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TSN - Q1 2012 TYSON FOODS INC EARNINGS CONFERENCE CALL

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OVERVIEW:

TSN reported 1Q12 EPS of \$0.42. Expects FY12 revenue to exceed \$34b.



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PRESENTATION

Operator

Welcome, and thank you for standing by. All this time, all participants have been placed on a listen-only mode. (Operator Instructions) Today's conference is being recorded. If you have any objections, please disconnect at this time.

I would now like to turn the conference over to Mr. Jon Kathol. You may begin.

Jon Kathol - Tyson Foods, Inc. - IR

Good morning, and thank you for joining us today for Tyson Foods' conference call for the first quarter of our 2012 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. Because our shareholders' meeting is this morning, we have to end the call by 9.15 Central. Please limit yourself to only one question, and then get back in the queue for any follow-ups. We'll answer as many of your questions as we can until 9.15.

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



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

Thanks, Jon. Good morning, everyone and thanks for joining us today. Our first quarter earnings were \$0.42 a share compared to \$0.78 in the first quarter of 2011. Now, keep in mind that our Q1 last year was the best quarter in Company history. And although the comparison is unfavorable, Q1 of '12 is still equal to our second-best Q1 ever. Our biggest challenge in Q1 came in our Beef segment, which had an operating margin of only 0.9%. There are a lot of moving parts to what's happening there. We'll have Jim get into those details in his remarks.

The Chicken segment is improving, with a 1.2% return on sales. And although that's still well below the normalized operating margin range, we're pleased with the progress for Q4, as lower supplies have supported pricing. Supply and demand appear to be in balance, and we've positioned ourselves well from that perspective. So, we're staying cautiously optimistic for now. But we need to keep a careful eye on the impact price increases may have on demand, and remain flexible so as not to overproduce consumer demand for our products.

Our Pork segment continues to do exceptionally well, and had an 11.2% return on sales in Q1. Our outlook remains favorable for our Pork segment to continue to perform very well. Prepared Foods has made a lot of progress, even while facing higher raw material pricing. And earned a 5.9% return on sales for the quarter, which is at the top end of our normalized range.

Now, taking a look at the macro environment, consumer confidence and spending improved in the last part of calendar 2011 as expected. According to the Conference Board Consumer Research Center, consumers are more optimistic that business conditions, employment prospects, and their financial situations will continue to get better. But it's still too soon to tell if this is a rebound from earlier declines, or a sustainable shift in attitudes.

According to the Perishables Group data, while dollar sales of fresh meat at retail were up 3% versus last year, volume was down a little over 5%, led by Beef and Pork, down 8 and 7%, respectfully, while Chicken pounds were about flat. Our view is that this trend will continue. Bacon and lunch meat sales were stronger in Q1 versus last year, again, driven by price improvements. And the frozen breaded category showed a slight decline.

Industry indicators show that modest improvement and potential for foodservice in 2012, however, real sales growth has been consistently positive for the last two years. Forecasts for 2012 call for a 0.7% growth in commercial traffic. Major QSR chains, supermarket delis, education, and hospitals are the sources of growth, and are expected to continue to grow faster than the rest of the industry.

Operators are leveraging day parts, including snacks and breakfast. And we have been and will continue helping our customers develop products to fit into those meal occasions. The ideal proposition is offering better food at a better price. Consumers seem to be moving away from the dollar menu to more moderately-priced items such as nuggets, strips, breaded chicken sandwiches, and pizza. And the industry is providing the quality cues that justify paying a little more. Our product development opportunity is to deliver good and better for an acceptable value. And we've positioned ourselves to be on a leading edge as we see changes in the marketplace.

Now, turning to international, we're excited about the progress we're making, especially in China. As we had mentioned last time, our CapEx plan in 2012 is larger than previous years, in part to build Company-owned live production in China. We began operations in Jiangsu in November, and the start-up is on schedule. We're very optimistic about the prospects for our China operations. We have a great customer base there, and we're building a team to execute our operating and selling strategies.

Another part of our CapEx plan includes adding a second shift to our Brazilian plants, and we're executing that plan. We're very pleased with the progress of our operations in Brazil. In addition, good economic conditions are supporting domestic prices, as well as increasing demand for more value-added products. And with a favorable foreign exchange rate, export sales from Brazil are becoming more cost competitive.

As for US domestic protein availability, our view is largely unchanged as the global demand for protein continues to grow, and US exports remain strong. The production cuts the poultry industry made in the past year, along with the decline in beef supplies, will be partially offset by an increase in pork and turkey availability, leading to what we think will be a 1% to 2% decline in domestic availability of protein in 2012.

Now, moving on to the total Company outlook. On our previous call, we forecasted our earnings in 2012 to be in excess of \$2. We still feel pretty good about coming in around the \$2 mark, but we think it would be overly optimistic to say in excess of, at this point, because of the headwinds we're currently facing in Beef, not to mention the volatility in the grain markets. Several things have to go right in our segments, but we're optimistic, and we've positioned our business to make things go right for us more often than not. We're more flexible, and with our strong balance sheet, we're better able to react to change, and seize opportunities. And that's what we're focused on now.

That concludes my opening remarks. I'll 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, and good morning, everyone. The Pork segment continued to perform very well, with an 11.2% return on sales, and \$165 million in operating income. We continued to manage our revenue to operating cost through mix, price, and efficiencies, while managing the total revenue to hog cost spread. We believe export demand will remain strong, and we think hog supplies will increase slightly to 1% to 2% year-over-year. We expect our Pork segment to continue to perform well throughout the balance of the year, but it is unlikely for the results to stay at the Q1 levels.

Our Prepared Foods segment had a very good quarter, with a 5.9% return on sales, and \$51 million in operating income. One of the stand-out products in Prepared Foods is Wright Brand Bacon. We increased points of distribution by nearly 10,000 locations across the country in fiscal '11. And given the strength of the Wright brand, we plan on extending it to other categories in the next few months. Although input pricing for Prepared Foods will continue to be an issue, we expect ongoing operational improvements and increased sales prices to offset rising raw material costs. We expect our results for the Prepared Foods segments to be in the normalized range for the fiscal year.

Turning to the Chicken segment, we continued to see improvement as a result of pricing and mix as we grow value-added and shrink our commodity sales. We had a 1.2% return on sales of \$32 million in operating income compared to a negative 2.9% and a loss of \$82 million in Q4. Chicken should gain momentum throughout the year. And we still expect to achieve \$125 million in operational efficiencies this year, including live production improvements.

