

# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

## **TSN - Q2 2010 Tyson Foods Earnings Conference Call**

**Event Date/Time: May. 10. 2010 / 1:00PM GMT**



May. 10. 2010 / 1:00PM, TSN - Q2 2010 Tyson Foods Earnings Conference Call

## CORPORATE PARTICIPANTS

**Ruth Ann Wisener**

*Tyson Foods, Inc. - VP IR*

**Donnie Smith**

*Tyson Foods, Inc. - President & CEO*

**Jim Lochner**

*Tyson Foods, Inc. - COO*

**Dennis Leatherby**

*Tyson Foods, Inc. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Ken Zaslow**

*BMO Capital Markets - Analyst*

**Ken Goldman**

*JPMorgan Chase & Co. - Analyst*

**Christina McGlone**

*Deutsche Bank - Analyst*

**Christine McCracken**

*Cleveland Research Company - Analyst*

**Ryan Oksenhendler**

*BofA Merrill Lynch - Analyst*

**Diane Giessler**

*CLSA - Analyst*

**Heather Jones**

*BB&T Capital Markets - Analyst*

**Tim Ramey**

*DA Davidson & Co. - Analyst*

**Vincent Andrews**

*Morgan Stanley - Analyst*

**Steven Share**

*Wisco Research LLC - Analyst*

**Ann Gurkin**

*Davenport & Company - Analyst*

**Farha Aslam**

*Stephens Inc. - Analyst*

**Akshay Jagdale**

*Keybanc Capital Markets Inc. - Analyst*

## PRESENTATION

**Operator**

Welcome and thank you for standing by. We'd like to inform all participants your lines are in a listen-only mode. (Operator Instructions). Also, today's conference is being recorded. If you have any objections, you may disconnect at this time.

May. 10. 2010 / 1:00PM, TSN - Q2 2010 Tyson Foods Earnings Conference Call

And now I'll turn today's conference over to Ruth Ann Wisener. Thank you. You may begin.

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

Good morning and thank you for joining us for Tyson Foods conference call for the second quarter of our 2010 fiscal year. I need to remind you 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 now, which could change. I encourage you to look at our 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.

I'll now turn the call over to Donnie Smith.

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

Thanks, Ruth Ann. Good morning everyone, and thanks for joining us. In our last call I mentioned to you that Q2 is typically our weakest quarter and as it turned out it was on par with the first quarter and even better when you take into account the \$0.04 for note reverses. I don't think this is just a matter of peaking early because we still expect Q3 and Q4 to be strong. We're just getting started with the summer grilling season so the expected seasonal bump-up in demand is coming. The economy seems to be improving slightly according to the NPD Group. Consumers are beginning to loosen their purse strings when it comes to food purchases, which is a positive for protein demand in both food service and retail. Frankly, our outlook for the rest of the year doesn't take into account any boost from the economy.

The only negative I can point to now is a little bit of disappointment in our international operations. Although there was improvement from Q1 to Q2, it's still a little bit of a drain on the Chicken segment. Some of it can be attributed to startup costs but there are also country fundamentals and execution issues that we're focusing on. We have a lot of work to do in some locations. But there are improvements being made and we're committed to our international growth strategy.

And with that, I'm just going to go ahead and turn it over to Jim for the segment reports.

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

Thanks, Donnie. Good morning, everybody. On our first call I talked about the declining domestic availability of protein and the effect it should have on our markets, but I'm happy to report it happened much faster and much stronger than I anticipated.

Now to the segments. Our Chicken segment posted an operating income of \$114 million, and 4.6% return on sales, compared to a negative \$46 million and a minus 1.9% in the second quarter of last year. It also compares favorably to Q1 2010 margin of 3.2%. Although return on sales fell just below our normalized range, we do expect to be in the range for the fiscal year in its entirety. Sales prices this quarter were higher than Q2 '09 due to mix changes. Sales volume was down versus a year-ago due to lower freezer inventory sales in Q2 of '10. Improvement in the Chicken segment was primarily driven by better execution and operational efficiencies. I expect continued improvement in these areas because we've got one way left on what's in our control.

We know what the challenges are and what we need to work on. We hope the Russian import situation will be resolved soon but I believe we can continue to manage our mix without building significant inventories. Tyson is selling much more dark meat domestically than at any time in Company history and we have diversified our export customer base. We're running a much better business than we were in recent years and are better positioned to handle an extended Russian ban. As for China, we

May. 10. 2010 / 1:00PM, TSN - Q2 2010 Tyson Foods Earnings Conference Call

don't have much information about the additional tariff. We hope the Chinese government will reconsider and we will continue to work through the US government and our trade associations in an effort to resolve this matter.

