Operator

Tim Ramey, D.A. Davidson.

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

Congratulations, Donnie, what an amazing quarter. I don't know if you ever envisioned the day when Pork profits would be within $4 million of Chicken, and in a good way. But can you drill down a little bit on that?

As an analyst I have always taken the point of view that when prices go up you have to take the process to margins down a little bit, and fresh get squeezed too, and this is just really confounding my view of the world.

Donnie Smith - *Tyson Foods, Inc. - President, CEO*

I can't -- well, I can, but it would be better if Jim Lochner did, so I'm going to let him take that question, okay.

Jim Lochner - *Tyson Foods, Inc. - COO*

Is your question how did we do that?

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

Well, yes. Why didn't high lean hog prices hurt you, as probably I and everyone else expected?

Jim Lochner - *Tyson Foods, Inc. - COO*

First of all, we are running very, very good plants. We have got a very experienced team, and we are on the market buying hogs. So our focus is to try to maximize the revenue through a combination of yield, mix, make sure that we take care of the customer, [are the] preferred supplier where we can be. And then really, really chase the export revenue, chase the mix revenue, and focus on maximizing every bit of the animal that we can get through the drop credit, through the cutout, through the mix.

If you look back, the cutout when up 26% year-over-year, and live hog costs went up about 18% or 20%. So we did have a little bit of a natural spread happening there. But, again, we have done a very good job. That team is really focused on the detail and trying to drive all the revenues.

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

Good job.

Operator

Lindsay Drucker-Mann, Goldman Sachs.

Lindsay Drucker-Mann - *Goldman Sachs - Analyst*

Maybe I could ask Tim's question a different way. So it seems as if in Beef and Hogs you are seeing higher prices in both divisions, but clearly Pork is just head and shoulders outperforming what historically has been the case. So why aren't we seeing similar dynamics take place in your Beef business as you have been able to execute in Pork?

Jim Lochner - *Tyson Foods, Inc. - COO*

Well, I think, actually -- this is Jim Lochner -- actually it has. And in that particular segment through that quarter we had actually an increase of the cutout, but the live cattle cost came up at a faster rate.

You always have to remember there is very strong correlation between revenue and livestock cost. And a lot of times it is the slope of the change that makes the difference within the timeframe. So if you have an inflating cutout that is going faster, the live cost or your cost of goods will trail it, and then it can happen in reverse.

And really, again, it comes back that your operations have to be focused on maximizing the revenue, minimizing their cost, chasing the highest mix and making sure that you are the preferred customer. Then the natural dynamics of the cutout versus the live animal cost will have some influence.

We put all of our focus on trying to, again, maximize the revenue from a producer standpoint, because we know that relationship is going to be that strong. And go back and look at those relationships over time and they're very, very highly correlated.

Lindsay Drucker-Mann - *Goldman Sachs - Analyst*

So are beef processors as an industry less focused on maximizing returns and cutout values versus the pork packers right now?

Jim Lochner - *Tyson Foods, Inc. - COO*

Oh, not at all.

Operator

Akshay Jagdale, KeyBanc.

Akshay Jagdale - *KeyBanc - Analyst*

Congratulations on a great quarter. Jim, this one is for you as well. I think there is enough chicken questions asked. But on beef, again, I just want to follow up, with the size of the herd coming down, and I think the replacement heifers are down from somewhere in the 5% or 6% range, are you concerned about the supply situation one or two years out? How are you managing your business to address that particular issue?

And, secondly, again just -- do you expect -- are you more positive over the next year or two years on beef or pork?

Jim Lochner - *Tyson Foods, Inc. - COO*

Let me start by saying I am positive on both, because our team is running very, very good plants. We are very experienced, and we have an extremely stable workforces.

Now, am I concerned, yes, over the long run. And we have been talking about the reality is that the beef supply is declining at a fairly steady rate. I was a little surprised to see the 5.4% decrease in replacement heifers. They obviously are going into the fed supply over the short run, so we will have ample supplies.