In the supply stay in line, we have the potential for our Chicken segment to be at the low end of the normalized range in the second half of fiscal '12. Egg sets continue to be down 5% to 6% year-over-year in recent weeks. And pullet placements were down 7% on average over the past three months, as total supplies remain pulled back. We expect to remain disciplined in our placements in production to manage our supply relative to our demand forecast, and manage the overall revenue relative to the new norm in feed input cost.

In the Beef segment, we made \$31 million in operating income or 0.9% return on sales, compared to \$118 million and 3.4% in Q4. I saved the Beef segment for last because there's a lot to cover, and it's important to understand what drove margin compression in Q1, and why we think it will recover. While you're listening to this industry data, keep in mind that Tyson still has the same people and plants that led us to raise our normalized margin range in May of 2010, and the same focus on execution that produced results in and above that range every quarter until now. So, I have every confidence in our team's ability to deal with the current circumstances.

First, let's cover some obvious observations about Q1. USDA reported beef carcass revenue increased 1.8% over the fourth quarter, while cattle costs increased 7.1%. Year-over-year beef carcass revenue increased 15.9%, and cattle cost increased 22.2%. A major driver behind the revenue increase was choice and higher middle meats. This increased the choice select spread to an average of \$17.30 per hundred-weight compared to \$7 in Q4 and \$8 in Q1 of last year. Demand for choice and higher middle meat cuts usually increases before the holidays, and decreases just after the holidays. This Fall, the spread was driven higher by a 3.6% reduction in the total steers and heifers processed, and a 1% lower grading of the whole population. This resulted in 5% fewer choice animals available.

The choice-select revenue spread increases because higher-grading meat was in greater demand. Market prices for the higher-grading cattle drove up the average price for all cattle, even for the lower-grading cattle where the revenues did not warrant the price paid. The quality and yield grade of cattle varied tremendously from lot to lot. The price paid needs to reflect the value difference, but spot market prices did not reflect the true value differences. Simply put, the select cutout did not keep pace, and the average cost of cattle increased beyond what the select cattle revenue justified. This compressed margins in Q1. Tyson actually processed 4.6% fewer head than a year ago in an effort to maintain overall margins.

Let's look at what's happening in Q2. The choice-select difference quickly adjusted back to the \$5 to \$7 range. Cattle costs declined, reflecting the decreased overall cutout, and then margins expanded. The next week, the cutout declined faster than expected, and cattle costs increased, creating margin compression again. In a spread business like beef packing, the revenues ultimately determine what the raw material costs will bear. We attempt to forecast revenues two to three weeks in advance, and project what cattle should cost to manage the margin. This current revenue-to-cost aberration will correct as weekly slaughter rates adjust.

We originally expected to see fiscal '12 fed steer and heifer slaughter decrease by 1% to 2% based on the 2010 calf crop and the trend line in heifer retention. Since the industry processed 3.6% fewer animals in our first quarter, and the Cattle On Feed Report implies they are still in the pipeline, we anticipate the availability of fed steers and heifers to be adequate or even greater for the balance of fiscal '12. As a result, we expect our Beef margins to improve through the quarter and throughout the year.

I would like to comment on the January Cattle Inventory Report. It showed a 2011 calf crop of 35.3 million, which is our fiscal 2013 and part of our 2014 fed steer and heifer supply. This was close to analysts' forecast showing a 1.1% decline. We did see a 1.4% increase in the beef heifer numbers implying some modest herd rebuilding. The beef cow inventory, however, was down 3.1%, reflecting the drought-accelerated losses the last six months. The decline in future supply suggests probable changes in the feeding and packing industry in future years. Again, our plants are located in the historically competitive feedlot regions of the country.



In conclusion, I'll say that all our business units understand the revenue and cost drivers. They are projecting forward demand scenarios in revenues in all segments, and matching supplies to demand to manage margins. I want to thank them for their attention to the details and focus on quality and customer service.

With that, I'll turn it over to Dennis.

Dennis Leatherby - Tyson Foods - EVP and CFO

Thank you, Jim, and good morning, everyone. As Donnie mentioned in his remarks, we reported Q1 earnings of \$0.42 per share. Return on invested capital for the last 12 months was just over 15%. Capital expenditures were \$182 million for the quarter, reflecting numerous capital projects that will continue to benefit us in the future in both our domestic and foreign operations, with enhanced production and labor efficiencies, improved yields, and sales mix. Our operating cash flow remained strong at \$338 million for Q1.

Including cash, net debt was just under \$1.4 billion, down nearly \$100 million from fiscal 2011. Total liquidity was \$1.7 billion, well above our minimum goal of \$1.2 billion. Gross debt remained at \$2.2 billion. Gross debt to EBITDA for the last 12 months was 1.4 times. On a net debt to EBITDA basis, this measure was 0.9 times.

During the first quarter, we acquired 1.8 million shares for \$35 million under our share repurchase program. To-date, we have repurchased 11.5 million shares since we reactivated this program, which is about 3% of our outstanding shares. Over time, we are likely to repurchase the remaining 11 million shares under the current authorization of this program, which would bring the total reduction of our outstanding shares to about 6%. Our effective tax rate for Q1 was 35.8%.

So, let's review our outlook for fiscal 2012. Revenues are expected to exceed \$34 billion, driven largely by raw material prices and continued tight domestic protein availability. We expect net interest expense to be approximately \$185 million, down \$46 million from fiscal 2011. The effective tax rate should be about 36%.

Our average diluted shares outstanding for the first quarter was 376 million. This reflects the dilutive share effect totaling \$5 million for options and \$4 million for convertible bonds, which will fluctuate depending on our stock price performance. CapEx should be around \$800 million to \$850 million. This reflects continued spending focused on improving the efficiency and competitiveness of our domestic and foreign operations, while also continuing to build out our foreign businesses, especially China.

In closing, 2012 is off to a solid start given the challenges we were faced with involving chicken industry fundamentals and difficult beef market conditions. All segments were profitable in Q1 despite those challenges, and we are pleased to see our Chicken business return to profitability and continue to improve. We are confident we will come through this year strong as we continue to focus on our areas of our business we can control -- our cost structure, efficiencies, and our desire to help our customers innovate and grow their business.

This concludes our prepared remarks. And I'll ask the operator to begin Q&A.

QUESTION AND ANSWER

Operator

(Operator Instructions) Ken Goldman with JPMorgan.

Ken Goldman - JPMorgan - Analyst

Jim, thank you for the color on Beef guidance. I'm still a little bit surprised, though, given how few cattle are out there, and how low capacity utilization around the packing industry may be, that you're guiding within your normalized range for the back half of the year. I'm just curious, is there something else in your guidance maybe, beyond the return to normal in that choice-select supply and gradings and prices and other items you mentioned? Or maybe you're expecting a competitor to close a plant. Do you see some year-on-year comparison maybe we don't? Any further insights there would be appreciated.