It was an outstanding quarter for our Beef segment. Operating income was \$126 million, with a 4.6% operating margin. This compares to \$28 million, and 1.2% in Q2 of '09, and \$119 million and 4.4% in our previous quarter. This Pork segment also performed very well with \$69 million in operating income, and 7.4% return on sales, compared to \$29 million and 3.4% in Q2 of '09, and \$62 million and 7.6% in the first quarter. Our Beef and Pork segments are very well run and efficient and their success was due to rising revenue, managing costs through daily efficiency and matching production with demand. As you saw in this morning's press release, we decided to increase Beef and Pork's normalized ranges for return on sales. We raised Beef from 1.5% to 3%, to 2.5% to [4.5%] (corrected by company after the call) on an annualized basis. In addition to sustained operational excellence we believe our Beef business fundamentally changed for the better when we closed regionally noncompetitive plants over the two year period from '06 to '08. The new normalized range for Pork is 4% to 6%, up from 3% to 5%. Pork has been performing very well for quite some time by managing cost and margins even in an environment of tighter supply. And we are confident about its earning power going forward.

Moving on to the Prepared Foods segment, our operating income was \$37 million, or 5% return on sales in the second quarter. This compares to \$19 million and 2.8% in the same quarter last year. Although Prepared Foods is off from the previous quarter, it did well despite higher input costs. Our pizza crust and tortilla businesses were good contributors to the Prepared Foods results.

To wrap it up, we had two strong quarters and Q3 is off to a very good start. At this point I don't see a significant change in the fundamentals for the rest of the fiscal year or into 2011. Worldwide protein supplies and US domestic availability are expected to remain below '08 and '09 levels. We have seen good interest in Beef and Pork exports to a variety of global destinations.

Before I turn it over to Dennis for the financial report, I want to personally acknowledge and thank all our team members. They are doing a marvelous job, especially in managing quality and customer service, controlling costs and finding ways to increase revenue. Keep up the good work.

Dennis?

---

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

Thank you, Jim, and good morning everyone. As stated in our press release, in Q2 we reported earnings of \$0.42 per share, compared to a \$0.32 per share loss in Q2 '09. This includes \$24 million or \$0.04 per share of losses on bonds repurchased. On an adjusted basis, this is a record EPS quarter. We also had a record operating margin of 5%. Net sales were \$6.9 billion, which compares to \$6.3 billion a year ago. Our commitment to further reduce debt is also reflected in our repurchase of bonds. We repurchased or retired over \$450 million of debt in the second quarter. Net debt after cash outstandings of more than \$800 million was just under \$2.2 billion, an increase of \$277 million from Q1. This increase in net debt Q1 to Q2 was due to higher working capital needs resulting from a nearly 4% increase in sales, the timing of semi-annual interest payments made in the second quarter and estimated tax payments.

Total liquidity including cash was \$1.6 billion. Total debt to capitalization at the end of the quarter declined to about 39%. On a net debt to cap basis, it now stands at 31.5%. At the end of Q2, adjusted return on invested capital for the previous 12 months stood at more than 17%, a nice improvement and a measure we expect to improve in the future. Capital expenditures were \$151 million, compared to \$76 million for Q2 '09. And our effective tax rate for Q2 was 37%.

So here's an update on a few key metrics for your financial models. We are increasing our capital expenditure guidance for the fiscal year to \$700 million, as we see even more opportunities to fund operational improvement projects, especially in the Chicken segment. Expect revenues for the fiscal year to be in the \$28 billion range, up a bit from our previous call. Excluding



May. 10. 2010 / 1:00PM, TSN - Q2 2010 Tyson Foods Earnings Conference Call

the purchase of any more bonds, net interest expense should be approximately \$315 million for fiscal 2010, down from \$325 million mentioned last quarter. This includes the premiums we paid on bond buybacks to date and the expected future interest savings from those purchases. Net interest expense should be around \$71 million to \$72 million per quarter for the remainder of this fiscal year.

Depreciation and amortization will be approximately \$500 million, and our effective tax rate for the full year should be around 36.5%. Our diluted shares at the end of Q2 stood at 378 million. However, based on our stock price of \$18.62 per share as of Friday's close, the convertible share feature on the convertible bonds we issued in September 2008 requires that we add approximately 2.5 million shares to our average share calculation, as our stock price is above the \$16.89 per share conversion feature. This is despite the fact we also purchased a call option and sold warrants which effectively increased the conversion feature to \$22.31 per share. So all that being said, we will have some EPS dilution as long as our average stock price is above \$16.89 in the interim but we will only have to issue additional shares if our stock price is above \$22.31 at the time the bonds are settled. Please refer to the 10-Q or the original September 2008 convertible offering documents for the entire explanation. Also, please note that the Tyson family has informed us that they intend to sell the 3 million shares they acquired at \$12.75 per share in the September 2008 secondary common stock offering. This amounts to approximately 4% of the Tyson family holdings. As a reminder, in an effort to diversify their holdings back in 2006 and 2007, the Tyson family sold 21 million shares. This sale just brings them back to where they were from a portfolio standpoint and should not be interpreted in any other way. Personally I just want to thank Don and John Tyson for their support during a challenging time for our Company and I'm glad we were able to make a nice return for them.