But long term you will see beef supplies keep coming down to that 1% to 2% on production. And then you got to also factor in that imports have been down and exports have been up. In fact, 2011 you are probably going to see more exports than imports, which will be the first time. So you're going to see inflating beef prices at about the same thing on pork.

A lot of the things we have been talking about the last couple of years, or last couple of quarters anyhow, about the domestic availability are playing out. And that is a function of increased feed costs. So we will see inflating prices like we have. I don't know that they will hit the same price points that the futures prices indicate.

As it relates to how do we manage margins through that. You always have to remember our plants are located in the key feeding zones in cattle and hogs. And that is where the cheapest cost of gains are. So as the herd start to decline particularly in beef, you'll see more cattle fed into the most efficient areas of the country to feed it, where either weather or grain are favorable from a cost of gain standpoint. So hopefully that answers your question. Thank you.

Operator

Diane Geissler, CLSA.

Diane Geissler - *CLSA - Analyst*

Congratulations on your quarter. Donnie, I wanted to ask about your statement within your press release about fiscal '11 having the potential to be comparable to 2010. Could you just -- I mean with that -- you guys don't give guidance, but is that what we should be thinking about, a 218 number for fiscal '11?

And then I guess the follow-on question there would be, what would have to go right to get you to that level, or maybe where is the most risk in terms of not achieving that type of result in fiscal '11?

Donnie Smith - *Tyson Foods, Inc. - President, CEO*

So let's start with fiscal '11. I am pretty comfortable if you thinking about that around the GAAP number. Now certainly the adjusted number we still think is very well within the range of possibility. But there is a bit of cloudiness around market conditions, particularly in Q4. And, Dennis, I may be thinking that you may want to jump in here a little bit too.

So I think -- tell me again but the second part was around what would have to happen or that kind of thing, I think was what the rest of your question was. Isn't that right?

Diane Geissler - *CLSA - Analyst*

Yes. Well, really what is the biggest risk in not achieving that type of number? Because I think most of the Street is worried most about your Chicken division, where the industry seems to be consistently increasing production, despite the fact that the cash players are in the red. So can you give us some comfort that you see that dynamic playing out that you will remain profitable?

And I guess at what level do you expect to be profitable within your Chicken division to get you to that -- whether it is the GAAP number or the pro forma number?

Donnie Smith - *Tyson Foods, Inc. - President, CEO*

So, yes, we currently expect each quarter to be profitable in Chicken. Certainly the other segments as well, and I think Jim added some color about that in his commentary.

I think the only thing is some major market interruption that we are not currently forecasting. Our assumptions, when we go through and look at our forward year, pretty much fall in line with currently available price forecast.

We model in what we know about our input costs. We model in the efficiencies that we believe we will see because of our production activities and the efficiencies we will see from CapEx spend.

We model in the pricing that we already know. And remember, we've got a very diversified business model with varying different pricing models within different segments. So being multichannel and diversified helps in times like this. But most certainly because you are the most or a very efficient producer.

Then for the things we don't know, we pretty much forecasting in external data. So what the marketing services are showing for pricing and that type thing, and we use the forward curve on unpurchased grain.

So that is how we get to our number. And we feel very comfortable about where we are, because again, our results are primarily driven by obviously taking care of our customers, the mix of our products that are sold, and then the excellent cost improvement that we have had.

Dennis, you want to add anything to that?

Dennis Leatherby - *Tyson Foods, Inc. - CFO*

That was very well put, Donnie, and I just wanted to add just a few comments. Let what Donnie said is we think we will be around the GAAP number for the year. It is also important to note that we think we will be around the GAAP number for Q2 as well, with a chance at being at the adjusted number for Q2 and for the year. So, we are right in the ballpark of those kind of numbers.

Diane Geissler - *CLSA - Analyst*

Okay, thank you.

Operator

Stephen Share, Morgan Joseph.

