FINAL TRANSCRIPT

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PRESENTATION

Operator

Welcome and thank you for standing by. At this time all participants are in a listen-only mode. (Operator Instructions) Today's conference is being recorded. If you have any objection you may disconnect at this time.

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

Ruth Ann Wisener - *Tyson Foods - VP of IR, Assistant Secretary*

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

I need to remind you that some of the things we'll talk about today will include forward-looking statements. Those statements are based on our view of the world as we know it now, which could change. I encourage you to look at today's press release for a discussion of the risks that can affect our business. On today's call is Donnie Smith, President and Chief Executive Officer; Jim Lochner, Chief Operating Officer; and Dennis Leatherby, Chief Financial Officer. To ensure we get to as many of your questions as possible, please limit yourself to only 1 question and a follow-up.

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

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

Thanks, Ruth Ann. Good morning, everybody, and thanks for joining us on our Q3 call. Our multi-protein, multi-channel value-added business model again proved effective. I'm pleased with our execution and our results.

In our press release this morning you saw we reported $0.51 a share for the third quarter, or $0.46 a share on an adjusted basis. We once again posted record sales with $8.2 billion, and our overall operating margin was 3.8%. Jim will provide detail on our segments. But I'll just point out that Beef's return on sales was near the top of the normalized range, and Prepared was just under its range. In May of 2010 we raised Pork's normalized range to 4% to 6% because it has consistently performed above 6% and we believe this performance is sustainable over time. We're again raising Pork's annual range to 6% to 8%.

The Chicken segment's return on sales was only 1%. But, given the unexpected supply and demand imbalance in the third quarter, we're proud to say our chicken business was profitable. We believe we're adjusting to a new paradigm where, for a prolonged period, we'll be required to get chicken pricing to cover live cost in the upper $0.40 per pound range. To give some context, live costs have averaged in the mid-30s the past 5 or 6 years and in the mid-20s for the 2-plus decades prior to that. We believe the current input costs are here to stay. Therefore, we're focused on pricing because the current situation is simply not sustainable.

On our second-quarter call, we were cautious about chicken consumption particularly at food service but it was slightly worse than we, our customers, or other forecasters predicted. This, along with excess production, led to market prices at or near historical lows. We now know why consumption didn't meet expectations as the Commerce Department recently released its advanced estimate of calendar Q2 GDP at a weak 1.3%, and simultaneously revised calendar Q1 GDP down from 1.9% to 0.4%. Unemployment's still over 9%.

Gas prices continue to take a bigger piece of disposable income, with the average price of unleaded peaking at almost $4 a gallon in May. These macro economic factors have, of course, affected consumer behavior in both the food service and the retail channels. Technomics is currently projecting food service real growth in 2011 to be a negative 0.6%, which is only about 0.5% lower than their March estimate. As the food service industry continues its slow crawl to recovery, we'll continue working with our customers in every major market segment to bring back traffic, focusing on product innovation and promotion strategies to allow them to hit the price points consumers need to get them eating out again.

In the retail channel, all major proteins experienced dollar sales increases in April through June, and, according to the Perishable Group, chicken managed about a 1% increase in pounds sold. Beef and pork pounds were down as strong exports led to lower domestic availability. Now, unfortunately, increased chicken sales weren't enough to counteract increased production. USDA data shows that pounds produced were up 2.7% versus the same quarter a year ago, while cold storage inventory increased 100 million pounds and exports were flat versus last year. Domestic availability must be in balance with demand before industry economics can improve. Tyson continuously strives to match our supply to demand and as a result we made a production adjustment in the third quarter.

As a Company, we must be even more conscientious about providing value and understanding the need for value beyond price. In response to consumer behavior, we've devoted resources to develop specific products and marketing plans to meet customer needs in this sluggish economy. We believe our balanced portfolio is key in meeting these needs and it has played an important role in our performance relative to our competition. We'll continue investing in our business to serve our customers while improving operational efficiency. When supply and demand rebalance, we're confident of our ability to perform, even if the economy doesn't improve any time soon.

We'll also continue investing in our international operations. In Brazil, we're working on automation, yield improvements and mix upgrades. And we're growing our production capabilities to meet customer demand. In China, we're nearing start-up of our Greenfield operation in Jiangsu, and we continue to be pleased with our operations in India. We're also pleased with our long-standing business in Mexico. Even though Tyson is already the largest producer of value-added chicken in Mexico, our team there is doing a great job of growing our value-added business, especially with branded products.

Now, that concludes my opening remarks. I'll now turn it over to Jim for a review of our segment results and then followed by Dennis with the financial report.

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

Thanks, Donnie. The Pork segment continued to perform very well with an 8.8% return on sales and an operating income of $124 million. Pork producers in general have covered increased grain cost over the past couple years and supplies could be up 1% to 2% year-over-year. US exports in May were nearly 13% higher than a year ago. With the third consecutive month they exceeded $400 million pounds.

While exports are strengthening, Tyson is capturing more of those exports. As Donnie mentioned we have raised the Pork segment's normalized operating margin to 6% to 8%. By changing our approach to margin management we've improved our competitive position, even in times of higher hog costs. We believe we can sustain results at these levels because of our operational execution, our selling strategy and the location of our facilities relative to hog supplies.

The Beef segment had a 4% return on sales, on an operating income of $140 million. The operating margin was within the normalized range despite an unusually wide fiscal Q3 north-south spread in cattle costs that favored our Southern plants compared to our Northern plants in the feedlot regions. There appeared to be a shift in beef buying patterns, as well. Loin meat prices have been below the 5-year average while the chuck cuts, round cuts and ground beef are above the 5-year average. Even with lower middle meat prices, we've done an outstanding job of marketing our products, and we're getting paid for the value we create.