Jim Lochner - Tyson Foods, Inc. - COO



Let me start with your comment that cattle supplies are markedly lower, or the implied that they are markedly lower. A lot of times what people miss is we're dealing with a two-year lag of the calf crop. And if you really look at what the calf crop has been, we're dealing right now with the remainder of '12 or calendar year's '10 calf crop which is [35.7]. That's not a big decrease compared to the last two years. That's what we've been saying in that range of about 1%. And that will always be dependent upon, also, what cattle are imported, as well as heifer retention. And so I don't see this big decrease.

And then I wanted to point out, furthermore, we saw, in the Oct-Nov-Dec period, we saw substantial pullback in industry numbers. We also cut back 4.6% year-over-year. So those cattle on feed are still in the pipeline. We didn't process them to the same rate we had in prior years in the Q1 period. And then in the last five weeks we're also running substantially below a year ago. So we're pushing cattle out front.

And what really happened is cattle got higher priced than the revenue was warranting. Part of that was really driven, when you look back in arrears, that the choice-select spread got wide. We had a false sense of security of what the revenue on the wholesale prices was bringing as the normal choice, middle meat choice, and higher middle meat, which is the rib meat, strip meat and tenderloin meat, increased. And then when it's seasonally correct, we were out of balance. And that's what caused this margin compression.

So I'm not as concerned in the fiscal year of '12 that we're going to be tight supply. But as we look forward and we look at the calf crop of 2011, and we look at the projected calf crop for 2012, that's my comment basis we'll probably see some adjustments going forward. So hopefully that answered the bulk of that question, why I'm very optimistic we'll get this back, is we don't see the year-over-year big declines. And we processed fewer head in the Oct-Nov-Dec in the last five weeks.

Ken Goldman - JPMorgan - Analyst

That is helpful. Just to follow-up, are you - is the implication there maybe -- I know we're looking way too far out here, but for fiscal '13 we should see a steeper decline? Or is it just too early to tell?

Jim Lochner - Tyson Foods, Inc. - COO

Fiscal '13 was last year's calf crop of 35.3, which was down from the prior year of 35.7. So again, it will be dependent upon imported feeder cattle, which I don't see adjusting appreciably. And then whatever heifer retention shifts there are. And that's what we'll be monitoring. Thank you.

Operator

Christina McGlone-Hahn from Deutsche Bank.

Christina McGlone-Hahn - Deutsche Bank - Analyst

Jim, I understood what you were saying about the calendar fourth quarter. But I don't really understand what happened then as we came into January, why margins are so bad. And if the cattle, if you've been running short slaughter schedules and the cattle are there, then why is it so tight? And why are margins so bad right now? And then won't heifer retention just make the situation worse in '12?

Jim Lochner - Tyson Foods, Inc. - COO

Let me answer the back half of that question first, which heifer retention, or the fed-steer and heifer supply, those decisions were made quite a bit earlier than -- those cattle are in the feedlot, not out in the field as replacement heifers. So we are watching that. That didn't show a major shift in the last six months. We're seeing a shift in the animals killed the last six months but not the animals placed.

Now, why did margins get so out of whack in January? Again, we came through tighter margins, pulled back supplies, through the November-December period. And a very high choice cutout that quickly corrected, which set all through the Oct-Nov-Dec period a higher cattle cost that was built on the premise that the choice-select spread was higher. That also drove up the average cost of all cattle. And again, the mandatory price reporting groups don't always reflect the true value differences in cattle.



So simply said, the overall cattle costs are higher than the revenue beared and - or warranted throughout that whole time frame. And when we came through the first couple weeks of January, the kill came back up. And it appears that we all missed the revenue. We missed it. It declined a lot faster and all of a sudden cattle went up.

In one week, the revenue declined and the cattle cost went up. And now we're starting to fight through how to get that back in line. But, again, the promising component to me is we're coming through, we're building up cattle. We're not short supplies out front. And we'll just have to watch what the revenue will bear.

And we did see the choice-select spread quickly compress back down into the \$4 to \$5 hundred-weight zone. When you have that margin compression like we had, it takes a couple weeks lag time for it to correct back. And we've got our kills way pulled back in an effort to manage margins. So hopefully that gives you a little more explanation on that.

Christina McGlone-Hahn - Deutsche Bank - Analyst

That's really helpful. My follow-up is, what do you think in terms of beef prices? If you look at the scenario that Donnie laid out with meat availability, it should all go for higher beef prices. But yet it seems to hit a wall on the choice, maybe, at around \$195 or a little bit lower than that. Do you think that demand just stops there or will we eventually get above that level because you need it well above \$200 for people in the chain to make money?

Jim Lochner - Tyson Foods, Inc. - COO

As I said in my comments and a couple times, in the end we're trying to forecast what we think the revenue will be and buy cattle accordingly. In the end, what happens on wholesale prices is if meat is clearing the system and there's more, the pipeline is empty, prices go up, and vice versa. And I know most analysts and charts I've seen have shown some pretty strong resistance in a choice cutout of \$195, so we'll have to see. A lot of that depends upon domestic availability and what the domestic and export disappearance are looking like. So right now, it looks like there's been some price resistance. Keeping in mind that all through '09, '10 and '11 we raised prices substantially.

Operator

Vincent Andrews with Morgan Stanley.

Vincent Andrews - Morgan Stanley - Analyst

My question would just be, I appreciate all of the detail on Beef. And you obviously have a lot of conviction in your outlook. But if it's two or three or four quarters from now and things came in differently than you expected, when you guys sit around and do your plan, what are you worried about could happen that could make your Beef forecast not correct?

Jim Lochner - Tyson Foods, Inc. - COO

We have a long list of things that we always worry about. And that's what we try to anticipate -- a variety of different scenarios relative to how we're managing our forward sales, our pricing risk, our buying strategies. And we're looking at the big picture. That's why we spend a lot of time looking at the real supply chain drivers and the lag times that are out there.

But as I pointed out, we've seen this 0.5% to 1% decline in the calf crop. The biggest thing that bothered me was simply that the beef cow inventory dropped fairly quick. The beef cow slaughter numbers were only up 175,000 in the last 12 months. Yet the overall cow number dropped 967,000. So we'll feel that in 2012's calf crop, which will be 2014's fed-steer and heifer supply. So we've got plenty of time to look at adjustments and how that influences the overall psychology of the market and the overall supply chain.

Vincent Andrews - Morgan Stanley - Analyst

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



Operator

Farha Aslam with Stephens, Inc.

Farha Aslam - Stephens, Inc. - Analyst

When you look at beef, Feb and March tend to be the weakest demand months for beef.

Jim Lochner - Tyson Foods, Inc. - COO

Excuse me?

