FINAL TRANSCRIPT

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PRESENTATION

Operator

Welcome and thank you for standing by. We would like to inform all parties, your lines are in a listen-only mode. (Operator Instructions). Today's conference is being recorded. If you have any objections, you may disconnect at this time. And now I'll turn today's call over to Ruth Ann Wisener. Thank you. You may begin.

Ruth Ann Wisener - *Tyson Foods - VP IR*

Good morning. And thank you for joining us for Tyson Foods' conference call for the third 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 could affect our business. On today's call, 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 - President, CEO*

Thanks, Ruth Ann. Good morning, everyone and thanks for joining us. Well, I'm sure by now you've had a chance to briefly review our press release and you see that we produced earnings of $0.65 a share and operating margin of 6.8% on sales of $7.4 billion. These are the best results Tyson has posted since we put the two companies together, which illustrates the steady improvement we've made and more importantly, what we're capable of as a Company.

I'm so proud of our team and what they've accomplished, and by team I don't mean only the employees, or as we choose to call them, team members of Tyson. We wouldn't be enjoying the success we have now if it weren't for the people at every point along the supply chain. So I'd like to acknowledge our poultry growers, our cattle and hog producers, our supply partners, our distribution partners and thank you for your commitment to quality, service, and our mutual success. I'd also like to thank our customers. We exist to serve you and to add value to your business. We're grateful for the opportunity to provide great Tyson products to consumers all around the world.

In a second, I'll turn the call over to Jim and Dennis to discuss our business operations, but before I do that, let me add a couple of comments. In our international operations, we're making solid progress, and we're closing the gap on our start-ups. We're obviously pleased that Russia announced it will open to chicken imports. We're waiting for the details to be worked out, but the announcement alone has already added a positive impact on dark meat prices both internationally and domestically. We're very excited that dynamic fuels plant is now mechanically complete. We expect to begin production this fall, and are very proud of our efforts to produce high quality, renewable fuel from non-food sources.

That's a look at the big picture. Now I'll turn it over to Jim for specifics on our segments.

Jim Lochner - *Tyson Foods - COO*

Thanks, Donnie. It was a really great quarter, and I'm very pleased with how we navigated the markets and demonstrated continuous improvement in managing revenue and costs. Let's begin with the Chicken segment, which posted $148 million in operating income, and generated a 5.9% return on sales, excluding the insurance proceeds. This compares to $114 million, and 4.6% in the previous quarter, and $143 million and 5.9% in Q3 of last year. Volume was up 8% with half the increase coming from our international operations, and the other half from domestic demand. Sales prices were down 3.2% compared to Q3 of 2009.

A key factor in our Chicken business is our operational improvements. The fact that year-over-year return on sales was flat in an environment that provided little benefit from leg quarters is evidence of our progress. There's still plenty of opportunity for additional cost savings and efficiencies. We continue to invest in our plant operations to improve cost, mix and yield optimization. Our goal is to be the most competitive producer in each Chicken distribution channel.

As expected, most external analysts are predicting a growth in Chicken production year-over-year into 2011. These increases seem reasonable, but there are varying opinions regarding head and weight increases. Keep in mind, broiler domestic availability differences year-over-year will be very dependent on export volume changes.

Beef segment had a very strong quarter with a 5.6% operating margin on $176 million in operating income, compared to 4.5%, and $126 million in the previous quarter, and 2.4% and $66 million in Q3 of 2009. Even though we recently raised the normalized range from 2.5% to 4.5%, the Beef team outperformed it by a significant amount. It's important to note that we produced these results on a 5.1% decline in sales volume. Price of cattle increased and we were able to maximize our revenue in both the cut out and drop credit improvement.

Our plants are running well. We're doing a good job of managing our mix. Cattle supplies in fiscal 2011 will continue the gradual decline of 1% to 2% as the cow herd continues to shrink. As you know, regional fed cattle supplies are an important factor. We do not expect any major changes in the regional supplies where our beef plants are located.

Turning to Pork, with strong export demand and our competitive cost structure, the Pork segment produced outstanding results with a 10% return on sales, and $125 million in operating income. These results compare to 6.3% margin and $69 million in Q2, and 3% and $28 million in Q3 of last year. Not only did we set a new high water mark, we were able to achieve this in what is typically the weakest quarter for Pork. Pork supplies in 2011 are anticipated to be below their peak supplies in calendar 2008 and 2009, and most projections show no material changes compared to 2010.

There's no secret to how we were able to achieve such great results in Beef and Pork, it's execution. The fresh meat team has done an amazing job of focusing on the details day in and day out. They maximized revenue, and control cost while maintaining exceptional quality and customer service. It's that simple. It isn't easy, but it isn't complicated.

Rapidly rising material costs for hams, bacon and sausage products were a challenge for our prepared food segment. Although we made progress on sales price increases, they lagged behind input causing some margin compression. We were overall pleased with our results considering the volatility of these input costs. Prepared Foods posted a 2.9% margin and $22 million of operating income compared to 5% and $37 million in the previous quarter, and 5.9% and $40 million in the third quarter of last year. Our tortilla business continues to do extremely well, and with national promotions by the major pizza chains, our pizza toppings and crust business are very strong too.

Total US production of protein in 2011 is projected to increase by most analysts, as broader production will grow more than the decline in Beef production, assuming Pork is the same year-over-year. The key driver for domestic availability of US proteins will be the export markets, which are not showing any signs of decreasing in Beef or Pork. Russia did not import US Chicken the first seven months of calendar year 2010, and although they have announced they will allow US imports, the details are not yet resolved. Exports will have a strong influence on the US total protein availability numbers as we compare year-over-year 2011 to 2010.

In conclusion, I want to personally thank all of our team members who are working smarter by focusing on the business drivers and anticipating issues to drive results and it shows in our earnings. And now, Dennis will provide the financial report.