In addition, cattle prices were up, which enabled feedlots to receive higher prices for their livestock. All these factors combined demonstrate that our Beef segment can still perform well while facing headwinds. Beef exports in May were 15% higher year-over-year and in the first 5 months of the calendar year. US beef exports exceeded 1 billion pounds. As with pork, our share of the growing beef export market has increased.

Turning to the Prepared foods segment. On an operating income of $30 million, we produced a 3.7% return on sales. This is slightly below normalized but we expected this due to the price lag associated with higher input costs. We still have challenges to work through in Prepared Foods, especially our lunch meat business. We have identified the need for numerous operational improvements.

The Chicken segment produced a 1% return on sales of $28 million in operating income. Although these aren't good results, I'm pleased our Chicken business remained profitable in such a difficult operating environment. Food service consumption appeared weaker than anticipated and retail consumption was up slightly year-over-year. Our customer sales plans for Chicken were based on uncharacteristically strong demand experienced in March and April. However, the demand from Memorial Day to July 4th didn't meet anyone's expectations. We now know that this is because the economy was much more sluggish than initially reported.

Our goal is to match supply to demand. And following over-production the industry experienced, we cut production in the third quarter, but those cuts have not yet impacted the market. Having a diverse portfolio in both food service and retail, and a range of products on the value-added continuum, put us in a good position relative to our competition and enabled us to drive value for our customers.

Additionally, we continue to improve our operational efficiencies. Despite our improvements, we remain concerned about the near-term outlook for Chicken. At this point, we think the Chicken segment will lose money in fiscal Q4, but we haven't given up. And our business unit teams are working hard to hit their targets by focusing on details and margin analysis.

In summary, Q3 had numerous challenges that we handled well. And I want to acknowledge the success our multiple business units had in dealing with the ever-changing business fundamentals.

With that I'll turn it over to Dennis for the financial report.

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

Thank you, Jim, and good morning everyone. As Donnie said earlier, we reported Q3 earnings of $0.51 per share, or $0.46 after adjusting for an unusual tax benefit in the quarter, as noted in this morning's press release. Our adjusted EPS of $0.46 compares to an adjusted $0.67 per share for the same period 1 year ago. Return on invested capital for the last 12 months remains solid at 22%. Capital expenditures were $150 million for the quarter, and now total $469 million for the first 9 months of fiscal 2011. This amount reflects numerous capital projects that will continue to benefit us in the future, with an enhanced production and labor efficiencies, improved yields and sales mix.

Our operating cash flow for the first 9 months was a strong $686 million, despite higher input costs from grains, live cattle and hogs, which resulted in receivables in inventory being up almost $700 million compared to a year ago and up nearly $600 million since fiscal year end. Including cash, net debt was $1.5 billion, down $273 million from a year ago.

Total liquidity was $1.8 billion, well above our goal of $1.2 billion to $1.5 billion. Gross debt to EBITDA over the last 12 months was 1.2 times, in line with our expectations. It is our goal to meet or beat 1.3 times on a normal basis to ensure sound credit measures and enhance our abilities to raise cost-effective capital when needed. On a net debt to EBITDA basis, that is when our total cash is netted against gross debt, this measure was 0.7 times.

For this past quarter our bond buybacks were $25 million, and were again limited because bond premiums were generally above our repurchase targets. Considering the cash flow used for inventories and grains so far in fiscal 2011, I think our debt level is remarkable. As a reminder, in May we announced our intentions to reactivate an existing share repurchase program. Pursuant to this program we repurchased 4.4 million shares for $80 million during the third quarter. We intend to continue repurchasing shares in Q4. The timing and extent to which we make these repurchases will depend upon, among other things, market conditions, liquidity targets, our debt obligations and regulatory requirements.

Our effective tax rate for Q3 was 28.6%. Excluding the $21 million unusual tax benefit recognized, our rate would have been about 36.5%.

So here's an updated outlook for the remainder of fiscal 2011 and for a few items pertaining to fiscal 2012. Revenues for fiscal 2011 are expected to reach or exceed $32 billion, driven largely by rising raw material prices, which is an increase of more than $3 billion over fiscal 2010. We expect 2011 net interest expense to be approximately $235 million, down about $100 million from fiscal 2010. For fiscal 2012, we expect interest expense to drop to approximately $200 million.

The effective tax rate for fiscal 2011 should be about 33%, or 35% excluding the $21 million tax benefit previously mentioned. Our weighted average diluted shares for the second quarter were $383 million. This reflects the dilutive effect of options and convertible bonds which fluctuate depending on our stock price performance. Additionally, given the timing of the 4.4 million repurchased shares, only half their benefit is reflected in this quarter. We will receive the full benefit in future quarters which will impact EPS approximately 1%, or $0.02 per share on an annualized basis using our current share base.

We will continue to reinvest in our business and we still expect CapEx to be around $650 million for the current year. Our spending is focused on improving the efficiency and competitiveness of our domestic and foreign operations. While $650 million is down from our previous estimate, this amount is still well above our annual depreciation and amortization level of approximately $520 million for fiscal 2011. Our preliminary capital expenditures plan for fiscal 2010 is similar to fiscal 2011. We will use excess cash to repurchase notes when available at attractive rates.

From the standpoint of debt maturities, we do not have any significant debt coming due until fiscal 2014. The balance on our 8.25% notes due October 2011 was $295 million as of July 2. We plan to retire these notes on the last day of the fiscal year with cash on hand, which was $981 million at the end of Q3.

In closing, our diversified business models are working well on a combined basis. We are in a strong financial position with solid debt ratios along with a strong liquidity position and capital structure. This will enable us to continue delivering results in a challenging environment.