Stephen Share - *Morgan Joseph - Analyst*

Congratulations. I wanted to focus in on the Beef business a little bit. And specifically you mentioned that this last quarter the cattle costs increased faster than the Beef cutout. However, the data I look at suggests that is kind of reversed starting in 2011. So I guess my question is, have you seen that as well, and will that be a tailwind for your Beef operation when we compare the second quarter versus the first?

Then, secondarily, longer-term how should we think about supply and capacity? Longer-term we seem to benefit from a smaller herd in terms of pricing, however, at some point does capacity utilization become an issue? And how do you look at those two variables?

Jim Lochner - *Tyson Foods, Inc. - COO*

Let me start with you are reading the front-end data correctly. And you are seeing a very good rise in the cutout and some very robust pricing, particularly in trim and ground beef, chuck and round complex.

And then the answer to the second part of your question is, again, it comes back that over time you will see, if the herd continues to decline, the potential for capacity utilization decline. And again it comes back to the efficient plants located close to the feedlots supply should be all right.

Where the cost of gains are unfavorable they won't be able to compete for the feeder cattle. And they will be plants potentially in those zones that will have some capacity utilization challenges. I would remind you that most of our plants sit in Western Illinois, Iowa, Nebraska, Kansas, Texas, and then out in Washington State.

So we are situated, and have been for a long time, and the core feeding zones. And we did have inefficient plants outside of the zones over time that we have shut down.

Stephen Share - *Morgan Joseph - Analyst*

Okay, so the biggest capacity utilization challenges, you think, will really be on your competition, not you?

Jim Lochner - *Tyson Foods, Inc. - COO*

Yes, I guess -- I am hoping that is the case, because of what I said and what the economics will do their job on the cost of gains.

Stephen Share - *Morgan Joseph - Analyst*

All right, it sounds good.

Operator

Vincent Andrews, Morgan Stanley.

Vincent Andrews - *Morgan Stanley - Analyst*

I just wanted to drill down a little bit on the statement you've got in the press release about the $500 million year-over-year of grain costs. In the past couple of quarters you've given a little more color on where you were. I think for a while you were seeing you had protection above $4.

It would just be helpful if you could give any type of commentary on that for fiscal '11. Just our math would suggest that you do still have very favorable hedges on for '11. So any help there would be great.

Donnie Smith - *Tyson Foods, Inc. - President, CEO*

Again, I want to qualify this comment by saying I may frustrate you a little bit on the lack of information, but comments about this come back to us in the marketplace, so I want to be real careful. Here is what I'm comfortable saying about our grain position.

I feel good about the $500 million, because as we know it that would be the increased impact to our cost structure from a grain perspective. Now, remember, lots of operational efficiencies, mix changes, etc., that we offset that increase in grain cost by. So let's start there.

Secondly, we have Q2 pretty well covered at levels higher than Q1 below current market. Q3, you should feel comfortable about the control we have around Q3, again, at levels above where we were at in Q1, below current market.

Out front, less coverage than that. And really I just don't want to get into too much more detail about that. I hope that gives you the information you need, because that is really all I feel comfortable about.

Vincent Andrews - *Morgan Stanley - Analyst*

That was very helpful, and I totally understand where you're coming from. Thanks again.

Operator

Ann Gurkin, Davenport.

THOMSON REUTERS

Ann Gurkin - *Davenport - Analyst*

Congratulations on your great quarter. I just wanted to get a little more discussion on pricing. What is in place across your segments, what you're still trying to get, if you can elaborate there.

And then on the Beef side, is there any issue with capacity utilization in your facility?

Donnie Smith - *Tyson Foods, Inc. - President, CEO*

On pricing, all I really want to -- here is how I want to address that. We have various different pricing models. Some portion of our business, albeit a very small portion, is on fixed price contracts longer than a year, or longer than a quarter up to a year. So a portion, but a small portion there.

We have probably less than one-third of our business or so at this point that is on the spot market. The rest of the pricing would be in varying different pricing arrangements in between those two.

