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TSN - Q1 2013 Tyson Foods Earnings Conference Call

EVENT DATE/TIME: FEBRUARY 01, 2013 / 2:00PM GMT

OVERVIEW:

TSN reported 1Q13 EPS of $0.48. Expects FY13 revenue to be approx. $35b.

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PRESENTATION

Operator

Welcome to the Tyson quarterly investor earnings call. At this time, all participants are in a listen-only mode.

(Operator Instructions)

Today's conference is being recorded. At this time, I will turn the call over to Mr. Jon Kathol, Vice President of Investor Relations. You may begin, sir.

Jon Kathol - *Tyson Foods, Inc. - VP, IR and Assistant Secretary*

Good morning, and thank you for joining us today for Tyson Foods' conference call for the first quarter of our 2013 fiscal year. I need to remind you 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, Dennis Leatherby, Chief Financial Officer, and Jim Lochner, Chief Operating Officer. Because our shareholders meeting is this morning, we need to end the call by 9.15 Central. Please limit yourself to one question and one follow-up and then get back in the queue for any additional follow-ups. We'll answer as many of your questions as we can until 9.15. I will now turn the call over to Donnie Smith.

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

Thanks, Jon, and good morning, everybody, and thanks for joining us today. $0.48 a share is a good start to the fiscal year, and was a little better than our expectations. How the results broke out among the segments was a little different than we originally thought, but that's the advantage of our multi-protein, multi-channel, multi-national business model. Sometimes we run into some hurdles in one area, but we make up ground in others. It's a balanced approach that, over time, has led to and should continue to produce steadier, more consistent earnings growth. Our sales team has done an excellent job of getting paid for the value that we provide our customers.

In our poultry business, we reduced annual fixed-price contracts to less than 10% of the total. Improved pricing in that segment helped make up the $170 million in additional feed costs, compared to first quarter of a year ago. Looking at demand expectations for 2013, the consensus is that food service will be flat, maybe up 1%, primarily driven by population growth. With consumers burdened by sluggish job growth, the prospect of rising food costs, the loss of the payroll tax cut, and uneasiness about the future, forecasts could have been much worse. We believe food service demand will hold up and should stay steady this year.

The food service categories that are expected to show growth include chain restaurants, lodging, hospitals, senior living and contract feeders. The areas expected to be down slightly include convenience stores, recreation, schools, due to the new guidelines, corrections, independent restaurants and small chains. Tyson is well-positioned in all categories, and especially among leading national and regional chains, non-commercial and large operators. Our area of concern continues to be the struggling independent operator segment.

In terms of addressing consumer needs, we are finding that food bought on value menus has been declining now for two years. Instead, operators have been attracting patrons with new products and promotions by adding servings of breakfast sandwiches, chicken nuggets, tacos, fried chicken, sandwiches and wraps. At the same time, servings of burgers, seafood, pizza, soup, and pasta, have declined. Our diverse portfolio and increased flexibility give us the opportunity to take advantage of these type swings in consumption. Overall, the need to connect the right product with the right consumer hasn't changed. We're helping our operator and distributor customers by delivering products that offer the premium quality cues that meet consumers' need for perceived value while helping restore customer margins.

Retail demand forecasts are basically flat, and will depend on what happens to prices at that the gas pump, and the retailers' willingness to invest. For the 52-week period ending November 24, total retail fresh meat pounds sold were down 1.3%. Beef was down 4.9%. Pork was up 2.2%. Chicken was up 1.1%. Even more importantly to us, Tyson-branded fresh chicken pounds sold increased by nearly 10%, with dollar sales up almost 12%. So overall, total domestic availability would indicate 3% fewer pounds of beef, and roughly 1% more pounds of pork and chicken in 2013.

I'm throwing a lot of demand information at you, but basically what this means to us is that we can't wait for unemployment to improve or the economy to get better to grow our business, and I assure you, that is not our plan. Our strategy is to accelerate our growth in domestic value-added poultry and Prepared Foods as well as international poultry, and we're executing that strategy. You'll remember I said on our Q4 call that we expect top-line sales growth of 3% to 4% annually, value-added sales growth should grow at twice that rate or 6% to 8%, and sales from international production should grow at twice that rate, or 12% to 16% a year.

Some of the steps we're taking to grow our domestic value-added sales include expanding three plants. We plan to spend more than $27 million on our Sherman, Texas, Goodlettsville, Tennessee, and Glen Allen, Virginia plants. Both the Texas and Tennessee plants produce case-ready feeds for pork. The Virginia plant produces further-processed chicken for national food service customers. We've also recently begun operations at our new Bruss steak-cutting operation in Jacksonville, Florida, after a $13 million investment there. All four of these plants are in great locations with an excellent workforce. These are major investments to help support key customers, and they will create as many as 490 new jobs.

Turning to our progress in accelerating international chicken production, our performance in Mexico largely offset start-up losses in China. That is very encouraging and gives us confidence that our international poultry operations will make the significant improvement that we expected for the year. We're making progress in building our chicken farms to supply our plants in China. We're about a third of the way toward our goal of growing all of our own birds, and eliminating the need to buy any market birds, which will provide more consistent higher-quality products for our customers, while allowing us to be much more efficient processor. I'm very pleased with the progress we're making in Brazil, too. Sales and pricing are up, and value-added sales are improving, both domestically, and with our exports from Brazil into Europe.