This concludes our prepared remarks and I'll ask Candy to begin Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Akshay Jagdale, KeyBanc.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Congratulations on a good quarter and also for the additional disclosure on the Chicken segment production data. I really appreciate that. My question is really on Chicken. First, an observation. Based on where corn and soybean meal prices are today, and what you've said about costs being up in the quarter, it looks like Tyson would need about a 4% to 5% increase in revenues to offset grain costs in fiscal '12 and about a 10% increase in revenues to get to normalized margins. So if you can comment on that, that would be great. But the question really is, in your opinion, where do USDA egg set data need to be over the next 6 to 9 months for Tyson to be within its normalized EBIT margin range for Chicken? And if you can just quantify the Company-specific initiatives on mix and yields that you're pursuing for fiscal '12, that would also help. I'm just trying to get a sense of when can you get to a normal margin in Chicken and how you plan on getting there.

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

Okay. Let me start with this, Akshay. I'm hoping that my comments will be a little helpful. But I've got to tell you, I'm a little hesitant to comment on the percent reduction because there's so much you don't know when you talk about that number. Egg sets and placements are great leading indicators, but in the end, what really matters is the amount of slaughter pounds that are on the market each week. That's what really determines the market pricing structure. And so you've got so many different sizes of birds that just reduce in head placed by 5% or 6% doesn't necessarily you'll get a commensurate reduction in pounds, 6 or 8 weeks later.

So we spend a lot of time analyzing this and I'm going to back up into history and hopefully give you a decent picture of an environment that we see that was favorable for us. So let's go back to third quarter of '09, April-May-June '09. In that quarter we generated around a 6% return on sales. Now, back then the USDA weekly production was around 860 million pounds a week. So looking at this year's data, we now know why April-May-June was as weak as it was, because the weekly production was 930 million pounds in that quarter. On top of that, you had 100 million pounds more in cold storage than you had back in the same period in '09. And I think it's obvious to everyone demand was certainly no better. So really the pricing environment shouldn't be a surprise. The other thing, like we mentioned a little earlier, you've got to figure that our live cost is now about $0.10 a pound higher than it was in 2009. So you've got to take that into account too.

Now, in terms of the whole revenue improvement thing, let me take a shot at that one this way. And then Jim, if you want to clean up after me, that will be good. Our live cost is up $0.10 a pound. So breast meat is roughly around 23% to live. So if you held everything else constant, then divide $0.10 a pound by 0.23 and you're going to get around $0.45 a pound, something like that. So that gives you an indicator of what market conditions would need to be. And, Jim, do you want to add something to that? We may need to pause and give you your follow-up to make sure we're on target with your question.

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

The only thing I would add is on the April-May-June, when you look at the difference between April to May and April to June, there's where you really see the enlightenment because June was record pounds of production. And that's where the steep pricing pressure occurred and we had the biggest all-time increase from April to June at 4.3% increase pounds produced. So that would be the only clarity. Don't just look at the quarter because it blends the average. That increase really went from April, May to June at year-over-year at 5%. And when you look at the pricing relative to the prior years, you'll see a lot sits in those slaughter pounds.

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

So it's probably time for your follow-up to make sure we're on target.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Yes, that is very helpful. Just I understand that it's very hard to predict what the rest of the industry's going to do, so if you can help us with Company-specific initiatives. So you're assuming that the industry's going to do what it's going to do, but you know what your cost structure's going to be. So trying to get a sense of what does your plan look like from a Tyson-specific cost reduction yield, improvement side for fiscal '12? And I'm assuming it's going to be more than it was, or you're trying to get more savings than you were going to 3 months ago because of the outlook now. So can you help us with mix and yield? The $0.10 increase in costs, how much of that do you expect to be offset by mix and yield improvements which are Tyson-specific?

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

Okay. Now I'm back on target. This year we were projecting about a $200 million improvement in operating efficiencies. Through Q3, we're at $143 million. So still on target, probably didn't have hardly the same run rate in Q3 as we had in previous quarters, but still racing for that. Looking forward for the next 5 quarters or so, and I've got to tell you, our teams are in the process right now of getting their fiscal '12 plans together and making the commitments on their cost savings, but it will look like this. We see some improvement, fairly significant improvement, in the live production across our business. You will continue to see yield improvements in our operating efficiencies. As we continue to spend capital against these businesses, we're debottlenecking lines, providing us with not only a lower cost throughput but also increased capability. That allows us to consolidate products on lines and run them more efficiently. You will continue to see us spend against these facilities going on into '12, as we have been. We think our chicken business is a great business to invest in.

Also, we've had significant improvements so far in labor and line efficiencies. I think you will continue to see that. So those are the areas. In terms of the quantity, I don't think I can put the same concrete dollar value on '12 that we had in '11 yet. But that is something that we would want to be talking about, maybe on our next call.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Perfect. And one last one. When do you think, what's your best guess on when you might get into a normalized range? Or if you don't want to be specific on that, can you at least say that it's not going to be in the next 2 quarters, 3 quarters? Anything you can help in terms of timing.

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

Akshay, I'll tell you, we've still got a corn crop standing in the field. And the month of August, as we saw last year, is very important in the crop's yield. And so it's just too early for us to talk about that. We want to get there as fast as we can but it's just too early to make that call. Appreciate it, thanks.

Operator

Jeff Farmer, Jefferies Research.

Jeff Farmer - *Jefferies Research - Analyst*

Just wanted to follow up on that conversation. Looks like your average sales price in the Chicken segment was up 10% in the quarter. Just curious what really was the driver of that big increase and how sustainable that is moving forward.

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

Yes, I tell you what drove that is great quality, great service, and innovative capabilities that deserve a price increase. We add a lot of value to our customers' business and our goal is to always get paid for that value. So as we continue to focus on their business and grow their business, we get rewarded for that for the value that we create. So that's why our focus is always on adding that value.

Jeff Farmer - *Jefferies Research - Analyst*

Just to be clear on that, are you going out there, your salespeople, having these pricing conversations, retail and the food service channels? And you're working this, you're basically explaining to them what you're offering now and how it's different from the last couple years? And you're essentially asking for higher prices? How should I think about what you just said?

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

Absolutely. That is exactly how you should think about what we just said.