Farha Aslam - Stephens, Inc. - Analyst

Feb and March tend to be the calendar weakest demand periods for beef. So as you're trying to push up prices, seasonally that's going to be tough. Do you anticipate you can get the margin turned around in time to report a positive Beef number in the March quarter? [Indiscernible - multiple speakers].

Jim Lochner - Tyson Foods, Inc. - COO

We started in January, as you know, with a tougher scenario. And again that's the whole component. We're not projecting robust beef prices in this time frame. And so, again, in this business, the key is that the raw material cost that we have to get them down to what the revenue will warrant. And that's the push that's going on.

And we do that the way we manage the volume we have every week. So we pull back volume, try to shore up pricing, and decrease demand for fed-cattle. And that's the way the business works and always has worked.

Farha Aslam - Stephens, Inc. - Analyst

So if you had to think how long that's going to take, is that going to be a two-month process, two-week process? Is it going to be June, July?

Jim Lochner - Tyson Foods, Inc. - COO

I envisioned it - we had that extreme margin compression in a one-week period, and I always like to think we can get it back in the same time frame but it usually doesn't work that way. It's definitely not out over two months. We, again, have our hours pulled way back and trying to hold pricing, get pricing increases and be very selective in our procurement strategies.

Operator

Christine McCracken with Cleveland Research.

Christine McCracken - Cleveland Research - Analyst

Just looking at another protein, the chicken markets specifically seem to be lagging a little here to start the year. Only in breast meat, wings and leg quarters, obviously, doing very well. But I'm a bit curious with this discounting that's happening in the current market and what you think might be driving that. And whether or not it has any significant implications for what you seem to have laid out as a pretty good scenario as we head into the spring and summer and more seasonally strong demand. I'm just curious what could be behind that.

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



Sure, Christine. Breast meat pricing is a bit of a two-edged sword for us. Let me try to explain that. When we build our supply plan, we make sure we balance on whole bird increments, and then build in the flexibility to buy some parts as we need them. Rather than grow a whole bird when we would only have a good sale for part of the bird. For example, in your scenario, we wouldn't necessarily want to grow a bird for wings and leg quarters and not have a good sale for the rest. So what we do is we balance on a whole bird basis. And that gives us the flexibility to buy breast meat, when the breast meat market is soft. And then, of course, when the whole bird revenue model indicates that margins are appropriate, we can grow the bird.

So, on the buy side we're currently able to take advantage of these weaker prices. Now, of course, that sword cuts both ways. And the weaker breast meat markets have somewhat of an opposing impact on our finished product sales. But our model differs from commodity models in that across our total portfolio of sales, we experience more financial impact from changes in dark meat and whole bird prices than we do breast meat prices. Now, that of course is in large part due to the stabilizing effect of our greater proportion of value-added sales. Which, again, affirms our strategy of continuing to accelerate growth of our value-added business.

Christine McCracken - Cleveland Research - Analyst

Okay. Then just as a follow-up to that, as you look at your export business, are you still pretty optimistic that we'll maintain these kind of levels based on the short protein supplies that you're seeing in global markets?

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

Christine, there's always intervals of times when pricings are soft -- pricing is softer or stronger. But in general, yes, for the rest of our year, we're optimistic about export demand for poultry. And feel like that portion of our sales will be favorable for us.

Operator

Diane Geissler, CLSA.

Diane Geissler - CLSA - Analyst

Good job on the quarter. Can we talk about Pork? The margins there were much better than I was looking for versus what we track internally on the cut-out. Could you talk about what happened there? I know you're guiding for that to be above your normalized range in the back half of the year. But to what extent are exports -- are you benefiting from the exports directly? And just frame what we should expect on Pork for the year.

Jim Lochner - Tyson Foods, Inc. - COO

The overall benefit on the export, obviously, is the domestic disappearance, and it drove - that it contributed to drive up wholesale prices because we had a very strong year. We get our fair share and slightly above in the export market. And we try to work very hard at promoting US pork abroad, as do a number of our competitors. And so we're really, as we manage through our margin, we're paying very close attention to what we think the forward export disappearance looks like, how that fits into the domestic demand, and really trying to maximize the revenue for the whole.

And again, our business we really just put a lot of focus on managing the mix, managing the yields, managing the quality, customer service, and staying very close to the market and working through that process. But I do think exports in pork will continue to be very strong throughout this fiscal year. And I don't see a major drop off. I'm hopeful we'll continue to see an increase as we go forward.

Diane Geissler - CLSA - Analyst

Okay. That's not what the USDA is predicting. So what you're seeing right now, the current market exports are still robust?

Jim Lochner - Tyson Foods, Inc. - COO



USDA I know was predicting down but I don't see any major shift other than perhaps in Korea. But I do see other parts of the world picking it up.

Diane Geissler - CLSA - Analyst

Okay, great, thank you.

Operator

Ryan Oksenhendler with Bank of America Merrill Lynch.

Ryan Oksenhendler - BofA Merrill Lynch - Analyst

I was curious, in terms of your outlook for chicken prices this year -- in response to Christine's question -- it doesn't sound like you're that bullish on breast meat. You're balancing your model there. But also I'm just surprised to see, when you listen to some of the national restaurant accounts talking about the pricing, Darden said it's going to be down in calendar 2012. I think Wendy's announced that they only expect a 5% increase in chicken prices. So how does that square with you guys getting to normalized margins in the back half of the year? Thanks.

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

Okay, Ryan. While I can't comment on what others might be saying about pricing, I can comment on what we're experiencing. And during this round of pricing, which really is the fall and early winter, we were able to secure higher pricing. And in general, when we were forced to lock in a price for a period of time out front, we were able to build in some kind of relief mechanism, whether that be a grain collar or whatever. So we feel comfortable about our value-added mix and the opportunity that, that gives us to insulate ourselves a little bit from the commodity swings in the market pricing.

We get paid for the value that we add to our customer's business. And our quality, our service, our innovative capabilities, are really industry leading. And we are building great customer loyalty, and we're getting paid for that. So I think that's why maybe we sound confident, because we are. Because we feel very comfortable that in concentrating on our customer and adding value to their business, that in turn will add value to our business and our shareholders.

Ryan Oksenhendler - BofA Merrill Lynch - Analyst

Okay. So what would be the biggest risk, then, to you guys getting to that target in the back half of the year?

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

I probably have to say grain. Although I can tell you in the current range, we think grain is trading in the upper end of its value range now. You've got to remember, you're probably facing a 95 million-acre planted crop coming in front of us, and that's going to be a heavy weight on old crop prices. So I think that is a bit muted.

And then we just got to continue to remain focused on providing the innovation and the market solutions that our customers need, and continue to help them grow their business and get through some of these difficult times. And we'll get rewarded with that with more business and getting paid for the value we add.