It may be a fixed volume agreement that has quarterly pricing or monthly pricing or those types of things. So there really is a blend. And I think that is about as much detail as I can give on the pricing.

Jim Lochner - *Tyson Foods, Inc. - COO*

I will quickly answer your question on capacity utilization, no I am not real concerned going forward, particularly not through the majority of 2011 about the cattle and feed number.

Ann Gurkin - *Davenport - Analyst*

Great, thanks

Operator

Ken Zaslow, BMO Capital Markets.

Ken Zaslow - *BMO Capital Markets - Analyst*

I just have one question. I know you guys said based on USDA data that chicken production should be up in 2011. My question is, how do you see the sequential changes throughout the year? Obviously, it is going to be up a lot probably in the first quarter. And how do you think that is going to play out throughout the year just in terms of chicken production?

Donnie Smith - *Tyson Foods, Inc. - President, CEO*

The way we look at it, honestly, is we look at the USDA data and other available industry data, and we draw our industry production assumptions from that. So nothing different than what you're seeing.

Ken Zaslow - *BMO Capital Markets - Analyst*

So you think it would be up in the first half and down in the second half, is that generally the thought or --?

Donnie Smith - *Tyson Foods, Inc. - President, CEO*

It seems to be that the industry experts, if you will, are taking back half production off a little bit. But, you know, we are --

Dennis Leatherby - *Tyson Foods, Inc. - CFO*

Not baked into our pricing right now.

Donnie Smith - *Tyson Foods, Inc. - President, CEO*

Yes, we are just using whatever available industry production forecasts are.

Ken Zaslow - *BMO Capital Markets - Analyst*

Just to follow up on that is, you guys have a lot more experience than a lot of the -- Informa and all that information out there. What do you think is the level to which the margins have to get negative for the chicken industry to become a little bit more rational and pull back, because it seems like you guys are actually doing a little bit of your part, at least through the first half of your year? Could you give a little color to that? Is there a balance sheet issues, is there things that are fine and lo and behold everybody is just going to keep on chugging along? How do you see this playing out from your experience?

Donnie Smith - *Tyson Foods, Inc. - President, CEO*

From our experience that we have to focus on and what we have to control is our business. We focus on our customers. We focus on being very innovative for them and helping them grow their business. We focus on increasing value-added mix. We focus on operational efficiencies. We focus on baking efficiency and effectiveness into our supply chain, and increasing and improving our logistics capabilities.

We focus on quality, service, innovation. That is what we focus on. Those are the things we can control and that is where we are going to spend our time.

Operator

Christine McCracken, Cleveland Research.

Christine McCracken - *Cleveland Research - Analyst*

I just wanted to touch, Donnie, in your outlook for food service and retail you basically suggested there was relatively limited growth, I think, expected this year due to some various factors. But I'm just wondering when you look at your volume trends in the quarter, and you talked about inventories, how do you think about how you produce to flattish growth? Is that going to be picked up by export markets?

And then is there any impact from incremental volumes being added through your international operations that might be maybe inflating those volume numbers more than we might have seen in domestic markets?

Donnie Smith - *Tyson Foods, Inc. - President, CEO*

There is a tad bit of the international impact, but it is not significant in these numbers, nor in this current fiscal year's outlook. Remember, in most of our international operations, Brazil and China, those are startups. So the big volume growth is in the domestic business, and think about that for the rest of the fiscal year.

Yes, we do plan to grow our business this year. And we will -- and have, and we think we will continue to earn our customers business, and that is growing our business. People -- in today's environment our customers are relying on us to help them add value to their business, to help them grow their business with innovative products. They need great service. They need great quality, and we are providing those things, and we are being rewarded with business for doing that.

So those are the things that we are going to continue to focus on to win with our customers, because we know ultimately that is how we are going to win and how we're going to be able to grow our business.

Christine McCracken - *Cleveland Research - Analyst*

Tyson de Mexico was not a significant factor in the quarter?