Dennis Leatherby - *Tyson Foods - EVP, CFO*

Thanks, Jim and good morning everyone. Our reported Q3 earnings of $0.65 per share include $8 million or $0.02 per share of adjustments for losses on bonds repurchased and an equity investment impairment, partially offset by insurance proceeds. Our operating cash flow for Q3 exceeded $600 million, which enabled us to further reduce debt. In the third quarter, we repurchased over $400 million of bonds.

Net debt after cash of $834 million was $1.750 billion, and we are pleased to note that gross and net debt levels are at post IBP acquisition lows. Total liquidity, including cash was over $1.6 billion. Total debt to capitalization declined to 34%. And on a net debt to cap basis, it now stands at 26%. On an adjusted basis, our return on invested capital for the last 12 months stands at a nice level of 20%, and we expect to see this measure improve even more in the future.

Capital expenditures were $140 million compared to $88 million for Q3 2009. Our effective tax rate for Q3 was 38.8%. Our diluted shares for Q3 was 382 million shares. The convertible bonds we issued in September 2008 accounted for 2 million shares of dilution. Please refer to our 10-Q of the original September 2008 convertible offering documents for the entire explanation.

So here's an update on a few key metrics for your 2010 financial models. We are decreasing our capital expenditure guidance for the fiscal year to about $600 million, as we simply aren't going to be able to get all the projects done in fiscal 2010 we originally thought. We're not backing off on the operational improvement projects, especially in the Chicken segment. Instead, it's just a matter of timing with respect to getting these projects completed.

Expect revenues for the fiscal year to still be in the $28 billion range. Net interest should be approximately $335 million for fiscal 2010, this includes the premiums we've paid on bond buybacks to date, and the expected future interest savings from those purchases. For Q4, net interest expense should be around $65 million. Depreciation and amortization will be approximately $500 million. Our effective tax rate for the full year should be around 37%.

Let's look forward a bit. So here are a few of our preliminary thoughts on fiscal 2011. We expect fiscal year 2011 CapEx to be around $700 million, as we continue to reinvest in our businesses. Fiscal 2011's net interest expense should be just under $250 million, a nice improvement in reduction from the $335 million we were estimating for fiscal 2010.

We will continue to use our available cash to repurchase notes when available at attractive rates. The only maturity of outstanding debt coming due over the next two years is our 8.25 notes due October 11th. That balance was down to $327 million at the end of Q3, and we anticipate retiring it with current cash on hand and/or cash flows from operations. Fiscal year 2011's effective tax rate should be about 37%.

I'd also like to thank our team members for their outstanding work. Our businesses are in a totally different place than they were a couple of years ago. Financial health of our Company has improved dramatically in a very short period of time, and our capital structure reflects this. Continued strong cash flows generated by each of our businesses will strengthen it further, while at the same time, allowing us to invest heavily in our operations for even more success in the future. I like our competitive and improving cost structure, best-in-class performance in Beef and Pork and look forward to continued improvements in our Chicken business.

Great job, everyone. Donnie?

Donnie Smith - *Tyson Foods - President, CEO*

Thanks, Dennis. We feel really good about the fourth quarter. We expect all of our segments to be in or above their normalized ranges for the year and based on our view today, I think we'll have a strong 2011.

Here's why I'm optimistic. We have a sound strategy. We have a great team. I believe the best in the industry. We have a tremendous passion for serving our customers with unique abilities to understand their business and add value to their business. We have laser focus on the basic executional principles that will continue to drive our competitiveness.

Our Chicken operations are fundamentally better than they were even a year ago and they're still improving. We have a best-in-class Beef business. We have a best-in-class Pork business. In spite of the raw material prices, we have a great prepared food business, that is very important to both our retail and our food service customers. We have the balance sheet, and particularly the cash we need, to continue to invest in our business and pay down debt when it's advantageous.

Our 2010 EPS growth is really the result of two key factors, operational improvement and top line sales growth. And looking forward by adding a third component, a significant reduction in interest expense, we believe this progress will continue into 2011. To sum it up, we raised the bar. We have higher expectations and everything we're doing is geared toward meeting those expectations. I want to say thank you again to all our team members for everything you've done to get us to this point. Keep pushing. Don't let up, we'll finish the year strong. I'll end with that, and turn it over to the operator, to open it up for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). And our first question comes from Tim Ramey, D.A. Davidson, your line is open.

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

Wow, quite the impressive quarter. Donnie, just I don't think I've ever seen a 10% cut-out margin in Pork. Was there anything in particular going on there that we should know about or just like you say, great execution?

Donnie Smith - *Tyson Foods - President, CEO*

It was great execution. Jim, why don't you -- want to add anything there in?

Jim Lochner - *Tyson Foods - COO*

We keep focusing on cost, maximizing revenue and as you know, the live cost of hogs followed the revenue up and really is a function of working on mix to yield and key components and just really running a very good business and understanding the detail and thinking ahead. It's really nothing magic.

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

And Jim, if I may, one quick one on exports. You mentioned that -- and it's true -- the situation on margins going forward really will be driven by the export tone. I know it's not earnings guidance, but can you give us any kind of forecast on what you think it's going to be? We are going to see better exports I guess in poultry, and probably continued good in Pork but what are your thoughts?

Jim Lochner - *Tyson Foods - COO*

Well, my thoughts are that Beef exports continue to show growth. I'm optimistic that Pork exports going into 2011 over 2010 will continue to increase. We're still not back to that peak year of 2008 in the world supply of Pork, have not rebounded. I'm optimistic there. Let's focus on chicken and keep in mind that when Russia has imported if you look back at 2007, 2008, 2009, they imported 5% of the total US Chicken production, and we're hopeful that all these issues get resolved throughout, and they'll be back and I think they'll be particularly interested just looking at the feed supplies in Russia and eastern Europe, that I think they'll be interested in importing more protein or they're going to have changed diets. But I'm optimistic that exports will increase fairly sizable in 2011, predominantly driven by the difference in Chicken.