Jeff Farmer - *Jefferies Research - Analyst*

A quick follow-up. You touched on this but breast inventory obviously up huge, I think it's close to 50% year-over-year. Again, I know this is hard to answer, but what is the precedent for the industry being able to work down that number? It looks like they hit it in '06 and '08 from the absolute breast inventory levels. But what is the precedent? How do we get this number down in the next couple quarters, if it's possible?

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

It's hard to say specifically because the production, the amount of production weighs on that number too. So if production falls pretty rapidly, obviously you would have a chance to chew through that inventory. But if it doesn't, it could take a while. So it really does depend on the pounds produced and that weekly pounds of slaughter number that you see from USDA. That is a key number.

Operator

Farha Aslam, Stephens Inc.

Farha Aslam - *Stephens Inc. - Analyst*

A question on your Chicken segment. Clearly in this quarter it performed extraordinarily well, which is awesome. But going forward you have some cautious commentary in your press release. And we want to understand just how cautious we should be on the fourth quarter and your outlook for Chicken in the fourth quarter and into the first quarter.

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

Okay. So, first, I don't want you thinking about Q4 of '08. Okay? It's hard for me to be really descriptive. When you're adjusting your production, on the front end of that period you get the cost increase but you haven't seen the revenue materialize yet. And so we're now experiencing the front end cost impact of taking the production out. And then we expect to see that the revenue on the tail end of the quarter will be helping get our business back into profitability. So it's a little bit hard on that timing. But I think what you should expect is it not to look like that -- Q4 of '08 was like a negative 3. 8. I don't want you thinking that deep of a number. These guys, let me tell you, these are focused, laser focused, on their spend. The folks in our plants are doing a great job staying focused on making sure there's great quality in the box. And we're doing a super job on our service. So our team is doing everything they can do to get this thing turned back into the wind but it's just going to take a little time for the costs to roll through this quarter. There's about probably somewhere in the neighborhood of an 8 to 12-week lag on the grain cost side. And in Q3 we experienced some of the highest grain costs. It just takes a little time for that to work its way through.

Farha Aslam - *Stephens Inc. - Analyst*

Okay. And then for the full year, this year, previously you had said that your EPS number for this year could be within that GAAP number level of 2010 which was about $2.06. Clearly the markets in chicken have been far worse than anyone anticipated. As you go look forward for 2011 into 2012, are you thinking $1.80 to $1.90? I know you don't give guidance but is that the right place to be? Or can you still hit that $2 level?

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

Chicken fundamentals are definitely going to weigh on earnings. So I think it's going to be tough to make the $2 on an adjusted basis right now. But listen, we are fighting hard and we think it should be possible on a GAAP basis. Now, we're working hard on that. We think it will be close, let's say it that way. We think it could be close on a GAAP basis. Looking on into '12, now, this is all just -- we've got a corn crop still standing so it's way early on '12. But in Beef and Pork, we don't really see any changes to the way the supply and demand fundamentals are set up. So in Prepared Foods, hope to see some improvement there as we're able to get our pricing on top of this raw material inflation we've seen. For Chicken, it's just so hard to make predictions this early when we don't have as much visibility as we need on the cost side through the corn crop, et cetera. So you might think of chicken as a mirror opposite of '11, where we got off to a great start and finishing a bit slow. And I think in '12 you start a little bit slow but you finish better. That's about as clear a picture as we could paint for the rest of '11 and '12. So working hard on it.

Operator

Christina McGlone, Deutsche Bank.

Christina McGlone - *Deutsche Bank - Analyst*

Donnie, in the press release it talks about a loss in Chicken in the fiscal fourth quarter. But then an impact because of the cuts late in the fourth quarter and into '012. Given the fact that we seasonally see less demand in the fall, and that you do have all this cold storage, and then I don't know what the industry's doing in terms of weights, maybe you could talk about the weight issue and how much is structural and how much could actually come down. Do you really see being profitable in Chicken in the fiscal first quarter, in the December quarter?

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

Wouldn't rule it out, but you've got to remember that corn crop. Our Q1 cost of goods sold in Chicken on the non-operational side, so the feed ingredient side of that, is going to be largely established in August, September and first half of October. So we're entering that period now. Certainly, our objective is to get through this dip as quickly as we can and get back in the black as soon as possible. So we're pushing hard to do that.

Christina McGlone - *Deutsche Bank - Analyst*

And then what about the weights? Can you talk about how much is structurally people shifting to big birds or shifting to bigger birds within big birds and how much could actually come out? So we can understand when we see heads cut how much we have to offset that with higher weights.

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

Really can't add anything to the industry. I can talk about us. In our big bird group, and really across our portfolio we've adjusted head in all of the segments, in our diversified chicken portfolio, and in our big bird group, we've taken our weights down. So I couldn't tell you what the rest of the industry's doing, though.

Christina McGlone - *Deutsche Bank - Analyst*

Okay. And the weights you've taken down, would we have seen it in the data yet or not yet?

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

No, you wouldn't have seen that yet. That started right around the 4th of July period. And it just wouldn't have had a chance to work through yet. It will be in the probably last half of August type time period, something like that.

Operator

Christine McCracken, Cleveland Research.

Christine McCracken - *Cleveland Research Company - Analyst*

Just on your comments relative to your outlook, on pork being maybe a little better consistently going forward. A little curious on what you expect demand to do at these higher prices. Or if, because so much of it's being driven by exports, if maybe price is less impactful on overall demand patterns.

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

This is Jim. I'll try that. Obviously on wholesale prices, domestic availability or disappearance, as some people call it, is a primary driver. And with exports being as strong as they are, we've seen the reaction in wholesale prices with the aggregated $1.08 to almost a $1.09 cut-out. And I can't tell you if consumption starts to shift, obviously prices will come down. That's the best I can do on that. But I would say that if you look backwards, most people would be shocked, would have never forecasted these high of prices. But we've seen, again, domestic availability continue to decline with increasing exports.