Donnie Smith - *Tyson Foods, Inc. - President, CEO*

Well, Tyson de Mexico had a very good quarter, but I don't -- in terms of the -- if your question is around the volume growth, no, they weren't a significant contributor to the volume growth, but they had a great quarter.

Christine McCracken - *Cleveland Research - Analyst*

Okay, thanks.

Operator

Heather Jones, BB&T Capital Markets.

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

Thanks for taking the follow-up. On your last conference call I believe you had said that you could see food service -- this is for chicken -- you can see food service demand up. I want to say you had said in the 1% to 1.5% range. Your commentary today would sound like you have brought down that outlook some. I was just wondering if I'm taking this correctly?

Donnie Smith - *Tyson Foods, Inc. - President, CEO*

Actually, it was kind of flat to 1%. And, yes, today I think you saw the unemployment number drop to 9%, but my opinion is in that number there is a significant amount of the population that is pass the 99 weeks, and so I think that is moving that number a little bit. There is still a very large portion of the US population that is unemployed and underemployed, and I continue to believe that is going to affect food service volume.

Frankly, I am not forecasting any real growth in volume at retail. We may see little a mix shift. A lot of that would depend on what the retailer decides to do. But I am still in that flat category. If it is up 1%, that is additive. I would love to see it. I hope I am wrong. I hope I am dead wrong and this thing takes off, but I just don't see it.

Jim Lochner - *Tyson Foods, Inc. - COO*

Last quarter we also did some math for you that said if beef volume was down by 2% or 3%, and half of that float in the food service that -- if everything else, consumption stayed constant, that it would flip-flop. That was part of that 1%.

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

So you haven't become more pessimistic since your Q4 call, you just haven't become more optimistic.

Donnie Smith - *Tyson Foods, Inc. - President, CEO*

That's a great way to put it, yes.

Jim Lochner - *Tyson Foods, Inc. - COO*

I would say that's right.

Donnie Smith - *Tyson Foods, Inc. - President, CEO*

The numbers are bouncing around a little bit, but frankly with as much volume as there is at food service or at retail, a 0.5% or 1% that -- hey, that is a rounding error maybe. You know what I am saying?

Jim Lochner - *Tyson Foods, Inc. - COO*

We are dealing with billions of pounds here, so --.

Donnie Smith - *Tyson Foods, Inc. - President, CEO*

I know it is lots of pounds, but still, nobody, certainly not me, can call it within 1 point.

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

Okay, all right. Thank you.

Operator

Tim Ramey, D.A. Davidson.

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

Thanks for the follow-up. Jim, I don't know if you are up in Dakota Dunes right now, but nobody has asked about the weather impacts, and I have to believe that there should be some dislocations here. Can you speak to that?

Jim Lochner - *Tyson Foods, Inc. - COO*

First of all, I have been living in Arkansas for about a year. But the weather down here is just as bad as it is in Dakota Dunes. So this week is a very abnormal week, simply because you had not only a lot of pork, some beef, but a lot of chicken production interruptions from weather. So the numbers this week will be fairly erratic and off their trend lines.

And sometimes they increase consumptions, but they certainly throw disruptions in. But all the protein supply will ultimately find its way to the market. But it certainly was very rough this week.

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

Do you think that had anything to do with the move in protein prices this this week or unrelated?

Jim Lochner - *Tyson Foods, Inc. - COO*

It had some movement, but let's -- the big movement in pork was still the demand out of the export arena, which threw a lot of price support into some -- particularly picnics and butts. And we saw a lot of price support generally, even ahead of the storm interruption.

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

Thank you.

Operator

Akshay Jagdale, KeyBanc.

Akshay Jagdale - *KeyBanc - Analyst*

Thanks for taking the follow-up. This one is for Donnie. Just looking at the Chicken segment beyond this fiscal year, what do you think needs to happen? Grain prices aside, if grain prices stay where they are, what do you think needs to happen for your Chicken division to return to a normalized range for the full year?