In closing, I just want to say to my fellow coworkers, great job, Tyson team. You're winners. We've come a long way together in the past year or so but we also know that some more improvement opportunities lie ahead of us so let's just keep getting better.

Donnie.

---

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

Thanks, Dennis. Well, it was a great quarter and it's shaping up to be a great year. We're still working to improve our Chicken operations and a few of the Prepared Foods businesses but we'll get there. As I said many times, we've got if right team, the right plan and the right to win. I hope we're making believers out of you. The Tyson team members are getting a taste of success and I can tell you they like it, so I don't think they're going to let up. Let me take this opportunity to let our team know how much I appreciate their focus, their hard work, their dedication to making this Company successful.

I'll end with that and leave plenty of time for Q&A. Operator, we're ready to take questions.

---

## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instructions). Our first question comes from Ken Zaslow, BMO Capital Markets. Your line is open.

---

**Ken Zaslow** - *BMO Capital Markets - Analyst*

Good morning, everyone. Just talking about Beef a little bit, can you talk about and discuss what has structurally changed in Beef in terms of exports or capacity or imports to give you the confidence to raise the normalized numbers? And also, what is your confidence that you can look into 2011 saying that things will still be strong?



May. 10. 2010 / 1:00PM, TSN - Q2 2010 Tyson Foods Earnings Conference Call

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

Good morning. I'll handle that. This is Jim. We're very confident in increasing our guidance to 2.5% to 4.5%, our normalized operating income, I should say. The primary reason is we really, over the history of that normalized range, had a number of startup plants, some noncompetitive regional plants and what we've done over time is, first of all, we shut those down. They're gone. And we've continued just to improve our efficiency, our labor efficiency, our operating costs, and just running a much more competitive Beef business. Even without having all the export markets opened and we've seen the total rise of revenue come up and we're managing that spread very well, and I'm very comfortable with our plants in the regions that they exist, that they're very competitive, and that gives me a fair amount of confidence to stay and manage that spread. So I'm very comfortable with that at this point.

**Ken Zaslow** - *BMO Capital Markets - Analyst*

And it's not because of the industry at all? You said everything about Tyson but nothing about industry specific.

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

We really focus on managing our own business and of course we stay very close to the supply fundamentals and the demand fundamentals but the primary is we got rid of noncompetitive plants that were really embedded into those previous operating results.

**Ken Zaslow** - *BMO Capital Markets - Analyst*

Thank you.

**Operator**

Thank you. Next question, Ken Goldman, JPMorgan, your line is open.

**Ken Goldman** - *JPMorgan Chase & Co. - Analyst*

Good morning. And thanks for the brief comments and for the very helpful disclosure in the press release. It's always nice to see. Just one question. You have a lot of cash left and very good liquidity. And you're giving good guidance. Why did you not pay down even more debt?

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

Ken, this is Dennis. Frankly, it was just too expensive. What we're trying to do is look at buying back bonds much like we are with capital expenditures. We want to make sure we have a decent enough internal rate of return and payback and when they get too high we're out of the market.

**Ken Goldman** - *JPMorgan Chase & Co. - Analyst*

That's all I've got. Thank you.

May. 10. 2010 / 1:00PM, TSN - Q2 2010 Tyson Foods Earnings Conference Call

**Operator**

Okay. Thank you. Next, Christina McGlone, Deutsche Bank, your line is open.

**Christina McGlone** - Deutsche Bank - Analyst

Good morning. Congratulations on a great quarter. My biggest question is you have a view across all proteins and I'm curious what you're seeing or what you expect to see in terms of domestic demand when the higher prices hit the consumer post Memorial Day featuring? And then also if there's any view on export demand given the strength in the dollar?

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

Let me give you my opinion. Obviously, it's based really on looking at the supply fundamentals and then a number of good demand indicators. I'll start with the latter part of your question, the export. Certainly the dollar value could change but we've just seen very strong interest in Beef and Pork exports and when you look at those year-over-year, and the forward interest seems to be quite strong. And it goes really back to basically the worldwide supply of protein. And as you know, the industries across the US and the world pulled back their supplies from lack of profitability during that '07- '08 time frame, and you could not simply flip the switch and start to rebuild the infrastructure to grow the supplies back. So the key component when you look at the fundamental on that supply is that peak year of '07- '08 and we're still substantially below the breeding herds and the laying flocks to be able to replenish the supply. So I don't expect to see the supply come up anywhere soon out into the next couple of years.

If you really look at a couple key demand indicators you saw Food Service demand, particularly in March, saw some surprising pickup. And I've watched a number of indicator cuts, particularly in Beef, that seem to be indicating that we're clearing the available supply quite handily, particularly when you look at the choice cutout, like last week up 16% year-over-year and then look at the Pork cutout which is up astoundingly over 57% year-over-year. And poultry price is up. Do I think that will be forever? No. But particularly when you look at this point in time in May, you're starting to see that influence of lack of supply.