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

Thank you so much.

Donnie Smith - *Tyson Foods - President, CEO*

Thanks, Tim.

Operator

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

Adam Josephson - *KeyBanc Capital Markets - Analyst*

This is Adam Josephson in for Akshay. Thanks for taking my question. How much do you expect your Chicken production to be up next year?

Donnie Smith - *Tyson Foods - President, CEO*

I think we'll probably be up a couple of points from where we were. Now, remember, as we've said before, we balance our supply and demand. We have a pretty optimistic view about our demand for production. We will maintain our rigor around going into Q4 and coming out of Q1 -- or excuse me, going into Q1 and coming out of Q1, with the right amount of inventory. So we'll make sure our production is right in the fall, so that we've got the capability Jan 1 forward to run this thing wide open. But we'll be up a little bit, because we're optimistic about our demand, and you won't have to worry about us building inventory. We're going to match our supply and demand, just like we've been doing for the last year or two.

Adam Josephson - *KeyBanc Capital Markets - Analyst*

Thanks. And one quick follow-up. You earned an EBIT margin this quarter of 6.3% which was your highest in nearly a decade. Do you believe these margins are sustainable and if so, why?

Donnie Smith - *Tyson Foods - President, CEO*

Well, as we said, we look into 2011. We do believe that our earnings in 2011 ought to be very similar on an operating income basis, ought to be very similar to 2010. And then don't forget, with $85 million less in interest expense, that alone is a $0.14 a share EPS growth.

Now, Beef and Pork, our plants are competitively situated, and we've got good supply of cattle and hogs around where our plants are. Our plants are running great. Jim talked about how well our operations are running in Beef and Pork. Our Chicken group has made amazing progress and they continue to work on the fundamentals of their business. We've got plenty of capital to invest in that business. We'll continue to do that and drive our productive capability going forward and our view in 2011 is more based on operational improvement than anything else.

We don't have an unrealistic pricing scenario going into 2011. We think we've got a fairly accurate view, or at least a conservative view of grain prices, and our optimism is based on continued operational improvement in that Chicken segment. Prepared Foods might get off to a little bit of a slow start based on this raw material, but we're running a great business and give us a little bit of time and a little bit of stabilization in those raw material markets, and that business will get right back up into its range where we expect it to be. So that's a summary of our view.

Adam Josephson - *KeyBanc Capital Markets - Analyst*

Thanks very much.

Donnie Smith - *Tyson Foods - President, CEO*

Thanks.

Operator

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

Diane Geissler - *CLSA - Analyst*

Good morning.

Jim Lochner - *Tyson Foods - COO*

Good morning.

Diane Geissler - *CLSA - Analyst*

Congratulations on a strong quarter.

Donnie Smith - *Tyson Foods - President, CEO*

Thanks.

Diane Geissler - *CLSA - Analyst*

I think what the market is most concerned about at this point it seems to me just in discussions with investors, is oversupply on the Chicken side and certainly an 8% increase in volume in the third quarter, coming on a 5% increase the same quarter last year, I appreciate half of that is international but the other half would be domestic. Why should the Street have confidence in your ability to continue posting solid operating profit in the Chicken segment if we're going to see big increase in production? Is it just you expect Russia to be open? Are you forward booking leg quarters? Do you see increased demand in food service? What should give us confidence that we're going to continue to see improvements in margins in that segment?

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Donnie Smith - *Tyson Foods - President, CEO*

Fair enough. Let me start, I'm going to turn this over to Jim, fill in the details, but I want to caution us not to just look at production for the answer to this equation. Jim does a great job in understanding and defining this whole domestic availability. So I'm going to let him take off here and try to answer your question.

Jim Lochner - *Tyson Foods - COO*

Let's really step back and take a look here, and I've spent a lot of time looking at the number of analysts' forward projections into 2011, and I find it interesting that we have among analysts as much variation as the growth year-over-year. We have some that are predicting moderate growth in headcount, and still far below those particularly 2007 and 2008 in just purely heads slaughtered, and some who are nominal in bird increases, bird weight increases of 1, that's way high. You have a range of about 1.7 to almost 5% increase in production. But as I said a minute ago, let's take a look at the total picture here on, if Russia's in or out. That's a significant difference in the domestic availability of Chicken. Now, let's couple that with what we've been talking about in domestic availability of all proteins.

We saw Pork very substantially lower year-over-year, and certainly we don't see that in our fiscal year, that there's an opportunity for much, if any, increase in total Pork production. And again, if the world supply of Pork, which is indeed pulled back, we see much of a growth in exports, we're going to be negative in domestic availability of Pork from a US standpoint, and we saw clearly the increase we saw in pricing throughout the whole year. Same thing on Beef. We're not likely to see any major increases. If anything, carcass weights will have to make up the total pounds difference and again we've been seeing pretty strong interest throughout on Beef exports.

So if you couple it all back together, it's very conceivable that domestic availability of all proteins to include Turkey could be actually less, very dependent on what happens to the export arena. I'm not at all pessimistic that we have any oversupply of protein going into 2011 when I tie everything back together. When I look purely at pullet placements, you're seeing dramatic increase year-over-year but you can't just look at year-over-year numbers. You have to look at where the total supply was relative to last year, and project where it's going, and if I look at just the breeder flock numbers in some of the estimates, we're not seeing massive growth year-over-year, keeping in mind 2010 was a low year.