Christine McCracken - *Cleveland Research Company - Analyst*

And just with the productivity increases that we're seeing now, looks like a lot more hogs here going into the fourth quarter. Wondering, are you expecting maybe margins to actually improve as we go forward? Is that part of why you raised your normalized outlook? Or is it tied to this really strong export demand?

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

The increase isn't tied really to exports, it's really tied entirely to our operational improvement, just our selling strategies, our operating strategies, our supply chain management. And hogs are going to be produced where the grain sources are there. So it's the combination of things, not really 1 variable. The export prices as they relate to our wholesale prices usually result in higher hog costs. So that strong relationship with revenue to hog cost exists. So our job is to maximize revenue, manage mix, manage yields, manage selling strategies. Really stay focused on what we have control over. So it's really not related to that at all.

Operator

Ken Goldman, JPMorgan.

Ken Goldman - *JPMorgan - Analyst*

Can you guys talk a little bit more about your uses of cash going forward? You talked about share repurchases in the press release but there were a few smaller chicken processors struggling with their balance sheets right now. If some of these guys came to market, even if you yourself were in supply reduction mode, would you be willing to look at some of the assets or would you rather let them go away and have that take care of supply on their end?

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

Let me start and then I want Dennis to add a little bit of color here. First, we like having lots of options. And fortunately our balance sheet and our cash position gives us that. To maybe the latter part of your question first, and then bouncing back to then what are we going to do, we review a lot of proposals. Frankly, we've just really not seen anything that we believe will give an acceptable return for us and for our shareholders. Now, it's not to say we aren't open to acquisitions. We are. We just haven't seen anything yet that we're interested in. We own a lot of the raw material. We've got great facilities, great people, great products, great product innovation capabilities. And we believe that we can create a lot of value by investing in the efficiencies in our current facilities versus anything that we've seen to acquire. So that's where we stand on that one. And I'll let Dennis comment on the uses of cash, the front end part of your question.

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

Ken, it's really not much different than before. We're just reinvesting in our business, like Donnie just said. We're maintaining enough cushion to weather the cyclical environment that we're in, whether it be grain costs or any other thing that comes our way. So as I mentioned in my remarks, that we want to keep a base amount of liquidity, a certain leverage target. We think that's to our advantage from a capital structure and raising capital cheap standpoint. We will buy back some stock and we'll also buy back some bonds if they're cheap enough. But we think that having a sound capital structure with a lot of liquidity is to our advantage and we'll maintain that.

Ken Goldman - *JPMorgan - Analyst*

Thanks. And then 1 follow-up on what you guys said earlier. Can you given us some color on your feed hedges in terms of how we should model them? I might have thought you were more hedged into the December and March quarters, but given what you said, maybe you're a little bit closer to the market than that. Just how we should think about that.

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

Okay. I'll tell you a little bit about process and then a little bit about going forward. Again, we like options. We like options in our balance sheet and we like options in the grain markets. What we really want to do is just provide a ceiling so that the corn costs just can't get away from us. And our teams can be effective as they go to their customers and begin to add value. That way, we keep our cost structure, I don't know what exactly the right word is, but we keep our cost structure optimized without taking a lot of risk. Again, by the way, when we talk about grain and its impact, unless we otherwise note it, we are always talking about that quarter's cost of goods sold. So it takes a while for that to work through but we're always looking ahead at the cost of goods, not necessarily purchases, during that particular quarter.

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So as we look forward, we've got some, not a whole lot of our Q1 cost of goods sold locked down. Feel pretty good about where that is. But going forward, there's just so much we don't know about this crop. We had a similar experience, if you'll remember, back in '08 when corn ran up to $7, $8, and then came down to $5.70, which is $1.30 lower than where we are today. Now, I understand the different supply and demand fundamentals, but if you go back to what we were thinking then, struggling economy, what would crude do, et cetera, we locked in some, I don't know what it was, a $5.75, $6 corn, something like that, and corn went down to $3. So we're not going to do that again. And there's just too much unknown for us to feel comfortable about going long on a lot of corn. And then if you look at the options premiums, very, very expensive going out front end into March and May time periods to buy options. So you're really paying way too much for that insurance right now.

Operator

Ken Zaslow, BMO Capital Markets.

Ken Zaslow - *BMO Capital Markets - Analyst*

I didn't hear it, how much did you cut production?

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

You're right, you didn't hear that. Let me try to add a little clarity there for you. Obviously, our demand planning looking out front told us that we needed to make a production adjustment, so we could get our pounds in line with current customer demand. I could tell you, our adjustment was across the entire portfolio, all bird classes. Our volume reduction was in head and pounds. And our reduction -- I'll say this -- for the balance of the calendar year is generally in line with the year-over-year decline in the USDA egg set data.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay. Are you making a structural change to your bird weights? I know at one time you were increasing your bird weights. Is there a thought that maybe you are structuring now reducing the size of your birds in certain operations? Is that a fair statement?

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

In certain, yes. But in general, our plan is to remain diversified. We have some birds in small birds, some birds in the chill pack sizes, some birds in deboning sizes and we've got some big birds. We are taking the weight in our big birds down, just because the feed conversion against those big 8-pound birds with $7, $8, $9 corn, the economics just aren't there. So we're pulling those weights down. No, there's no other shift other than to be able to keep the bird sizes at the appropriate level for which they're grown.

Ken Zaslow - *BMO Capital Markets - Analyst*

So just to make sure I understand, you guys are cutting in line with the industry, not exceeding it, just keeping up what whatever the industry numbers are, just to participate as a solid citizen type of thing. Is that fair?