**Christina McGlone** - Deutsche Bank - Analyst

Thank you, Jim, that's really helpful. My follow-up is off of Ken Zaslows question. I understand that the raising of the Beef normalized margins but in terms of Pork normalized margins given the tighter hog supply and potentially getting that East Moline facility, can you explain your logic there with raising those margins?

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

Really the same answer. We're just running very efficient businesses and when you look back at the normalized, I can look back because I've been around a long time and know the issues that were impediments to us to maximize the efficiency, and to maximize our revenue. And most of those are, if not all, are very corrected and I haven't heard for sure about a plant in East Moline.

**Christina McGlone** - Deutsche Bank - Analyst

Okay, thanks.

**Operator**

Next, Christine McCracken, Cleveland Research, your line is open.

May. 10. 2010 / 1:00PM, TSN - Q2 2010 Tyson Foods Earnings Conference Call

**Christine McCracken** - *Cleveland Research Company - Analyst*

Good morning. Just on Pilgrim's comments last week that they're expanding production to meet stronger demand, you said in the past I think that you too would keep production levels to meet that demand. Can you tell us, have you changed your view about the outlook? Are you planning to expand your operations but hit that same level?

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

Christine, while it's important I think in any business that we keep an eye on the competitive landscape, I want to continue to reiterate, we really don't focus near as much about what we hear about or from the competition, really, as we do about our competitiveness. And we've said repeatedly that we're going to be increasingly more competitive and I think we're starting to demonstrate that. Our primary focus is going to be on our customer. If we add value to our customer and we're growing their business, we'll reap the reward of growing our business. I'm sure I sound like a broken record. But as we grow, we'll look at our forward demand, then we'll determine the inventory levels necessary to fill that demand and then we'll adjust our supply plans to optimize margins by either buying the parts we need, if the demand is not whole bird increment or by adding to our production base if it is. I'm really confident we've got the right plans. We're focusing on the execution of the fundamentals for success in our business. We've got added capital available to us to continue to invest in our business and make the improvements we need to compete and be the best in the industry.

**Christine McCracken** - *Cleveland Research Company - Analyst*

And just to follow up, then, were you a net buyer of meat during the quarter or were you meeting your own expectations?

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

Yes, we did buy meat, breast meat in the quarter. And really the genesis behind that is Q2's typically a fairly weak quarter in dark meat pricing, and so our plan was to go into that quarter and buying the breast meat we need because, especially with Russia closed, we really didn't want to grow a bird in whole bird increment and put excess dark meat out into the marketplace at what we thought would be pretty low prices. So it just made a lot more sense for us to buy the breast meat we need and then begin the ramp up in whole bird increments as it moved on into Q3. So, we worked our plan.

**Christine McCracken** - *Cleveland Research Company - Analyst*

Thank you.

**Operator**

Thank you. Next, Ryan Oksenhendler, Bank of America, your line is open.

**Ryan Oksenhendler** - *BofA Merrill Lynch - Analyst*

Hey, guys, congratulations. Could you provide a little bit more color in terms of the runway you guys have for operational efficiencies, mainly in Chicken and just could you provide a little more color around that?

May. 10. 2010 / 1:00PM, TSN - Q2 2010 Tyson Foods Earnings Conference Call

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

Yes. The key component, we just continue to look at every avenue on maximizing revenue. That's yields, that's deboned, that's looking for the proper mix, that's watching our price realization against indexes, it's really managing the customer's expectation to continue to grow. And then we really have very excellent focus and continued improvement on looking at our key performance indicators on cost. It's just a process. I won't get quantitative as to exactly how much more runway but we're not pleased with our own performance yet and we have a poultry team that has got their head down, working very hard and very happy with what they're focused. And then additionally we're really adding a fair amount of process improvements in our plants on CapEx in domestic Chicken where we're adding mix flexibility. We're adding labor efficiency. We're adding a variety of projects throughout the whole domestic Chicken segment. So rather than get specific plant by plant, I can assure you that a good part of that CapEx is flowing into domestic Chicken for those types of process improvements.

**Ryan Oksenhendler** - *BofA Merrill Lynch - Analyst*

Thanks a lot, guys.

**Operator**

Thank you. Next, Diane Geissler, CLSA, your line is open.

**Diane Giessler** - *CLSA - Analyst*

Good morning. Congratulations on your quarter. This discussion about the raising of the normalized margins, when I looked at Beef and Pork obviously, Jim, you've been doing a lot of work even prior to your move into the COO position. I look at Tyson's business mix and you control your supply in Chicken but you don't in Beef and Pork. So the next obvious question with regard to your improvement in your margins is is that what you're looking to do then in Chicken? Are you getting to the point where you think you're going to be able to raise your normalized operating margin in Chicken based on all this operational efficiency? I'm just surprised in the area where you actually have a little bit more control, you're not able to realize that kind of improvement the way you are in Beef and Pork.