So I know that the numbers year-over-year look there, but again, put it all back together, if Russia jumps in here and it starts importing again, they are fairly big consumers, at least in 2007, 2008, and 2009 of that total Chicken supply. So that's why I'm comfortable that given the total protein situation, we'll be able to navigate through these prices, and we shouldn't have a major price pressure, and I don't materially think we're going to see any major pullback of US demand or consumption of protein. If I'm wrong on that, I'll be surprised. I just don't see that in the trend.

Diane Geissler - *CLSA - Analyst*

Are you seeing anything from Russia right now? What is the current situation?

Jim Lochner - *Tyson Foods - COO*

Other than the same press that you have availability to, and that is there's one this morning that they're trying to figure out how to resolve some inspection issues.

Diane Geissler - *CLSA - Analyst*

Okay. Great. Thank you. I'll leave it there.

Operator

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

Farha Aslam - *Stephens Inc. - Analyst*

Hi. Good morning.

Donnie Smith - *Tyson Foods - President, CEO*

Good morning.

Farha Aslam - *Stephens Inc. - Analyst*

Congratulations on a great quarter.

Donnie Smith - *Tyson Foods - President, CEO*

Thank you.

Farha Aslam - *Stephens Inc. - Analyst*

And looking at the grain situation, could you talk about how the current grain prices will affect Tyson in the fourth quarter and into 2011? And also, if you could give a view on kind of what the grain situation will do to global protein production overall.

Donnie Smith - *Tyson Foods - President, CEO*

Okay. First of all, the corn crop is in very good condition. Beans too. 71% of corn is good to excellent. 66% of the bean crop is good to excellent. We're pretty much through silking in corn. We look to be in good shape, and I look for us to have a good crop this fall.

Recently because of the Russian wheat situation, wheat took off and led corn up. Back a couple of months ago on a dip, we bought some calls to protect our Q4 and our Q1 position at somewhere in the $4 area. Just in case something -- well, frankly like what happened, happened. You couple that with the corn that we bought against fixed price positions and some of the cost, plus stuff, we feel very comfortable that we'll end Q4 just fine. Q1's going to be in good shape. We're going to get off to a good start in 2011. So, I think we're in pretty good shape going into the year.

Jim Lochner - *Tyson Foods - COO*

I want to add a little bit on the big picture in grains. Some of these forecasts call for record production in corn, record production in the US in beans. Keep in mind, South America had very strong crops. In its last run-up was due to the severe drought in Europe -- excuse me, in Russia and eastern Europe, and really accelerated when Russia said they're going to cease exports, which is exactly what a prudent person would do, is hold on to their stocks and their carry-out when you have a severe drought. So I think there's been a tremendous amount of buy the rumor and I think we'll see a little bit of selling the fact when it's all said and done. This corn crop, as Donnie said, is in very good shape and again, couple that with the south American crops and we're not really looking at a major feed grain shortage across the world, absent this drought situation in Russia which has accelerated the whole complex from a price standpoint.

Farha Aslam - *Stephens Inc. - Analyst*

Thank you very much.

Donnie Smith - *Tyson Foods - President, CEO*

Thanks.

Operator

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

Christine McCracken - *Cleveland Research - Analyst*

Good morning.

Donnie Smith - *Tyson Foods - President, CEO*

Good morning.

Christine McCracken - *Cleveland Research - Analyst*

Yes, just on the increase you've seen in Pork and Beef prices here over the quarter, obviously pretty massive jump, especially when you look at I guess the overall economic picture. I'm wondering if you're seeing any impact or pushback I guess at retail, from your retail customers. And then as you head into the fall contracting season for food services, if you could give us color around maybe how those early discussions are going?

Donnie Smith - *Tyson Foods - President, CEO*

Yes, Christine, as you look at retail -- well, let's look at the food service and retail combined. We still believe that food service, let's call it demand, is going to be down something like 3% year-over-year. That would be compared to a 6% decline a year previous to that. So it seems like to us in the last quarter or so, food service demand has stabilized. In other words, let's just say maybe it's quit going down and we seem to be kind of bouncing along the bottom now. When you compare that to retail, retail has made up a lot of the gap.

I will tell you that in the last quarter ended, the data we're seeing shows that retail demand in both dollar sales and volume was about flat to a year ago in total meat, that would be frozen, value added, fresh meat, all that combined. So still feels pretty solid. I do think that maybe some retail pricing slowed things down a little bit in the previous quarter ended, at the end of June, but certainly feel pretty good about what things look like going forward.

We're not optimistic about, and we don't have baked into our numbers a huge rebound in food service demand. We do have fairly steady retail growth in our mind. About on pace with what we've seen. So I think hopefully that gives a pretty decent picture. Jim, you want to add anything to that?

Jim Lochner - *Tyson Foods - COO*

The only thing I would add is you do see the flip-flop going on when Pork or Beef prices go up, you see Chicken. I think if you look back at the last good data point was all the way back in May, and total sales volume and numbers, Beef and Pork were down. Chicken was -- they were down like 2.5%, Chicken was only down about 0.5%. So you are going to see the struggle that is particularly some prices come up and the values are going to move around. They'll shift to different proteins. I think that actually bodes very well for holding pricing together, particularly Chicken, as we go into this fall as well as into 2011. So again, it's always that -- you've got to put it all back together, that you've got a different set of supply dynamics going on, even if you say food service demand is weakened. Even though that March through May period of traffic was actually only down 1% compared to 3 last year and dollars were up at least in some data I saw. But again, I think June had some different numbers relative to that. So again, I think it's the big picture of looking at them all holistically together.

Christine McCracken - *Cleveland Research - Analyst*

Thank you.

Operator

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

Vincent Andrews - *Morgan Stanley - Analyst*

Good morning and congratulations on the fine execution.

Donnie Smith - *Tyson Foods - President, CEO*

Thanks.