Operator

Tim Ramey with D.A. Davidson.

Tim Ramey - D.A. Davidson - Analyst



Thanks and congratulations. Jim, the Pork margins have just been so surprisingly good for so long. And I know you've increased the target range recently. But maybe you can give us your thoughts on why, in that particular protein, with supply up a little bit, we just seem to continue to sustain much better margins, as opposed to Chicken that - where supply is tightening.

And just maybe for Donnie as a follow-up too, just this more holistic approach that you've espoused before where the world's going to be tight on protein, and not clear whether you're going to make your money in this one or that one. But overall the world is going to be tight on protein and that will firm up margins. Can you touch on that point again, Donnie?

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

Yes, let me jump in there first and then I'll let Jim obviously talk about Pork. But, yes, very much. Our multi-protein, multi-channel, multi-national strategy is, we think, very important. Our model is going to be very successful. As we look around the world, as global demand for protein increases, it gives us great opportunity internationally to grow those businesses. And we're off to a good start. Those are somewhat fledgling businesses but have a very bright future in front of them.

And then domestically, I think the beauty of our model is, not every protein has to be just perfect all the time for us to deliver great value for our customers and our shareholders. So what we do is we look to operate every segment of our business absolutely the most efficiently, certainly, as we can. And our objective is always to be the industry leaders in every single segment, and we have made remarkable progress, I think, in the last three years towards getting there.

And so if a segment maybe at the current moment, like Beef, might be a little bit out of favor, the good news about our business is we've got a great chicken business, we've got a great Prepared Foods business operating at the top end of its range. The pricing environment has improved as raw material prices have stabilized a little bit. Jim mentioned our growth in our Wright brand business, and our ability to make that brand extensible into other categories. And those are all the things we're working on to continue to deliver this balanced approach to our customers and help them find the solutions they need.

So that's my part. Jim?

Jim Lochner - Tyson Foods, Inc. - COO

Just real briefly on Pork. The big answer is we saw the quantities decreased from '08 down into '10, '11, '12. And the whole pork complex is in a reasonably good balance with export, domestic and supplies. And we've always had plants in very good locations. We're very efficient, we know how to manage the mix, we know how to work through our overall yield, our overall quality issues and stay focused on that. And so there's a good balance in the industry but - and we really understand the details. That's why it's worked very well.

Tim Ramey - D.A. Davidson - Analyst

Great. Thanks.

Operator

Heather Jones with BB&T Capital Markets.

Heather Jones - BB&T Capital Markets - Analyst

Quick question on Tyson specifically on its Pork and Beef businesses. For some time you've all been able to generate pretty large outperformance relative to the industry in both of those segments. And in Q4, that outperformance seemed to narrow pretty significantly. But in this quarter, it widened considerably.

And so going forward, I'm just trying to get a sense of how should we think about this outperformance. On an absolute magnitude basis, do you think you can maintain the outperformance of this quarter? Or is it going to fluctuate significantly? If you could give us some color on what you're foreseeing going forward.

Jim Lochner - Tyson Foods, Inc. - COO



This is Jim. I'm not sure really how to answer that other than we really focus on the details and what the forward revenues, what the demands are going forward. And really try to match what we think we're going to run from a supply standpoint. And really what we think the raw material or the commodity warrants from a price standpoint. There will be quarter-over-quarter where certain things show adjustments. But we've got very good teams that really are very experienced.

And we've put a lot of good CapEx in our plants and we stay very efficient. And our plants, keep in mind our beef plants are located in very good states where there's very good supplies of fed-cattle, and same thing in our pork plants. So we have some good location advantages, which has been a long term strategy from years ago.

Heather Jones - BB&T Capital Markets - Analyst

So you don't anticipate anything that should change your performance relative to the industry from Q1?

Jim Lochner - Tyson Foods, Inc. - COO

No.

Heather Jones - BB&T Capital Markets - Analyst

Okay. Thank you.

Operator

Akshay Jagdale from KeyBanc.

Akshay Jagdale - KeyBanc - Analyst

Congratulations, really good quarter. I wanted to focus on Chicken because I think we've talked about Beef enough. So can you help me understand sequentially a couple of moving parts? One is the revenue line and the other is cost. Costs were up, it seems like, \$0.10 a pound, \$220 million.

Would love to know what your projection is on costs as we sit here today. So maybe you can answer that first. My guess is, it's sequentially you're not going to see as much of a drag from higher feed costs. But what is your projection for the year and how far are you hedged?

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

Okay, Akshay, the overwhelming majority of the cost increase was grain. Now, quarter-over-quarter, if you'll remember last Q1, we had a fairly significant increase in hedging for the quarter. And this quarter we were pretty much flat with a very minimal hedging, I think \$3 million or something like that. So the overwhelming majority of the increased cost in Chicken is in the grain. Now, offsetting that is our increases in price, improvements in our mix. In other words, selling more value-added items, and then continuing in cost efficiencies.

I think we mentioned last quarter that we anticipate another \$125 million or so in cost efficiencies for this year. And in Q1, we delivered something on the order just shy of \$25 million of that. So as you look forward, our pricing, as you can see in this last quarter, our pricing was better. And we feel like that will continue. I agree with you that the year-over-year increases in feed costs are likely to stabilize.

And so it's a matter of continuing to improve our mix, continuing to grow our value-added sales, continuing to drive operational efficiencies. And that will, in turn, continue to drive good margins and give us that opportunity in the back half of our year to get our Chicken business back into its normalized range.

Akshay Jagdale - KeyBanc - Analyst

But what's the - how much of your grain costs, feed and grain costs, which you said were up \$220 million in Q1, what is the order of magnitude for the year? Last year I think they were up \$500, so my guess is you're going to see a major drop off starting this quarter.



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

No, actually the comparison -- well, and what we're using is current basis levels, current futures prices versus a year ago. So just taking the forward curve on futures and basis today and projecting that out for the rest of the year. The impact for our year is an incremental \$200 million, which is frankly what you saw in Q1. So for the balance of our year we really see that impact flat. We don't have projected in a decrease in feed costs. Because, remember, for the four quarters, which would end in September, the last of those grain purchases are made in July.

And so it takes about eight weeks from the time you ship a train of grain to our feed mills for that to work its way through our cost of goods. So just keep a mental picture that we buy grain through the end of July to secure our cost all the way through Q4. And by the end of July, we have no way to predict at this point what the grain situation is going to look like. Will it be dry or -- there's just no way to tell.

So we just take the forward curve and project it forward. Basis levels are really high right now. Railroads are still charging significant fuel surcharges in the freight rates. So the delivered basis of corn is still really high. So factor all that in, the year-over-year change, we think, is going to be about \$200 million.