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

The quick answer is, I sure hope so, but I feel a bit more comfortable, I want to work in this range for a little while and then it will feel a little bit more comfortable expanding it. So yes, I very much think it's possible but for me, we're going to have to take a little bit more time in the range before I'm comfortable doing that.

**Diane Giessler** - *CLSA - Analyst*

Could you talk a little bit more why Chicken is so much different than Beef and Pork? Is it just you have more participants? It's past your life cycle?

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

Diane, I would say that we really don't look at it different. We just said in the previous answer, we've added a lot of CapEx to improve efficiency. And if I look back, I'd say that we didn't hit the right process improvement changes, we weren't keeping ourselves up-to-date across all the plants and we're really focused on adding a lot of efficiency, mix utilization, deboned capacity, just basic improvement. So as we continue to make sure that the thought process we have is indeed realized in results, we'll

May. 10. 2010 / 1:00PM, TSN - Q2 2010 Tyson Foods Earnings Conference Call

go from there. But it's really not that much different. It's just a matter of we really have implemented a lot of process improvements, a lot of key performance indicators. As our confidence comes up, we'll be fine.

**Diane Giessler** - CLSA - Analyst

Okay. I appreciate the commentary.

**Operator**

Thank you. Next, Heather Jones, BB&T Capital Markets, your line is open.

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

Good morning. Congratulations on the quarter. Just a detail question before I move to my main question. On the Pork and Beef new normalized margin range I presume it's 4% to 6% for each segment, not as consolidated?

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

No. We stated it's 2.5% to 4.5% for Beef, and 4% to 6% for Pork.

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

Annualized.

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

Okay. And my next question is wondering where you are, if you could give us an update on your progress as far as your standing in Agri Stats, or just any general benchmark and where you believe you'll be at the end of the year.

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

We're very pleased with our continuous improvement and our goals are very lofty as we try to get more competitive. Our goal is to get as many plants as possible in the top 25%. We're not there yet but we're very pleased. I'm not going to get very quantitative on the final answer, other than qualitatively telling you we're very pleased with the progress. But on the same token, we've got plants that we've got a lot of work to do and that is the genesis behind putting some CapEx improvement in and some of those will take time to materialize. So we're very comfortable, though, with our progress.

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

Okay. Do you still have plants that are below 50%?

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

Sure, we've got plants. We run a lot of plants and some of them need to improve and they're very much aware of their standing every week. They look forward to that report, seeing if they made progress or deteriorated, and every one of them has a very detailed plan and knows exactly what they have to do to make that improvement. And they're chasing themselves. That's the

May. 10. 2010 / 1:00PM, TSN - Q2 2010 Tyson Foods Earnings Conference Call

other key. We've got a lot of confidence in our own data and their very much benchmarked against that as well. So the dialogue between plants is very, very impressive. The sharing of ideas, technologies and improvements is very impressive. And it's a journey. It's a process to continuously improve.

---

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

Okay. Thank you.

---

**Operator**

Thank you. Next, Tim Ramey, DA Davidson, your line is open.

---

**Tim Ramey** - *DA Davidson & Co. - Analyst*

Good morning. And add my congratulations. Jim, you go back a long way in this business and I was trying --

---

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

How far is that, Tim?

---

**Tim Ramey** - *DA Davidson & Co. - Analyst*

I've known you for 25 years, I think. But I was trying to rack my brain to see, I can't imagine that there's ever been a Beef margin this good in the March quarter. I think I remember some Beef margins over 5% before. Would you comment on that? Was this an absolute record for the way this business has run for the last 20 years or so?

---

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

I'm guessing it was. The other prior quarter that was very strong was the year that Canada had their BSE which was in '03, and we had major supply interruptions, and then Canada couldn't ship to Japan and other parts of the world which created a supply deficit. But the key when you just really look back at this quarter, it all goes back to the set up of domestic availability of protein because the import to export balance, the supplies of all four species being down and then as demand perked back up and imports fell off, that's why we're seeing very strong prices. The producers are very comfortable with the revenue increases. And we're doing very well because we hit this when our Beef operations and margin management group had everything working very, very high order. So their execution was good and I can't say enough about Beef and Pork and Chicken, and Prepared for that matter, all they're focused on the business. Then we've got a pretty good fundamental here. But that fundamental also, the rise in prices was followed by very fast rise in beef prices, and beef cattle prices. But I don't remember a quarter myself at this stage.

---

**Tim Ramey** - *DA Davidson & Co. - Analyst*

But the other thing that's interesting and I wanted to key back on your comment that Food Service improved in March. But for the margins to be this good in a relatively lackluster Food Service environment is interesting too. Can you elaborate a little bit more on what you're seeing in Food Service and what segments that's impacting the most?

May. 10. 2010 / 1:00PM, TSN - Q2 2010 Tyson Foods Earnings Conference Call

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

I read the same basic data that everybody reads, but the interesting thing was March, three of the five weeks reported by Technomics, had positive year-over-year sales growth. And then I've been watching a couple key indicator cuts like beef tenderloins that rebounded dramatically from a year ago. They're still not to their five year average which would imply the casual dining is starting to pick up a little bit because that's the primary consumption point of that particular cut. And then overall just anecdotally we're hearing a little bit of interest, particularly in that casual dining segment as consumers start to get a little bit more confidence in spending money out. So I don't really have any more facts or indexes other than what I read.