Vincent Andrews - *Morgan Stanley - Analyst*

Just wanted to ask you in terms of Russia and maybe a couple of questions, to what extent do you think the sort of holdup on the resumption of exports or imports from the US or however you want to phrase it, do you think it has anything to do with the issue they're having with the wheat crop? I'm just thinking in terms of trying to keep Chicken prices high for their domestic producers. Do you think there's anything to that?

Jim Lochner - *Tyson Foods - COO*

We went off base speculating on that answer. I think there's a lot of variables that are in this equation and I wish we understood the detail behind them all but we don't.

Vincent Andrews - *Morgan Stanley - Analyst*

Okay. Fair enough. And just lastly, maybe on that issue, just what are they doing absent US Chicken, what are they doing to make up -- where is that demand shifting, to the extent that you know?

Jim Lochner - *Tyson Foods - COO*

I absolutely don't know and we're watching total import numbers. I think one other interesting fact that even without Russia, US Chicken exports down through May were at 90% of the prior year and they certainly weren't going to the countries surrounding Russia. So I was kind of looking for that, see what was happening and it certainly doesn't -- so I can't answer where they're getting their protein or if it was all domestically produced or if they got more culling of herds going on in the absence of drought or with the drought situation. So but I think the other more important fact to me was that even without Russia, we didn't have a big fall-off in Chicken exports, at least Jan through May.

Vincent Andrews - *Morgan Stanley - Analyst*

Thank you very much. I'll pass it along.

Operator

Thank you. Next, Ken Goldman at JPMorgan. Your line is open.

Ken Goldman - *JPMorgan - Analyst*

Thanks, good morning. Traditionally when hog and cattle costs rise, going back over time, industry Pork and Beef packing margins have slipped a bit. Yet lately, both of those, especially on the Pork side have been very strong. I'm talking industry, not Tyson in particular. I'm wondering if you could shed some light as to why that is. I've heard a lot of explanations, including the industry is more rational than usual or maybe one of your competitors has shifted its focus from the hog farming side to the Pork production side. I'm wondering if you could shed some light on that, like I said and if it's true, how long do you think that can last?

Jim Lochner - *Tyson Foods - COO*

Well, a simple explanation is in spread businesses it's the slope of change, so if the revenues are increasing faster than the hog cost, you'll spread margins and vice versa, if hog costs go up faster than revenues, you compress margins, and you need to be very competitive to the players in your region, and that's the simple model. The key here is, we really work on finding maximum revenues through a combination of mix, finding added products in the drop credit, looking for -- looking at yield relationships, getting the right hogs in the right merchandising categories to maximize return, and there's a lot of different plays that happen in there when you really focus on all the detail and then try to anticipate what's going on out in front. I really can't comment on the competitors and what their thought processes are.

To sum that up, it's really a focus on a tremendous number of details and talk about them on a continuous basis and we know one thing, that as revenues come up, hog costs follow it. Same things happens in Beef. Our job as they all know it in fresh meat is to maximize the revenue, minimize the cost every day, as simple as that model sounds.

Ken Goldman - *JPMorgan - Analyst*

Thank you.

Operator

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

Christina McGlone - *Deutsche Bank - Analyst*

Thank you. Good morning.

Donnie Smith - *Tyson Foods - President, CEO*

Good morning.

Christina McGlone - *Deutsche Bank - Analyst*

Jim, I just wanted to understand again the balance sheet as you laid it out for next year for all the meats. So it looks like Beef production will be down. Pork production flat. Chicken production up. Beef and Pork exports up. So then it seems that it really hinges on what happens with Russia and Chicken exports in terms of domestic availability and pricing.

And so to that, I guess I wanted to better understand because things are in flux there, there's a Bloomberg article saying that Tyson met with Russia veterinary officials over the weekend. I'm not sure if that really happened. I wanted to see how that went, and just other details, like how much frozen export cargo is in the Baltic region. Does the new customs union with Kazakhstan and Belarus, does that moderate pricing at all. If Russia does have to reinspect plants and we don't get product in for another 30 to 60 days, what happens to leg quarter pricing?

Donnie Smith - *Tyson Foods - President, CEO*

That's a lot of questions.

Christina McGlone - *Deutsche Bank - Analyst*

Sorry.

Jim Lochner - *Tyson Foods - COO*

I think the key is -- let's back up on the domestic availability. So if production in Beef is down 2% to 3% and the export to import ratio stays like it was in 2010, you're down on domestic availability of Beef potentially 2% to 3%. Same thing on Pork, even though I think production will be flat. If exports grow at all compared to last year, again, you're negative. And then in Chicken production, as I stated earlier, the 5% of Russia's imports equaling about 5% of the US production in the prior years, if that happens, then you're fairly negative and I don't see much in the way of Turkey increasing.

To answer the second question, we have an office in Russia, a sales office, and we did have technical people meeting on Pork over there. So that was -- I don't know where all these -- but that's what happened there. They were trying to resolve, understanding all the technical issues on Pork exports.

And then the rest, I can't answer the detail. I don't know what the remaining sets of questions that you asked, whether -- I don't have any detail in my head on those, so I can't really comment on that. But thank you.

Operator

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

Stephen Share - *Wisco Research - Analyst*

Congratulations on another strong quarter.

Donnie Smith - *Tyson Foods - President, CEO*

Thanks.

Jim Lochner - *Tyson Foods - COO*

Thank you.

Stephen Share - *Wisco Research - Analyst*

Say, I want to talk a little bit more about Beef and it looks on some of the work we've done that spreads have come down since the quarter ended. And I was wondering if because the spot spreads have come down, should we see kind of a more normalized margin in Beef? Or are there other things going on that maybe keeps that margin up. And then secondarily, how will that impact kind of your other -- do you feel ultimately it's healthy and maybe it moves a little more volume toward Chicken and Pork?