Akshay Jagdale - KeyBanc - Analyst

Okay. And just on the revenue side, can you help? The revenue per pound realized in my estimation was up double digits this quarter, which was just truly exceptional. Can you - on a year-over-year basis is it going to come even close to that? Because if it does, it looks like to me you could be at the high end of your normalized range, if you're going to get 10% increases in revenue per pound, which is what you got in Q1 for chicken.

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

There is some portion, although a relatively small portion of our business, that is susceptible to the commodity market pricing. So I can't with all certainty tell you what our revenue component is going to look like. I can tell you, though, that we are getting paid for the value we add. We feel good about our ability to add the value that we need to, to our customers' business to get paid for what we do for them, and the solutions we provide them.

So I feel good about the revenue. I can't necessarily call it. But I can tell you, we have been able to secure higher prices and we feel good about our opportunity to continue to do that because of the way we're delivering for our customers for the rest of the year.

Akshay Jagdale - KeyBanc - Analyst

So sequentially if spot market prices improve, which there's a lot of industry observers who believe that will happen, so spot revenue per pound improves from now until the summer, sequentially your revenue per pound realized should also trend that way, correct?

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

Yes.

Akshay Jagdale - KeyBanc - Analyst

Okay, perfect, thanks a lot.

Operator

Lindsay Drucker-Mann with Goldman Sachs.

Lindsay Drucker-Mann - Goldman Sachs - Analyst



Jim, I was hoping that you could just go back to some of the comments in your prepared remarks about how the beef industry is likely to have to change around some of the dynamics you're seeing in the supply pipeline, given shorter cattle supplies down the road. Just maybe you could expand a little bit on how you think the industry might look in two, three, four years down the road.

Jim Lochner - Tyson Foods, Inc. - COO

Sure. The alarming number, and I was watching very carefully with the drought that we experienced last year, what the impact to the supply - the base of the supply chain, being the beef cow herd, would do. And again, if you're watching beef cow slaughter numbers, you thought well, we'll decrease about 175,000 over the last 12 months. But then all of a sudden we saw this big decline, 967,000 down to [29.9]. And you saw Oklahoma and Texas cow numbers decreased.

Now, a lot of people think that those states then will have some issues relative to availability in cattle. Keep in mind, the cattle are fed still in feedlots that are close to the grain, with good weather, good water, and a good environment. And so we won't see - we'll continue to see competitive feedlots source feeder cattle. And that's what our plants are located.

And if you look at the feedlot placements, and when it was all said and done, with the total number, you saw that the upper mid-east region was down considerably, and Texas was up 104, I think Kansas was flat, Nebraska was up. Where I'm headed with this is, the competitive feedlots will continue to feed cattle. And the plants located close to those will continue to have good sources. And that's where, again, we sit in pretty good relationship to cattle on feed and where the cattle are - will be available. But long term that cow decline will have a structural change on both the feeding industry, likely, and the packing industry.

Lindsay Drucker-Mann - Goldman Sachs - Analyst

Thanks. And then just also as a follow-up, hoping maybe you guys could shed a little bit of light on some of the trade issues in the chicken industry that are currently in the press with respect to Mexico. Do you see any issues arising with challenges to chicken exports?

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

It's too soon to tell. Obviously, we're engaged. Our DC office is actively engaged in those conversations. But it's too soon to tell.

Lindsay Drucker-Mann - Goldman Sachs - Analyst

Can you maybe help us frame what's at risk here?

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

I really can't. Obviously, Mexico does buy chicken from the US. An anti-dumping duty would hurt the margin on that. I can tell you from our standpoint, our export sales, I'm going to call it customer portfolio mix, has changed fairly dramatically over the last 12 months.

And we're not overly dependent on any one particular market for margin in our export sales. We've done a great job of diversifying our portfolio. So it may have an impact. I think the impact on our business, would - certainly there would likely be one, but I don't want to overplay its magnitude.

Operator

Ken Zaslow with BMO Capital Markets.

Ken Zaslow - BMO Capital Markets - Analyst

Just a couple questions. I know everybody has been talking about beef, I just have a couple really quick ones. One is, are you guys actually capturing cattle or getting cattle outside of your typical range of where you normally get it, is my first question? My second one is, over the next 10 to 20 months, does capacity actually need to



come out from the packer industry in order to restore margins? Again, I know you're saying it's a slow cattle decline but I'm assuming over time, though, that something has to change in the industry. And then third is, when you guys say you're in a soft spot, what does that actually mean?

Jim Lochner - Tyson Foods, Inc. - COO

I didn't follow the third part.

Ken Zaslow - BMO Capital Markets - Analyst

When you say you're in a soft patch for feed packer margins are you actually losing money, are you still making money, are you profitable? Just magnitude of what we're actually seeing. That's what I just wanted to know. But that's actually the least of the three important questions.

Jim Lochner - Tyson Foods, Inc. - COO

To answer your first question, are we going outside our region, no. Answer to your second question, and again fiscal '12 is interesting going forward. I don't see that we're going to be deficit cattle particularly after we and the industry, when looking at the industry number in the Q1 period, processed 3.6% fewer cattle. We processed 4% fewer cattle year-over-year in that quarter. And then in January, the industry's kills have been way pulled back.

So we've got to be pushing them forward because they are in the pipeline. Now, when you go out beyond that, again the key number I watch is the calf crop projected out for two years, and then try to factor in what we think heifer retention's going to be. So do I think the industry is in over capacity? It's been there before. And looking at the long range out a couple years with the implied 2012 this calf crop this spring, I'm guessing we'll start to see some adjustments.

Ken Zaslow - BMO Capital Markets - Analyst

So you guys are not -

Jim Lochner - Tyson Foods, Inc. - COO

And the third question, yes this was a rough patch. And I've explained that a number of times. That one week when revenues dropped and cattle costs went up, the spread got way out of whack. It can get messed up like that in a week and it takes some time, two or three weeks or more, to get it back in line.

Ken Zaslow - BMO Capital Markets - Analyst

Are you currently in a rough patch or are you out of the rough patch?

Jim Lochner - Tyson Foods, Inc. - COO

We're currently in a rough patch.

Ken Zaslow - BMO Capital Markets - Analyst

Okay, currently. And is there -

Jim Lochner - Tyson Foods, Inc. - COO

I'm sorry to hear that, that will be our new technical term, how's that?



Ken Zaslow - BMO Capital Markets - Analyst

Yes, I'm not sure exactly how to model it. I was just going to put RP on it, I guess.

Jim Lochner - Tyson Foods, Inc. - COO

Just so you let us know.