**Tim Ramey** - *DA Davidson & Co. - Analyst*

Okay. Thanks.

**Operator**

Thank you. Next, Vincent Andrews, Morgan Stanley, your line is open.

**Vincent Andrews** - *Morgan Stanley - Analyst*

Thank you very much and also congratulations on all the good work you guys are doing. Most of my questions have been answered. The lingering question I have is on the cash flow side, there was, it looks like a working capital reversal or buildup in the quarter. Was there anything driving that in particular?

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

Vincent, this is Dennis. Couple things. One, we had a pretty good surge in sales, about 4% versus the first quarter, or just under 10% versus a year ago. So that's going to drive a pretty big amount on roughly the same days. We also had a significant tax payment which is kind of nice. That means we're making money again. And we also had some April 1st interest payments and our quarter end was April 3rd. So there was about \$56 million that ordinarily would have been a Q3 payment.

**Vincent Andrews** - *Morgan Stanley - Analyst*

Okay. Thanks so much. I'll pass it along.

**Operator**

Thank you. Next, Steven Share, Wisco Research. Your line is open.

**Steven Share** - *Wisco Research LLC - Analyst*

Good morning. Excellent quarter. I had a question on Beef. I wanted to drill down there. As great as the quarter was, it looks like by my math that the spread has gone up here, the spot spread's gone up in April, maybe even 20% to 30% more than it was on average in the second quarter. Is there any reason that that increase in the spot spread shouldn't translate into better gross margin here in the third quarter?

May. 10. 2010 / 1:00PM, TSN - Q2 2010 Tyson Foods Earnings Conference Call

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

No. Simple answer. You're reading the fundamentals right. The revenue has increased and like I said earlier, cattle cost has followed it up but lagged it up.

**Steven Share** - *Wisco Research LLC - Analyst*

Then the same thing on Pork. Looks like there it's maybe not increased quite that 20% to 30% amount but maybe a 5% to 10%. So that's the range we should be looking for as far as margin increase?

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

You're reading the fundamentals correctly.

**Steven Share** - *Wisco Research LLC - Analyst*

Okay. Great. Thanks a lot.

**Operator**

Thank you. Next, Ann Gurkin, Davenport, your line is open.

**Ann Gurkin** - *Davenport & Company - Analyst*

Good morning. Within the Chicken segment, can you comment if you've had any contract wins, business wins, gained market share?

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

The answer is no, I don't have anything real specific that I want to share but we continue to be very pleased with our focus on customer and we've had some wins, we've had some losses. That's the normal course of business. Our continued focus on mix management and providing the product mix that the customer wants and the consumer wants has really been the overall win and that gives us the ability to chase the maximum revenue. So that's really been the key. I wouldn't say that there's been any specific surprises that have been out there one way or the other. I don't know if you've got any other comment.

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

No. That's good.

**Ann Gurkin** - *Davenport & Company - Analyst*

Okay. Thank you.

**Operator**

Thank you. Next, Farha Aslam, Stephens, your line is open.

May. 10. 2010 / 1:00PM, TSN - Q2 2010 Tyson Foods Earnings Conference Call

**Farha Aslam** - *Stephens Inc. - Analyst*

Hi, good morning. The \$700 million in CapEx, that's a pretty sizable number. Could you share with us some of the color around what projects you're spending it around and how that should add to earnings?

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

I'll hit that at a pretty high level. Number one, if you look back over our last couple years, we've been fairly capital constrained in our Chicken business and, frankly, there's just some catching up we need to do to make those plants more competitive. We have focused some of the money -- I'm not going to get into too many specifics, but we have focused some of that money on getting our chill pack business, our trade pack fresh Chicken business at retail back into the game. We needed to add some flexibility to those plants. We needed to get back into hand deboning, several things like that, mainly around the flexibility. And now we've got the capital to do that and we're getting that business in a position to where it could be competitive. And then if you move around the rest of the Company, there's lots of things we can do to unblock lines that make us more efficient, add ways to improve our labor efficiency, our line efficiencies. Those are the type of projects that we're doing that will help us fundamentally operate our business more efficiently and give us, by the way, the capability we need for growing the business forward. I think it does a great job of putting us into a more competitive position, going into 2011. A lot of the things we're working on, we'll see some benefits during this fiscal year but there's some other stuff that really doesn't start until late this summer, like in our Q4 that will move on into the fall that will help 2011 put our business into position to be even more competitive. So I hope that gives you enough flavor.

**Farha Aslam** - *Stephens Inc. - Analyst*

That's some color. Just roughly, paybacks that you guys look at?