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

No. Our production adjustment is in line with what our forward-looking demand is. Our inventories, Ken, we're in good shape. And as we look forward, we look at the demand against our products. And so we take into account how much do we have in

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inventory, what's our production against that demand, what are our service requirements and how much production do we need to meet that demand. And that's always what runs our math. Like a lot of folks, we got a little over-revved. The Lenten season had very strong demand. And when you make a production decision in chicken, you really make that 3 months out in advance. And so with that strong early April, we had production in line for May, June, July, for that third period. When Memorial Day was a little softer than we thought, we said we've got to watch this close, we've got to be very careful about our 4th of July. And then when 4th of July was just okay at best, we knew it was time to change and that our demand forecast had shifted downward. And we made a production adjustment to accommodate that forward shift in our demand forecast. That's exactly how the process works.

Ken Zaslow - *BMO Capital Markets - Analyst*

My last question. In terms of managing the cattle supply, can you talk about how you and Tyson can actually keep these margins in the beef packer side, given that the cattle supply seems to be pulled pretty aggressively up and there might be a, call it a hole in the supply? I don't know if that's a good word but can you talk about how you're managing that and how does that work out?

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

Let me try to answer that. I'm not positive what your question really means. Because what happened is drought pulled cattle in the feed yards. They're being backgrounded. That really means that they're in the pipeline for the future. And when cattle are placed at an earlier weight, at an earlier age, you've got a lot more latitude as to when you manage their out time, simply because you have more options in what and how you feed them to hit an end point. I don't really look at any major issues going into fiscal '12. This drought, obviously, is very severe and it is pulling cows out of production. And so out front in '13, we'll have to be concerned about fiscal '12's calf crop and how that looks. But again, what happens is, the most efficient feedlots are the ones that end up getting the feeders. Our plants set in those good zones. And then we really focus all of our attention on maximizing our revenues through a variety of different programs to include exports, to include value-added programs. And then keeping our costs in line. Cattle will cost what the revenue delivers. So that's really the nature of the spread business, which is why we've been able to navigate through that. So we optimize our revenues, minimize our costs and really pay attention to the supply chains out front. So that's really the answer. There is no prescriptive way other than you manage a lot of details.

Operator

Vincent Andrews, Morgan Stanley.

Vincent Andrews - *Morgan Stanley - Analyst*

Thanks. Thank you for all the details. It's been helpful. But what I want to understand is the existential chicken question. You guys have talked about losing money in Chicken in the quarter that's upcoming, but then you're also talking about producing according to demand. So what is it about your operations or about the industry that causes you to define demand as a loss-making sale? Why, now that you're looking at your forward book and negative margins, why don't you just keep cutting production? Why do you just say we'll keep producing as long as the customer wants to buy even though we're going to lose money on it?

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

First of all, I don't think we've said that. The situation that our industry is in today is unsustainable. If you look across the industry data, I'm sure you have lots of data sources that can tell you what the average integrator is losing in this business. It's just not sustainable. We have plans to continue to improve not only our operational efficiencies but also our revenues. You saw our revenue increase in Q3. We intend to continue to get paid for the value that we add. And as we do that, our demand should shift towards us because we're adding value to our customers' business. And for that, we'll have profitable sales going forward. We've said we are going to take a dip in Q4. We're working hard to make sure that's a very temporary short-term thing and we're back on top of it in subsequent quarters and seeing successive quarter-over-quarter gains from that dip forward. That's our plan.

Vincent Andrews - *Morgan Stanley - Analyst*

So is it fair then to say that you believe, with your operations and the competitive advantages that you have, this is a market share opportunity for you?

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

We've gained some share I think so far. Mainly what we're doing, though, is matching supply and demand, making sure that we're providing value to our customers, and as our customers grow, we're growing with them. And then in a lot of cases we're helping them with that growth. There's categories where our growth is the growth. So that's what we do.

Operator

Tim Ramey, D.A. Davidson.

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

Donnie, you're doing a great job of being very circumspect in your comments, and appropriately so. But maybe with my more bullish rose-colored glasses on, you are outperforming the industry, you're cutting production. You've got surging exports. The risk to corn is probably to the down side and beef and pork continuing strong. Is it crazy to have a pretty bullish outlook here?

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

No, I don't think it's crazy. I think it's expected. This team continues to not only work on the cost side but also on the revenue side of the equation. We've got lots of folks that are -- by the way, in all of the segments, I'm not just concentrating on Chicken now, but that are finding new ways and new answers for our customers that are providing them with, frankly, much needed help during a pretty sluggish economy. Whether it's working with, say, retail customers in ways to plan productions around when snap cards are loaded. Whether it's working in our food service on new pizza toppings. We've announced recently we're adding production in pepperoni because, I guess we're the nation's probably largest or certainly one of the largest pizza topping manufacturers and so we're continuing to expand that part of our business.

Our red label line in food service is doing great. It's a very good option for food service operators and distributors today. So lots of stuff that we're doing to add value. Adding value -- we're finding opportunities to use poultry meat, chicken meat as a key ingredient in some processed items, whether it be lunch meat, sausages, et cetera, finding ways to use chicken as a lower cost alternative in those meat blocks. That's all good stuff in the future.

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

Let me add one other real quick comment, just so you connect this dot. And that is, we have been spending a lot of money in our core businesses, and we'll continue to do so. Which drives maximizing that revenue, drives efficiency, and keeps us across the board trying to be the most competitive in producing protein. And that is across all segments. So just in case you missed that point. And then lastly, we drive a tremendous amount of innovation for our customers. And as we said, as Donnie said many times in this call, that's how you differentiate yourself. So, yes, we are bullish.

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

And if I could just follow up with you, Jim. 2 things. One, how do you see the export situation in calendar '12? It seems to me that we're just going to have continued double-digit export growth. And then would you agree with my statement that the risk to corn is to the down side here? It sounds like from your positioning for the 1Q you do, but would love to hear your thoughts on that.