Jim Lochner - *Tyson Foods - COO*

Let me just comment. Post July 4th and into July, you typically see price pressure as we head into kind of the weaker demand portion of the summer and we knew that cattle supplies because of the placements were going to be tighter in the summer and they'll come back out and be stronger into the fall on the supply side. So yes, we did see a decrease in margins as I said earlier, the slope of change, we saw a decline in revenue and we saw cattle costs slide up and we had margin compression which will start to flip back around as supplies change.

So I think when you, again, look at the total protein picture and you see the movements between ground Beef and Beef and Pork products and Chicken products and retail looking for value and the consumer looking for value, there are offsets. But again, the interesting thing to me this year is the normal dips weren't as -- the change wasn't as dramatic as prior years, again, reflective of just overall tighter protein supplies, and probably a little less demand lost than most people think because we didn't see as radical of declines as we typically see. So that's at least my observations. Thank you.

Operator

Thank you. Next, Robert Moskow, Credit Suisse, your line is open.

Robert Moskow - *Credit Suisse - Analyst*

Hi. Thanks. I think the goal for the year was to get in the 5% to 7% operating income margin range for Chicken. I think it was going to take a pretty strong fourth quarter in order to do that. What do you think the odds of achieving that are, and if you don't get there, what do you think the obstacle was?

Donnie Smith - *Tyson Foods - President, CEO*

Hey, it might be by the hair of our chinny chin chin but we still believe and are pretty optimistic that we'll be there by the end of the quarter and what it's going to take is continued operational improvements and efficiencies. Russia may open up, but if it opens up now it will be pretty late in the quarter. That could add a little bit. That's not necessarily factored into what we're talking about now.

So I want to underscore -- we talked a lot about supply and demand in this call and exports and those kind of things of I don't want us to lose sight of the value at Tyson Foods of our executional turnaround and our operational improvements in our Chicken business. Our mix is better. Our yields are better. Our plant efficiencies are better. Line efficiencies are better. Labor efficiencies are better. And we continue to drive those changes and by the way, with the kind of balance sheet we've got right now, we've got a fairly long list of high value, low risk projects that we'll continue to work on through the fall and winter, into 2011. So our bet is on our people and their operating efficiency.

Jim Lochner - *Tyson Foods - COO*

Only thing I'd add is they all know exactly where they stand and they've all got plans and they're striving for continuous improvement and Donnie hit it on the head. We're very pleased with their efforts and their continued thought process to improve, maximize revenues, watching cost in all components, in all segments of the Chicken segment.

Robert Moskow - *Credit Suisse - Analyst*

Can I ask a quick follow-up? Just kind of curious, you just three months ago raised the CapEx target from $600 million to $700 million, and now it's down again. And I understand these projects are hard to -- it's hard to know when exactly they're going to fall but was there any specific reason for the delay for anything in particular?

Jim Lochner - *Tyson Foods - COO*

The only thing was we started a lot of projects. We go through a rigorous approval process. And our approvals are kind of in that target zone of $700 million. It's our spend that lags it because we have to mobilize and we're disciplined about writing scopes. We're disciplined about using bid processes and we're disciplined about reviewing those bid process. So it's nothing more than the simple term of logistics that slowed us down through that discipline and that's why as we go into -- and we look ahead, actually, five quarters out front of what our CapEx needs are and where we're targeting, both necessity and profit improvement projects a across all of our margin management units and so it's not more complicated than that. Thank you.

Robert Moskow - *Credit Suisse - Analyst*

Thank you.

Operator

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

Brett Hundley - *BB&T Capital Markets - Analyst*

Thank you. Good morning. This is actually Brett Hundley standing in for Heather. Great job this quarter, guys.

Donnie Smith - *Tyson Foods - President, CEO*

Thank you.

Jim Lochner - *Tyson Foods - COO*

Thanks, Brett.

Brett Hundley - *BB&T Capital Markets - Analyst*

My question, I wanted to go back to Chicken on 2011. And I just believe that supply is going to continue to kind of weigh on the space until demand actually materializes but specific to Tyson I wanted to drill down a little bit more on what you guys have already said. Just maybe assuming that exports are not as robust as some might expect or that overall demand can't necessarily keep up with supply, I wanted to look at your internal initiatives and the execution surrounding that and whether or not that would be enough to key you guys in a normalized range for Chicken. I mean, are your internal initiatives on that type of magnitude? Can you talk qualitatively or quantitatively about that?

Donnie Smith - *Tyson Foods - President, CEO*

I'll hit a couple high spots. I think the short answer is yes. I mean, frankly, that's what we're betting on in 2011 is our operational improvement. For example, our fresh Chicken business has not -- has been as competitive as it has needed to be in this environment over the last couple of years. Well, we've gone into several of our fresh Chicken plants, have a few more to hit yet and we're making some significant operational improvements to debottleneck those plants, to add production flexibility that we've not had in the past, to be able to sell a more profitable, more market relevant mix, lots of those type things. We've made significant improvements in WOG yields in our plants, by various different methods. Our net processing across our whole business is right at 99% which is a big improvement for us.

On the live side, we've made some fairly significant improvements in our chick costs, in our feed conversion rates, so we're bringing a more efficient, better cost bird into the plant. We've got probably the line efficiencies and labor efficiencies we need on through the plant to get our plant cost more in line with where it needs to be. And with capital available to us, we've got lots of those types of projects still in the queue that we'll be working on the rest of this year, into next year, so I feel very confident that our Chicken team knows exactly what's expected of them.

They've done a great job about structuring their business, driving a lot of accountability. They're not making excuses. They're finding solutions. And I'm real proud of them for the progress they've made and fully expect them to continue the progress they had from 2009, into 2010, on into 2011.