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

I'll let Dennis comment on any specifics, but these are what we would term profit improvement or cost saving type projects and we have a fairly rigorous process where we weigh that against our cost of capital to get our marginal internal rate of return and these are all good paying projects. Dennis, you want to add any color to that?

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

Typically we look to projects to be at least a 20% MIRR Oftentimes these are 30% or more with strong paybacks and net present value. The other thing that's very important about these too is they're pretty low risk projects.

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

We're really looking and finding a lot of low risk projects and then we really manage the execution upon completion.

**Farha Aslam** - *Stephens Inc. - Analyst*

Sounds great. Thank you.

May. 10. 2010 / 1:00PM, TSN - Q2 2010 Tyson Foods Earnings Conference Call

**Operator**

Next, Akshay Jagdale, your line is open, from KeyBanc.

**Akshay Jagdale** - *Keybank Capital Markets Inc. - Analyst*

Good morning. Congratulations on a good quarter. First one on Chicken, Donnie, I don't know if I missed this but what are your expectations for production this year, the remainder of this year and 2011?

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

Let me go back and rehearse a little bit from last year. We held our production back at bay because frankly going into 'Q2, so call it January of '09, we were sitting on quite a bit of inventory. We were up around 600 million pounds or so. So we kept our production trimmed back throughout the summer last year while we sold out that inventory. And you can see that in our year-over-year comparisons for the quarter. Then as we moved into Q1, what we wanted to do is make sure we come out of Q1 with our inventory, let me call it right-sized. So we did that. And so going into this year, in order for us to just sell this year what we sold last year, without any sales growth, we've got to add about 250 million pounds of production just because that's what we took out of inventory.

So, yes, we're running a lot fuller today. We're placing and setting full at every one of our locations, except one, and that's by design, and as we move forward there will be an increase in pounds produced. Now, let me hasten on to say, I don't want you to confuse that with any excess or anything like that, because we look at our forward demand and then we build an inventory plan to support that production and those sales into the marketplace, and then we come back against that and balance our supply. And at times we do it in whole bird increments and we grow more chickens and at times we put ourselves in a position to be able to buy parts on the market. So that's a dab long-winded. I'm going to turn it over to Jim and see if he wants to add a little bit to that.

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

I just want to point out some USDA numbers that to me are very interesting when you look at pullet placements, particularly as we look forward into the remainder of this year and out front. And I think what's interesting is that the Jan-Feb-March pullet placement number, when you look particularly March down substantially, but then I aggregated those three months, we're down 1.5% yet in pullet placements compared to '09 but more astoundingly down 4.2% compared to '08. I know there's a lot of thought about the overall supply but if you go back and really look at that five year run and peaking out in '08 before there was a supply correction, it is pretty interesting to look at that structure. And then the other interesting thing at the present time is simply the amount of egg production that's declined because all the indicators show that the age of hens has increased dramatically. So we have some indicators to me, particularly out in the nearby future, anyhow, that the supply is overall constrained just because of the amount of laying hens available.

**Akshay Jagdale** - *Keybank Capital Markets Inc. - Analyst*

Is it fair to characterize if I look at Beef and Pork over the years, last three years, utilization rates have improved significantly and so has profitability, is that the next lever for Chicken, Donnie? Is that what you're working the hardest at, apart from all the other plant related issues?

May. 10. 2010 / 1:00PM, TSN - Q2 2010 Tyson Foods Earnings Conference Call

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

Certainly our capacity utilization will improve and that is a lever. I wouldn't say that's the key lever. As we look back, there's lots of things in our business that we do to drive value and of course we always focus those on driving value first for the customer. But back in our operations, there's line efficiencies and labor efficiency improvements to be made, capacity utilization is a play, yields certainly are a big play for us. So it's a card in the deck but it's not the only card in the deck.

**Akshay Jagdale** - *Keybank Capital Markets Inc. - Analyst*

Okay. One last one for Jim. On Beef, if you look at the industry, I know Ken asked this question before, utilization rates and the way the industry operates has changed. I think we have pretty much gone from a five and-a-half, six day week to about a five day week now. What is the risk, how would your view of the industry change if a particular player starts to do six day? Is that a risk, do you consider that a major risk?

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

There's all kinds of risks out there that we watch and really manage around. Our real focus is knowing what's in front of us in our supply regions, what we have for our customer base. We really manage our own business. If somebody does something, I can't dictate what the competition's going to do, nor do I even try to predict, most often.

**Akshay Jagdale** - *Keybank Capital Markets Inc. - Analyst*

Okay. Thanks a lot.

**Operator**

Thank you. Next, Ken Zaslow, BMO Capital Markets, your line is open.

**Ken Zaslow** - *BMO Capital Markets - Analyst*

Just a quick follow-up question. If I was to exclude the international and add, say, cost savings opportunities, how would 2011 look relative to this year, just assuming exactly flat fundamentals?

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

I think improve. I think it's shaping up to be a pretty good year, Ken.

**Ken Zaslow** - *BMO Capital Markets - Analyst*

In terms of, if I exclude international challenges, how many basis points does that take out of the margins?