Ken Zaslow - BMO Capital Markets - Analyst

But, in terms of the (class) is - do you think the industry right now - you don't think the industry is over killing? You think right now the - are you guys running 40 hours a week? Is the industry running 40 hours per week? Can you just talk about what people are actually - what the industry is actually doing on an hourly basis right now? It seems like, again, from people I know, it seems like there is a potential that the facilities are being run a little bit harder than they should be.

Jim Lochner - Tyson Foods, Inc. - COO

We have not run 40 hours. We've been between 32 and 36 in every plant throughout the year here, through January. But I just look at the fed-steer and heifer kills the last five weeks, which I watch very closely, 429,000 the first week, 493,000 the second week, 484,000, 472,000, and 471,000 projected for this week. Now that's a good 20,000 to 25,000 lower than a year ago. So the industry is clearly not running anywhere close based on that.

I know what we're running and I can look at that inference and get pretty close. But the industry is running considerably less than 40s and probably considerably less than 36s. And again, you're looking at that additively. Those cattle will have to, at some point, get processed. So again, just really watching the acute numbers and what's going on week to week, which is how you really manage these businesses.

Ken Zaslow - BMO Capital Markets - Analyst

You don't think capacity over the next 10 to 20 months has to come out of the industry. You don't think anybody is going to close down or anything is going to change structurally? Like, what you guys did in, was it end of '08 or '09 where you guys actually closed down a facility. You don't think something like that has to happen in the next 10 to 20 months for a restoration of normalized margins?

Jim Lochner - Tyson Foods, Inc. - COO

I can't comment on what our competitors - because that decision really gets to, is your plant competitive in the region from a revenue, cost, size, scale, mix standpoint. And there's a lot of variables. The ones we shut down in '06 and '08 weren't competitive in the regions. And they weren't competitive within our structures. And so that really becomes a key component that you have to look at.

And again, we're looking at the macro play, which I've covered a number of times. I'm just really watching the numbers going forward. In the next few months, doesn't appear so but I can't - if I had a non-competitive plant I'd be looking at it. That's all I can say. We're looking at our competition and what are the, excuse me, our plants from a competitive standpoint on a continuous basis.

Operator

Ann Gurkin with Davenport.

Ann Gurkin - Davenport - Analyst

Just wondering, given the challenges that we've obviously been talking about in the Beef segment, is there any need to adjust production in the Chicken segment in order to make sure that remains profitable and hits that low end of the long-term targeted margin range?



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

Speaking for ourselves, we have a pretty good taste of what oversupply looks like. And certainly we will pause before we risk returning to an oversupply situation. But we really like where we stand. Our supply and demand is very well balanced. We have an opportunity at times to take advantage of buying the parts we might need. So I could tell you that currently our forecasted demand and our supply plan does not need adjustment. But we look at that constantly and we would make adjustments as needed.

Ann Gurkin - *Davenport - Analyst*

Great. That's helpful. Thank you so much.

Operator

Rob Moskow with Credit Suisse.

Rob Moskow - *Credit Suisse - Analyst*

Two questions. One is, have you seen any signs that this plant by Northern Beef is going to open in Aberdeen, South Dakota or not? And then, secondly, an international question for Donnie. How much capital have you put into China and Brazil over the years? I'm coming up with a number of about \$400 million and want to know if I'm close. And when do you think you could get that 15% return on capital that you said you've been doing for the rest of the business? Thanks.

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

I know that plant in Aberdeen is in some phase of construction. I've not been tuned into what projected opening date or startup curves look like. I have no idea. I just know it's being built.

Rob Moskow - *Credit Suisse - Analyst*

Okay.

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

Rob, on the capital piece, you're really close. That's - you're all over the number. And I would tell you, on the return, figure two or three years or so we should be at that point. And our Jiangsu plant has started up, the ramp up is on target. We feel very good about our model. We feel very good about our customer mix in China, who we will be serving, and the product portfolio that we will be serving them with.

We're doing a good job so far in getting our production supply chain built out like we want to. It's going to take some time but we think two or three years out we're there.

Operator

Farooq Hamed with Barclays Capital.

Farooq Hamed - *Barclays Capital - Analyst*

Just a quick question for you. I just wanted to walk back through the pork exports expectation. And maybe if you can walk us through. You made a comment that, I guess that 2012, they are going to keep pace with 2011 export levels. And I'm just wondering how you get there or if you can walk us through the different major



regions where you think that the exports will hold pace. Just because we had significant disease issues in Korea and China last year. I'm just wondering could we still see the same export levels this year and how we get there.

Jim Lochner - Tyson Foods, Inc. - COO

That's a good question but I'm just really looking, and when I referenced, I'm talking our fiscal year, and sometimes people get misaligned a bit because they look at the calendar year which allows the other data. But October and November were up 40% year-over-year, so that - we still saw that strong strength. Now, I do think Korea might adjust. But keep in mind, there's a big long lag phase once you have a herd reduction. To correct a disease problem like they had, you can't fill that pipeline. In the case of hogs that's a 19-month recycle. That's why I'm saying it.

Same thing in China where they had to correct some, or were doing some liquidation to control some diseases. So that's where I'm at, and a lot of people think you can turn that production cycle back on that quick, but when you just look at it, it's an out - it's a 19 month to see an increase. And then I'm seeing the residual carryover in October and November numbers that are still very strong. Now, do I think - so I'm not pessimistic that we're going to see a decline at all. I'm optimistic that we'll see a gradual incline because those numbers - supplies can't be replenished that fast.

Farooq Hamed - Barclays Capital - Analyst

Okay. But then looking at the 2011 and then maybe the 2012 export levels, longer term, or bigger picture, would we see that as being the peak for pork exports in this industry? And then maybe 2013 onwards we're going to start to see some declines as those herds catch up?

Jim Lochner - Tyson Foods, Inc. - COO

I had a really great crystal ball because it'd help managing the business. But the reality is that US is still a very competitive place to produce pork -- the dollar and the relativity. In the global protein supplies or demand continues to increase and outstrip the ability of the supply chain to catch up.

Farooq Hamed - Barclays Capital - Analyst

Okay, thanks. That's helpful.

Operator

(Operator Instructions) Ken Goldman with JPMorgan.

Ken Goldman - JPMorgan - Analyst

I have one for Donnie, and one for Jim, if I can. Donnie, how happy are you with the Tyson brand's ability? Obviously it's a great brand, but its ability to succeed across the entire packaged meats aisle in the supermarket? And the reason I'm asking is you have a lot of cash on the balance sheet, there may be some attractive assets coming to market that uniquely complement what you do. And I know you can't discuss anything in particular. I'd really just be interested in your thoughts on your current portfolio's ability to play and win, say, in retail breakfast meats, lunch meats, things like that. Thanks.