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

Exports I think will continue to grow, as we've stated in multiple prior quarters when we saw these production pullbacks initiated in that post '08 period, they didn't happen just here. They happened across the world. And we continue to see demand increase across the world. So that balance is driving that. The weak dollar obviously has helped. But again, there's not a place with the life cycle of the livestock to go adequately add that back in the short run. Corn is too early. These yield estimates are coming out this week so I'm going to wait for those before I make a comment because there's certainly enough people out in the country looking at just what the condition of the crop is. You are seeing some demand destruction because you're seeing some feed rationing, alternative feed utilization. And we'll have to see what happens on ethanol production and exports because the prices of corn have shifted some of the economics of usage around.

Operator

Diane Geissler, CLSA.

Diane Geissler - *CLSA - Analyst*

I have a 2-part question since I only get 1. I'm hearing you say that you think Chicken margins will bottom either in the fourth quarter, first quarter, 1 of the 2, based on where the grain market is today. And then my second question, or part B of the first question, would be, just want to clarify, when you talk about fiscal '12 versus your GAAP $2.06 in fiscal '10, I guess is what we're referencing here, yes, fiscal '11 versus fiscal '10, you still think you can make in that GAAP range?

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

Okay. So let me take the first part first and the answer to that is yes.

Diane Geissler - *CLSA - Analyst*

So either the fourth quarter or the first quarter, somewhere in there, it's going to bottom and then --.

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

Yes. Diane, the reason it's a little unclear is because of the lag, the lag piece on the grain, when that works its way into the cost of goods. So we're lagging that in now. You're lagging in the fixed cost absorption issues on the production adjustment now. And then as you move forward, then you settle out there and the revenue part starts coming later. So, how all that timing works, may not work perfectly on our quarter but that's the part of the calendar to be thinking that way.

On then on the other question, yes, we'll be disappointed if we're not up in that $2 range again in '12. We really will. We've got a great business, great plants, great people, great products, great product innovation. And we've got a great team on the field. And so our team's focused and we think the thing is set up to give us an opportunity. Got a little dip here in the chicken deal but we'll get through that and we'll get revenue up on top of this cost structure and we'll be good. But we're going to have to live with this $0.40-ish live cost, in that mid-$0.40s area, for a prolonged period of time. So we're going to have to focus our business on getting paid for that. We add a lot of value to our customers and we're going to be focused on getting paid for that.

Diane Geissler - *CLSA - Analyst*

The question is, why wouldn't fiscal '12 be up because if Chicken is bottoming in your fiscal fourth quarter and then improving, supposedly, Pork is going to be somewhere in the 6% to 8% range, Beef should be basically in line. Your interest is down and you're buying in shares. Why wouldn't fiscal '12 earnings be better than fiscal '11 earnings?

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

I like the way you're thinking. I'm not going to say it won't be. Our cautionary note is around the uncertainty in corn. So, now, I feel certain that over time we would get the revenue we need to cover that cost. I feel certain over the long term we'll get paid for that. What quarter it falls in and whether the upside in the back end is as strong as we need it to be to get Chicken back in its normalized range during '12, in August, in early August, it's just a little early for us to call that.

Operator

Ryan Oksenhendler from Bank of America-Merrill Lynch.

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

I just want to clarify this. For fiscal '12, I appreciate the commentary you've given on the call about Chicken. But in your press release, according to current futures, it says higher grain costs will be higher in 2012 and you expect to offset a portion of that with operational pricing and mix improvements. That leads me to believe that you actually think margins for the full year will be down next year. Is that the correct way to think about it? I know it's really early.

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

No, it's not, Ryan. It's just too early to tell. Certainly our intention is to offset grain costs, as we have been doing. You think back, since '08, we've got almost $800 million in operating efficiencies in the poultry segment alone. Now, there's still a little more meat on that bone and we intend to work hard to get that in 2012. So our intention in '12 is to offset the higher grain costs with operating efficiencies, which would include things like labor management, yield management, our live production management, all those kind of categories. And improvements in revenue in the pricing structure of our products. We simply have to get paid for the value we're providing.

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

Okay, that's fair. Just a quick follow-up. In terms of your Prepared Foods segment, your Pork profit margins, would you be willing to pull back on your Prepared Foods a little bit with Pork margins almost double what they are in Prepared Foods, or the cuts of meat that are going into Prepared Foods earning a higher margin than they would if they stayed in pork?

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

No, not at all. As a matter of fact, we think the Prepared Foods area is a great growth area for us. And remember, not only is our Prepared Foods business value added beef and pork items -- lunch meat, deli meats, pizza toppings, et cetera -- we also have a good soups and sauces business. We have a very good appetizers business. We've got a very good tortilla and chip business. A lot of complementary businesses. The pizza toppings business is very strong, pizza crusts. So we have a very good diversified Prepared Foods business and we fully intend to grow that business.

Operator

Stephen Share, Morgan Joseph.

Stephen Share - *Morgan Joseph & Co., Inc. - Analyst*

I want to clarify. It's been talked about a couple times, but just so I'm clear. What you're saying is for fiscal 2011, your GAAP number will be close to $2.06, and then so the adjustment would be $1.98. And what I'm understanding you're saying, and you'll be disappointed if next year isn't at least as good as that $1.98, $2 number. Would that be a fair statement of what you're saying?

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

I like your '12 part, maybe even a little better than that. But your front end part, what we're trying to say is, we think that our GAAP number, we have an opportunity to push that close to $2. There's still just a little bit unknown about whether or not we're going to be able to do that. But we think there's a possibility, so it could happen. But on the adjusted side, as I stand flat-footed today, it's going to be tough to make $2 on the adjusted side. But got a shot at GAAP. That's what we're working on.

Stephen Share - *Morgan Joseph & Co., Inc. - Analyst*

Got it. And then really what I wanted to ask about was on the Pork side, in your guidance you talked about how you expect pork supplies to be comparable to what they were in fiscal 2011. You've generally been able, you've guided that that's flat but you beat that a little bit. It seems like if you were able to procure more pork that you would be able to sell it pretty profitably. Is there any plans in place to try and get more pork? Is it just too tough to get the hogs right now? What's the situation there and how could we maybe push that number instead of flat volumes to positive volumes in '12?