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

Okay, I get the question. That one blew right by me, Ken. On our international operations, that is really not a big number. That won't materially affect your model for the year. So we're steadily making improvement in those operations and it may add back a little bit but I don't think it's going to sizably impact your model at all.

May. 10. 2010 / 1:00PM, TSN - Q2 2010 Tyson Foods Earnings Conference Call

**Ken Zaslou** - *BMO Capital Markets - Analyst*

What about cost savings? Will that sizably impact my model?

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

We sure hope so. That's what we're working on right now, getting this business more efficient.

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

Continue to improve execution.

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

Yes, sir.

**Ken Zaslou** - *BMO Capital Markets - Analyst*

You don't want to quantify? Are we talking about tens of basis points? Are we talking about 50 basis points? What kind of range are we talking about?

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

You're getting too specific. We would get into that given guidance area, so Ken, all our focus is on getting this business better. Our teams are doing a great job. They've got a list of projects that they're working on that are going to make all of our business segments more competitive. Looking at the market fundamentals in front of us and looking at what we're going to do with our business to make our business more competitive, we sure like the way it looks out in front of us.

**Ken Zaslou** - *BMO Capital Markets - Analyst*

Great. Thank you.

**Operator**

Thank you. Next, Christine McCracken, Cleveland Research, your line is open.

**Christine McCracken** - *Cleveland Research Company - Analyst*

Thanks for taking the follow-up. Just on your comments, Jim, on the cattle, the size of the cattle herd, to be clear, you're saying that you're not seeing any signs of expansion? I think that's pretty consistent. Is it possible that with the current economics that we could start to see the early signs of any heifer attention over the next year and if so, how do you manage tighter supplies, given current plant utilization across the industry?

May. 10. 2010 / 1:00PM, TSN - Q2 2010 Tyson Foods Earnings Conference Call

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

I didn't make any comments but you're very clear on the size of the cow herd and we've got good pasture conditions throughout, profitability. So if there is going to be a year where you start to see heifer retention it certainly is a setup right now. The other key component on supply, I believe if that happens obviously there's less heifers that go into the feed lot supply. Our thought process is simply we're where the feed lots are. Our plants are located in the right regions and if there's a competitive slug fest that happens on feeder cattle, the noncompetitive feed yards are going to be the ones that probably have to shift. Again, I like where we sit and from a plant location standpoint. The industry fundamentals, as I said earlier, is something we watch very carefully as we try to plan through our work and know exactly what we have to make changes out front. So we're watching. But I haven't seen, right now, the cow slaughter has been surprisingly high which is very conflicting.

**Christine McCracken** - *Cleveland Research Company - Analyst*

It's not overly surprising given where grind prices are. The incentive is to kill a lot of cows right now. But in terms of plant utilization if you saw another plant let's say go down and tighten up the overall utilization in the industry, could you see even better packing margins? Is that part of your increased guidance or is it that maybe that could even push things a little bit higher?

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

That had no bearing in our thought process on increasing our normalized range. It was entirely due to looking backward to what drove our historical normalized range and the number of the issues that were impediments there that have been removed as we've improved our operations and gotten rid of non-competitive plants.

**Christine McCracken** - *Cleveland Research Company - Analyst*

I'll leave it there.

**Operator**

Thank you. Our last question comes from Diane Geissler, CLSA, your line is open.

**Diane Geissler** - *CLSA - Analyst*

Good morning again. Thanks for taking the follow-up. You indicated in your commentary in your press release that grain prices, the impact in the back half of the year would be better than what happened in the quarter in grain prices were up year on year. Could you give us some commentary as to what you expect grain prices to be on a year-over-year basis in the second half?

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

I'll give you some commentary. It may not be quantitative predictions. I always tell people I'm not in the prediction business, I'm in the analysis business. But the key is we're off to a great start in this planting season. So some of the estimates, at least I read over the weekend, are we could come through and be at 80% planted which could be favorable for even adding more acreage than the original projection. Moisture is not lacking anywhere and we had huge South American crops. So we have a very ample worldwide supply and we don't have at this point any threats to the corn supply. So that should continue to put pressure on the fundamental. The wild card out there that's been getting a fair amount of play is just that China is importing more corn and so the exports related to the dollar will have some influence on it. So we don't see the pressure point on grain, at least with the fundamental set up as it exists today.

May. 10. 2010 / 1:00PM, TSN - Q2 2010 Tyson Foods Earnings Conference Call

**Diane Giessler** - CLSA - Analyst

Are you fairly open to the market on grain right now?

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

Are we what? Fairly open? Meaning? We're playing very tight, very close in.

**Diane Giessler** - CLSA - Analyst

Okay. Great. Thank you.

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

Okay. Thank you very much for attending our call today and we look forward to speaking with you next quarter.

**Operator**

Thank you. You may disconnect at this time. That does conclude today's conference.

#### DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2010, Thomson Reuters. All Rights Reserved.