Donnie Smith - *Tyson Foods, Inc. - President, CEO*

I would say we will see continued improvement in our cost structure. Our business should continue to grow, albeit that is somewhat dependent on food service growth. At this point we are -- it is really way too early to speculate, because we are, what, 90 days -- no, 60 days, maybe not even that before the March 31 planting intentions. And that will -- that starts a whole different season for us in terms of the grain production. So it is really too early to start calling that.

I think for our business, though, you should expect us to continue to improve, to continue to stay competitive. We will be every -- well, we will be better than we are this year next year. We plan, and our focus is on improving every day, every week, every quarter in how we serve our customers, in how we maintain our cost structure, all those type things.

So think about it in terms of continued improvement, in terms of the things that we can control, and in terms of us taking care of our customers, and then this other stuff is just going to have to take care of itself.

Akshay Jagdale - *KeyBanc - Analyst*

Thanks, bye.

Operator

Christina McGlone, Deutsche Bank.

Christina McGlone - *Deutsche Bank - Analyst*

Thanks for the follow-up. Jim, it looks like the free trade agreement, or the trade agreement on beef with South Korea, is moving a little bit more quickly now. I am just curious to get your take on that. And then if you can remind us that kind of market from a mix perspective that South Korea is?

Jim Lochner - *Tyson Foods, Inc. - COO*

We are encouraged that the free trade agreement will increase, or take some of the impediments away so that there is more product that moves to Korea. That mix is going to be predominantly in the chuck and the plate meat.

Again, you are seeing across-the-board very high ground beef and trim prices, which are reflective of decreased imports, as well as increased exports of the trim category.

You're just seeing what the total domestic availability decline in beef is doing to the prices. So it will be positive overall as we go forward in the beef category.

Christina McGlone - *Deutsche Bank - Analyst*

Thank you.

Operator

Christine McCracken, Cleveland Research.

Christine McCracken - *Cleveland Research - Analyst*

Just a quick follow-up, Donnie, I think you mentioned on food service they passed some of the pricing along, at least in the channel. I'm just wondering how much of the increase in wholesale prices has actually hit the customer at this point? And if it does get passed along a little bit more efficiently here in the next few months, if then we might see a bigger price response, or how do you think about that?

Donnie Smith - *Tyson Foods, Inc. - President, CEO*

I may have -- if I said anything that implied that, I didn't mean to. How much and when our food service customers are passing along to the consumer, the price inflation, if it ever happens -- and remember on the wholesale commodity level jumbo breast meat, Urner Barry is $1.20, and we are trading well back of that.

So I don't know that the food service -- if that operators buying commodity meat and haven't seen price inflation yet. But I don't ever like to project or infer on how our customers are going to move that along to the consumer. That is their game. We are dealing on wholesale pricing and wholesale pricing alone. Okay?

Christine McCracken - *Cleveland Research - Analyst*

Okay, I must have misunderstood. Thank you.

Donnie Smith - *Tyson Foods, Inc. - President, CEO*

Sorry, thanks. And really we've got to get over to the shareholders meeting, so I'm going to need to please wrap this up. So let me thank you for joining the call today, and certainly thank you for your great questions. If you do have more questions, or you want to follow up, please do so with Investor Relations.

Before we go, I would really be remiss if I didn't note the passing of Don Tyson. He was an iconic American entrepreneur, who took Tyson Foods to just global prominence and created one of the most well-known brands in the world.

He meant a lot to our team members. He meant a lot to me personally. We will miss him. And we are going to do our very best to carry out his legacy by making great products, by serving our customers, by taking care of our team members, and creating value for our shareholders.

Our plan is to stick to the basics, to strive to be the best in each of our segments. We are going to manage our cost. And we are going to get our debt back to investment grade. And we are going to reinvest in this business. I think 2011 will be a year of that would have made Don proud.

Thanks for joining us, and have a great day.

Operator

This concludes today's presentation. Thank you for your participation. You may now disconnect.