Jim Lochner - *Tyson Foods - COO*

The only thing I would add is that key points is that much of the capital expenditure that we approved, about 60% of that approval is in poultry prepared and the bulk of that isn't done yet, in place. We've got continuous improvement on yields, on mix management. The other thing I would add is our teams are really setting down and looking out front, trying to anticipate where the mixes are moving, where the values are moving. We're trying to innovate for our customers to get -- make sure they have what they want to compete in this type of environment. Again, with domestic availability of proteins being substantially different than they were during 2008, 2009 time frame and so it's really a focusing on a lot of details but again, looking out front, not in the rear so much as to what's going to happen and making sure that we have plans and contingency plans to maximize the revenues and to stay out ahead of it, and we're just continually looking at that core business, what can we improve and where can we shave cost, add yields, add flexibility, improve that Customer Service. We really put a lot of emphasis on quality Customer Service. Thanks.

Brett Hundley - *BB&T Capital Markets - Analyst*

Thanks, guys.

Operator

Thank you. Next, Lindsay Drucker Mann, your line is open.

Lindsay Drucker Mann - *Goldman Sachs - Analyst*

Good morning, everyone. I just had a follow-up question on the domestic Chicken supply and demand dynamic. You talked about being optimistic that domestic demand will be able -- Chicken will be able to absorb some of the stepped up supply just because of the shortage we're seeing from Pork and Beef and the lower overall availability. I was just curious if you could comment on how that demand is different for dark meat Chicken versus white meat Chicken, whether or not the substitution varies on that basis.

Donnie Smith - *Tyson Foods - President, CEO*

I think we've done a really good job this year of driving more domestic sales of dark meat. We continue to work on that. As I'm sure you know, our discovery center here has been pretty busy all year long with several customers who are looking to innovate and drive solutions for their business and a lot of those or some of those, anyway, have centered around dark meat. I'm very comfortable. I know our folks are focused on driving more dark meat.

But I think in general, on this whole topic of demand, we work on generating demand. Jim just mentioned our excellent service during the summer. We've done a great job of servicing our customers, by and large across all of our business this year, certainly compared to previous summer seasons of late and so most of our focus is going to be on our customers go to supplier, folks want to do business with us, folks want to do more business with us and we're giving them good reasons to that. So Jim, I'll hush and let you add a comment.

Jim Lochner - *Tyson Foods - COO*

I think it's fairly interesting to think backwards here in 2010, where we hadn't exported tremendous amount of leg quarters to Russia, even though there were other countries, but the reality is domestic consumption of dark meat has increased, filled the gap and that was a good value meat relative to breast meat. I would add that without a lot of analytical data here, that actually probably hurt breast meat prices and actually probably kept boneless Pork loins in check. But when we hit peak demand periods, you'd see pork loins pop up, Ground Beef pop up. And price and leg quarters kind of held right in there without that robust export disappearance that we typically would see.

So in the big picture when you look at it as I said earlier, I think the consumer and the retailers and food service are watching what they're featuring, trying to make sure that they drive value to their customers and it's a different game when you're all setting at a different domestic availability than you were, again, back in that 2008, 2009 time frame. I actually was very surprised. I shouldn't say I was surprised. I was very pleased to see that leg quarter prices held in without having that export disappearance.

But again, keep in mind that overall, exports were running at least through that first five months, 90%, so the rest of the world is still looking for product. That's why I look at the big picture and I say the supply's deficit and we still haven't hit high price points if you go back, we're nowhere near record price points anywhere, so.

Donnie Smith - *Tyson Foods - President, CEO*

Thank you.

Lindsay Drucker Mann - *Goldman Sachs - Analyst*

Thanks.

Operator

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

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

Hey, guys. Congratulations.

Donnie Smith - *Tyson Foods - President, CEO*

Hey, thanks, Ryan.

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

Can you tell me about -- I guess you talked in the past about spot or you quoted about being spot on grains and looks like you locked in some prices for fourth quarter and first quarter 2011. I guess how can we think about that going forward? Are you going to continue to be spot with a little bit of opportunistic buying here and there or what kind of made you decide to be opportunistic. You felt prices have bottomed? Can you talk about that process?

Donnie Smith - *Tyson Foods - President, CEO*

We sure will. First of all, we're in our everyday purchases we're pretty close to the market. When we do a fixed price contract, we try to get out there and if we can lock in a good margin against that. We'll buy our grain against that. Okay? We've got a few cost plus deals and we'll do that.

On the balance, we didn't really lock in anything. What we did, we just bought call options in and around the $3.80 to $4 range, using Dec corn as an example, to take care of whether or not there might be a production issue. Obviously, we got off to a fantastic start but oftentimes, since this is a global grain market and we trade it globally, things will happen. Really kind of what we did is we took out an insurance policy in case something happened on the upside.

I don't want you to be confused that we're locked in at $4. We're not. We just have protection above that call it $4 range in case this thing continues to be what we think is unreasonably high. And yes, I mean, we just thought it was a prudent thing to do. It was a very conservative approach that gives us plenty of down side. It's a known expense so we feel good that it was just a prudent thing to do and you can always expect us to take a very conservative approach to how we trade feed grains.

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

All right. Thanks, guys.

Donnie Smith - *Tyson Foods - President, CEO*

Thanks, Ryan.

Operator

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

Ken Zaslow - *BMO Capital Markets - Analyst*

Good morning, everyone.

Donnie Smith - *Tyson Foods - President, CEO*

Good morning, Ken.

Jim Lochner - *Tyson Foods - COO*

Good morning.

Ken Zaslow - *BMO Capital Markets - Analyst*

How much operational improvements did you make in 2010 in terms of, can you quantify the actual dollars and cents that we could have seen? How much do you expect in 2011 in terms of, again, dollars and cents and if you're not going to give us exact numbers, the other way of going about it is of the $600 million that you're spending, how much is dedicated to the Chicken and what type of return on invested capital do you expect?