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

Let me answer that by saying the pipeline with the sow herd and the advances in productivity and the infrastructure and facilities probably is going to keep it in that 1% to 2%, which will be predominantly in increased productivity and that's a fine balance. Basically, we really try to make sure that we're optimizing our revenue and our plant efficiency and we don't really have to add anything to absorb 1% to 2% or subtract anything to decrease 1% to 2%. That's actually less hogs than were around in '07 and '08. We're basically really trying to manage the spread, maximize the revenue, and the hog costs will follow it. And we operate on trying to be the most efficient and maximize yields, product mix, export sales, et cetera. 1% to 2% is a fairly low change.

Operator

Robert Moskow, Credit Suisse.

Robert Moskow - *Credit Suisse - Analyst*

I was just looking at cash flow. It's been really strong for the last 3 years. And then when I look at your CapEx spending, most of it's in Chicken. Which leads me to believe that the cash flow in Beef and pork must be just outstanding. My question is, over the next couple of years, when do you think your CapEx spending on Chicken can come back more closer to a maintenance level? You've made a lot of investments. They've been very fruitful for you. But, really, if you look at Chicken, I don't think Chicken's been cash flow positive at all over the last few years. So if you can get to a maintenance level at some point, wouldn't that have a big step-up for your overall cash flow as a Company? Thanks.

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

Number one, we look at cash as just cash. So we don't -- Chicken doesn't spend the cash they generate, Beef and Pork spend the cash they generate, Prepared Foods. So we just look at cash as cash. What we do is when we look at capital investment is, we look at the opportunities and areas in our business where we feel that we can add the capabilities that we need to continue to grow our business efficiently out into the future. The latter half of 2010 and most of 2011, chicken did get a disproportional amount of the CapEx. But I tell you what, our Chicken business had lots of opportunity with what we would call low risk, high return type projects. What I don't mean is they're M&R type projects. They're just projects where we know that the risk is low, that we'll get the money we want to get. For example, putting in a cone line to hand debone breast meat instead of mechanically debone it. We've done that over and over again, and we pretty much know exactly what the return is going to be on that capital. So that is a low-risk, high-return type opportunity so we're going to invest in that.

Looking out into the future, it appears that there's still good opportunity in various parts of our business. We announced here just the other day that we're going to invest $48 million in pepperoni capacity. There's still opportunities in our Chicken segment. There's opportunities in our Beef and Pork segments to improve operation efficiencies and that type of thing. So what we're really looking at is using our cash where it provides us an opportunity to differentiate, continue to grow, and continue to return not only for our customers but also for our shareholders. And that's really how we view our cash. Dennis, you want to add any color to that?

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

The only thing I would add with respect to Chicken is we have continuing opportunities in the international business, in China and Brazil. And we'll continue to build them out. So that will be a part of the CapEx picture as we go forward.

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

The other point I would make is that our goal is pretty simple and that is we know what we have projected for maintenance and repair that doesn't have a return. We really motivate our operations to try to find cost improvement, yield improvement, revenue improvement with returns to offset that maintenance and repair so that we're always aggregating. And that really helps keep us extremely competitive. So there's a philosophy and a strategy around CapEx.

Operator

Lindsay Drucker Mann, Goldman Sachs.

Lindsay Drucker Mann - *Goldman Sachs - Analyst*

2 quick ones. First of all, you talk about expecting for, in Chicken, industry production to be down in fiscal '12 versus '11. Can you just comment on the quarterly pace of that decline, how front loaded it would be versus back end?

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

Really don't know. So far we've seen egg sets and chicks place down 5% or 6%. The total production, as we talked about early in the call, is really going to depend a lot on weight, as well. We really don't know anything about that yet and probably won't for a few more weeks, so it's just too early to comment.

Lindsay Drucker Mann - *Goldman Sachs - Analyst*

Just the down slightly piece, given the recent pace, suggests maybe growth by the end of next year or the end of next fiscal year. And just wondering how you were thinking about that.

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

For us, we will continue to, as we project our forecast forward on what the pulls are going to be, what our demand is going to look like, that's what we're going to adjust our production to. It's way too early to be able to tell what the back half of '12 is going to look like.

Lindsay Drucker Mann - *Goldman Sachs - Analyst*

And then just secondly, curious if you could give us some of your perspective on what you're seeing from some of the smaller producers who have not weathered through the first year-to-date, some of the challenges in the industry, what you're seeing those people doing.

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

Honestly, Lindsay, all we get is what we read in the paper. So I don't know.

Operator

Ann Gurkin, Davenport.

Ann Gurkin - *Davenport & Company - Analyst*

I just wanted to ask one more question about chickens. You talk about production cuts but what do you think is the risk that this won't be enough for both you and the industry? In other words, demand may be softened more than expected and another round of production cuts is required.

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

Time will tell. I can tell you that the current environment is unsustainable. And we have an old saying around here, the best cure for low prices is low prices. And so I think the answer is one of timing. So it's just too early to tell. We've seen, what, 5, 6, 7 weeks now of egg sets and chicks placed down in that 5% of 6% area. Given that, your small bird grow-out, time, and then on into the longer time it takes for your big birds to grow out, I think we'll start seeing the impact of whatever those cuts were here in the next 2 or 3 weeks. And then we'd probably have a little bit better view of what this thing will look like. It's just too early.

Before we go, let me take this opportunity to welcome our newest Board member, Kathleen Bader to our Board. We look forward to working with her. There was a press release late last week, if you haven't seen that. Also, I want to re-emphasize that I'm still very confident about this Company, about our ability to execute. The challenges aren't going away any time soon. So it remains imperative that we stay focused on helping our customers grow their business and getting paid for the value that we add to their business. And we're going to do that. We'll keep reinvesting in our business and we'll keep returning value to our shareholders. So thanks for joining us today and you all have a great day.

Operator

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