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

That's a great question. We have a tremendous amount of confidence in the Tyson brand and its brand promise, and our ability to deliver on its brand promise. Now, we also have a stable of other regional and national brands that have a brand promise. For example, Jim in his remarks talked about Wright brand. Wright brand has really grown in acceptance. He mentioned 10,000 points of distribution last year. That's amazing.

And so that brand delivers very well on its brand promise consistently over and over again. So I would not want you to think that we would only use the Tyson brand or the Tyson logo to extend across the meat category. But certainly you can tell from our comments that having a broad, diverse portfolio of products is very important to our strategy.



Now, I'm going to add a little bit, maybe it was in the question, maybe not. But over the last couple of years, we've done a great job of strengthening our balance sheet. And our balance sheet gives us the flexibility -- we use the term around here, optionality -- to be able to buy or to build. And so we have the opportunity to look at any channel, any category, any type of product grouping and decide whether or not we want to build our current assets, and then build through that particular category that way. Or whether or not we want to buy that, buy a business that might fill that gap.

So I like having those options. It gives us an ability to keep our return on invested capital forefront as we grow our business. And certainly both of those are very important to our strategy to both grow our business and to keep an acceptable return on invested capital.

Ken Goldman - JPMorgan - Analyst

Thanks. And then, Jim, you mentioned you're pulling back somewhat on your hours in beef packing. Have you thought about the possibility of maybe going the other way? That is, running your plants even faster to temporarily drive margins down and force a competitor to shut a plant more quickly? Or is that just way too risky a strategy?

I realize it's easy for us on this side to think about that. It's a lot harder to actually pull the trigger and it may not even be the right strategy long term. I'm just curious how you think about that.

Jim Lochner - Tyson Foods, Inc. - COO

The simplest answer to that -- no. Because we really try to manage over the long run. You've got to manage margins. You work on, again, your sales mix, your forward sell, your customer, your framing programs. And then you really try to project what the revenues are going to be and what the raw material cost warrants on the basis of the revenue projection.

We manage our own business. We don't have a market play and that whole scheme. I should have just stopped with no, but maybe a little more color.

Operator

Diane Geissler with CLSA.

Diane Geissler - CLSA - Analyst

Jim, do you have any - is there - do you think we might get a few cattle coming across the border with the Wheat Board decision this summer? Or is it too early to tell what's going to happen there?

Jim Lochner - Tyson Foods, Inc. - COO

The economics, I think that changes the dynamic. That's a really good question because we really watch these feeder cattle import numbers. And they supplement that and have been in the pipeline.

In recent years, the Canadian number has declined. And so as the Wheat Board decision changes the dynamics of feed wheat availability and the competitiveness of feedlot in Canada versus the US, it may. I don't know. It will depend upon what that front-end economics at the point in time, the calves and the cost of gains versus what the deferred futures are looking like in the revenue. But it changes the dynamic that's very worth watching.

Diane Geissler - CLSA - Analyst

And just as a second point on that, just given where your plants are, if we do see more cattle coming from Canada, would you say you're better positioned than the rest of the industry because most of your plants are in the North?



Jim Lochner - Tyson Foods, Inc. - COO

That will be where the feeder cattle -- I'm guessing it would be a greater -- the issue will be, will there be more imported feeder cattle. And Washington state, as one example, was up appreciably, which we have a plant in Washington. And those cattle would be a lower delivery cost to the Upper Midwest from a feeding standpoint. So it would be favorable.

Operator

Christina McGlone-Hahn with Deutsche Bank.

Christina McGlone-Hahn - Deutsche Bank - Analyst

Just quickly, Jim, I wanted to confirm that your outlook for Pork is still - you said it's still above normalized. Because recently margins have really narrowed, particularly since the fall, and we're showing at times negative on a spot basis. But you still think you can do above -- not only better than the industry but above normalized?

Jim Lochner - Tyson Foods, Inc. - COO

I think what I said was I didn't think we would be probably as strong as Q1. But, yes, we expect to be above normalized. Again, I don't see a major shift in that fundamental at all going on.

Operator

Farha Aslam with Stephens.

Farha Aslam - Stephens, Inc. - Analyst

I just wanted to get some more color on Prepared Foods. That segment performed extremely well. Is it packaged meats, is it tortillas, is it pricing, capacity utilization? And in terms of normalized, do you expect that segment to perform at the higher end of normalized as it was this quarter? Or mid to lower? Just some more color on that would be helpful.

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

Farha, your answer is yes. It is a factor of all of those. The great thing about our Prepared Foods business is that it is so diversified. Our tortilla business is doing very well. Great business in pizza toppings.

I would tell you maybe a weaker part of that segment has been our lunch meat results. But I'll tell you, we've got a great team around that business. They have absolutely anchored themselves in the fundamentals of the business and are making very rapid progress. So we think there's a segment within the segment that has not been performing, that will continue to improve and perform even better, which makes us feel even more positive about our Prepared Foods segment.

So it's coming in all forms. Our mix is improved. We've changed our selling strategies. Our soup business has improved. We've - of course, for a lot of that business, the raw material is beef and pork, and as the raw material prices have stabilized, that's allowed some of the lagging pricing mechanisms that we have to catch up. And certainly that's improved.

So it really is a combination of multiple things. But the bottom line to that whole business is great diversified portfolio, being run very well by an extremely competent team, meets tremendous customer needs, and we feel very positive about our results in that segment.

Operator



Akshay Jagdale with KeyBanc.

Akshay Jagdale - KeyBanc - Analyst

I just want to follow-up on Chicken. Donnie, if I understand it correctly, so you had a \$220 million increase in feed costs. Sequentially, you won't have that going forward. So that's about an 8% margin impact on your sales.

So my understanding is, going forward, the cost side is getting better sequentially. And on the revenue side, I have a question for you. Which is, if I say breast prices are going to be at \$1.85 in the summer, and leg quarters remain at \$0.50 and the whole bird price goes into mid \$0.90s, is there any reason to believe, then, that Tyson would not be at the high end of normalized range by the end of the - by the summer? Or am I missing something in the mix or fixed price contracts or something like that?

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

No, if you're right on your market prices. We feel great.

Akshay Jagdale - KeyBanc - Analyst

Perfect. Thank you.

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

I'll say one thing on your cost model. Think stabilized, not improving.

Akshay Jagdale - KeyBanc - Analyst

Perfect. Thank you.

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

Listen, we have to run, but thanks for joining us today. And obviously for your continued interest in and your support of our Company. We've got to head off to the shareholders meeting right now so we just hope you all have a great day. Thanks.

Operator

Thank you. This does conclude today's conference. Thank you for participating. You may disconnect at this time.



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