Dennis Leatherby - *Tyson Foods - EVP, CFO*

This is Dennis. I'll take the back question. On the $600 million we're spending as Jim said, roughly 60% or so is poultry prepared, predominantly poultry. These are low risk projects, Ken. Typically the MIRR on those projects is in excess of 20%, oftentimes 30% or more. So they're really strong projects and there's quite a few still left in the queue to be finished out that will run on through 2011. Did you want to handle operating improvement?

Donnie Smith - *Tyson Foods - President, CEO*

Jim, do you want to take that?

Jim Lochner - *Tyson Foods - COO*

Take a look, and that's an aggregate of revenue and cost. Some of it's live production, SG&A, basically labor efficiency, freight, rehandling, a lot of areas that it's yield, export pricing, mix. But when we aggregate all that, on an annualized basis, so we wouldn't have realized it all, so it's an annualized contribution, it's in the 400 zone. And we have it identified out that we're probably somewhere around a third to a half realized. I know one thing, having done this for a long time, that the closer you get to the target, the rate of improvement slows down because then it's the finer points of execution. So I'm in the camp that we still have at least that, or almost double that left to go if we continue to improve and that's before we start to kick in a lot of the pure capital that we spent to try to get the number of areas fixed. Really, it's just going back and looking at a lot of process flows and improvements. So thank you.

Ruth Ann Wisener - *Tyson Foods - VP IR*

Operator, we have three in the queue now and we will take those three and then we'll end the call.

Operator

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

Ken Goldman - *JPMorgan - Analyst*

Just a follow-up. We talk about overall Chicken production being up a certain percent but if we could just break that down by bird weight a little bit. Obviously Sanderson Farms is going to push around 4% more Chicken all else equal into the tray pack market. What do you guys have modeled in? If you can't tell me I understand. What do you have modeled in on the big bird side in terms of percent increases for fiscal 2011 over fiscal 2010 for the industry. Is it more like 1 to 2% or is it more 3 to 4%. Help me understand the magnitude of what you think will happen in that side of things.

Jim Lochner - *Tyson Foods - COO*

We didn't break it down by segment per se, but we really watch what's going on by segment but you've already seen what Sanderson and Pilgrim's talked about. With those comments we obviously figure those into our thought process and how we're going to run our operations. Getting any more finite than that and that answer I don't have it in front of me and typically we're looking at just a competitive landscape across all bird segments.

Ken Goldman - *JPMorgan - Analyst*

And are you seeing any smaller producers increase in a similar way to Sanderson and pilgrims or are balance sheets still too shaky for that to happen?

Jim Lochner - *Tyson Foods - COO*

Until they do it, we don't necessarily react to all the rumors we hear so I don't know exactly the facts. We hear a lot of stuff and I'm not sure always what the facts are. We listen very carefully but we really try to run our own business as we said multiple times, we try to always be out front, developing the customer base, earning that and then watching our supply chain right behind that. So thank you.

Operator

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

Christina McGlone - *Deutsche Bank - Analyst*

Thank you. Donnie, just when you said -- when you were talking about 2011, saying you don't have a conservative view on grains, do you think earnings will be higher in fiscal 2011 than 2010 for Tyson?

Donnie Smith - *Tyson Foods - President, CEO*

In our comments there, prepared remarks, we believe -- maybe I didn't say that in the prepared remarks. I think you ought to expect or we expect our 2011 on an operating basis, operating income basis, to look fairly similar, very comparable to 2010 with what we see today.

Christina McGlone - *Deutsche Bank - Analyst*

Thank you.

Donnie Smith - *Tyson Foods - President, CEO*

Don't forget, just remember to factor in that we paid down a lot of debt this year, a lot of debt this year. When you look at EPS growth, we're going to pick up $0.14 a share just on interest savings in 2011 to 2010. So couple that with what we feel like will be good operating environment, pretty good story.

Christina McGlone - *Deutsche Bank - Analyst*

Thank you.

Operator

Thank you. Our final question will come from Tim Ramey, D.A. Davidson, your line is open.

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

Wow, I started and ended. Okay, so Jim, just wondering if you have -- assume you've done a sensitivity analysis on say what a $0.05 or $0.10 move in leg quarters means to the EBIT margin for the Chicken segment. Just because I think the issue here is that incremental demand really does have a magnified impact on EBIT.

Jim Lochner - *Tyson Foods - COO*

We do that every day. You can do the math quickly on the total model. That number today, but if leg quarters are -- well, let me back up, just point out what they were last year compared to this year and even if we got back kind of into the norm, leg quarters were almost a dime in this last quarter that we ended under a year ago and so that's a fairly substantial change in revenue and leg quarters again will be very dependent on what happens with exports, but even with that, you can see that there's strength in the rest of the bird.

We tend to really look at the whole bird, again, on the total revenue and not just obviously watch the component parts, but leg quarters are going to have a big driver and the situation to me is set up very favorable going forward with the need on an international basis. Again, I keep emphasizing the one point. We were 90% without Russia exports year-over-year, through the first five months. So.

Donnie Smith - *Tyson Foods - President, CEO*

And Tim, just this past quarter ended, we got a little bit of help from grain but we threw the same 5.9% we did a year ago with a lot lower leg quarter prices and it goes back to these operational improvements covering this pricing situation and by the way, our volume is growing to improve our capacity utilization too. So the whole thing comes together and leaves us with an optimistic view.

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

So can you say what -- if you made up that dime in leg quarters, what EBIT margins would have been in the 3Q?

Donnie Smith - *Tyson Foods - President, CEO*

We could with a calculator but I don't have it with me right now.

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

Okay. Thanks much.

Donnie Smith - *Tyson Foods - President, CEO*

Well, we're going to end the call. Thanks everybody and again for the Tyson team members that are on the call, let me thank you all very much for your great efforts. You all keep it going. We're going to end this year strong. I appreciate all of you. Thanks everybody for listening too.

Operator

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