Everything I have talked about today is part of our strategy to accelerate our growth. We feel very good about our ability to produce solid earnings this year, and there are signs of strength in the back half that make us even more optimistic than on our last call. I told our team last week that they've done a great job of building a foundation that will allow us to grow this business now and for years to come. We've been working to get ourselves in this position and it is exciting to see that happening, knowing how much potential there is. That concludes my remarks. Dennis will now give you the financial update, followed by Jim, who will discuss our operating segments. Dennis?

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

Thank you, Donnie, and good morning, everyone. As Donnie mentioned, we reported first-quarter earnings of $0.48 per share. This represents a 14% increase over the $0.42 we reported a year ago. I would also like to note that on an adjusted basis, our rolling four-quarter EPS is $1.97. Pre-tax return on invested capital for the past 12 months was 17.3%. Capital expenditures were $157 million for the quarter, as we continued to invest in projects for both our domestic and foreign operations that resulted in improved productive capabilities, labor efficiencies, yields, and sales mix.

Operating cash flow came in at $190 million, and this includes cash outflows just over $120 million, related primarily to an increase in inventory, planned to support our customers' promotional activities and volume needs. I'm pleased to say we returned more than $150 million to our shareholders during the first quarter. We acquired 5.1 million shares for $100 million, under our share repurchase program. In addition to repurchases, we also increased our regular dividend rate by 25%, and combined with a special dividend of $0.10 per share, we paid just over $50 million in dividends.

Including cash of $951 million, net debt was just under $1.5 billion. Total liquidity was $1.9 billion, well above the upper end of our targeted range of $1.2 to $1.5 billion. Gross debt remained at just over $2.4 billion, which will continue until we retire the convertible notes coming due in October this year. At this point, we expect to pay off these notes with cash. Net debt to EBITDA for the last 12 months remained at 0.8 times. On a gross debt to EBITDA basis, this measure 1.4 times. We reduced net interest expense by 23%, compared to a year ago, to $36 million. Our effective tax rate for the first quarter was 36.3%.

Average diluted shares outstanding for the quarter was $362 million. This reflects the dilutive share effect of options and convertible notes of $7 million. The impact of the 5.1 million shares repurchased during the quarter will not be fully realized until subsequent quarters, but I would like to take a moment to discuss the impact of our share repurchase program. As a result of the 27.3 million shares we have repurchased since reactivating this program, our Q1 EPS was positively impacted by $0.03. On an annualized basis, we estimate the cumulative repurchases to date will impact EPS by $0.14, holding all other factors constant.

Now, here are some thoughts on the remainder of fiscal 2013. We expect revenues of approximately $35 billion, up approximately 5% over 2012. Net interest expense should approximate $140 million. The effective tax rate should be around 35.5%, and our CapEx plan remains at $550 million, which may increase as we move through the year. Our priorities for excess cash remain intact with what was laid out during our last call, which include additional capital spending to improve and grow our existing businesses, acquisitions to fulfill our growth strategies around value-added products and our international footprint, and returning cash to shareholders through repurchases and dividends, all while maintaining plenty of liquidity. In summary, we are off to great start in fiscal 2013 to produce earnings better than last year, despite any challenges we currently face. I will now turn it over to Jim for a closer look into our operating segments.

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

Thanks, Dennis, and good morning. The pork segment had a 9.2% return on sales and $125 million in operating income in the first fiscal quarter. Our average sales price per pound was down 5.5% on 2.2% lower volume, compared to Q1 last year. USDA reported prices and hog prices were down 8.4% and 6.7% respectively year-over-year. Production was up about 1%, and total US exports were down, resulting in more pork domestic availability. Tyson volumes were down as a result of balancing supply with demand, however the pork segment still produced very good margins in the quarter. We expect hog supplies to be flat and total exports to be lower compared to fiscal 2012. We expect our pork margins to be close to our overall fiscal 2012 performance.

Turning to the prepared food segment, we had a 3.9% return on sales and $33 million in operating income. Our volume was up 1.8%, while average sales price per pound was down 4.1% over last year, predominantly from lower raw material costs. Our costs were higher in our lunch meat business, creating margin compression, as we continued to invest in that business, which reduced the whole segment. We have talked in the past about our desire to grow sales of prepared foods in the convenience store channel, and in Donnie's remarks, you heard him say that we expect demand to be challenged in that particular channel of food service. That isn't a disconnect.

Food traffic is expected to be down at C-stores overall, but there is still a tremendous opportunity for growth for our products, simply because we are underpenetrated. Next month, Tyson will be hosting the second C-Store News Foodservice Summit to help convenience store channels enhance their prepared food offerings using our proprietary research, consumer insights and products. This is one of many ways we are accelerating value-added growth through innovation.

We were very pleased with our chicken segment in the first quarter, and we had a 3.6% return on sales, and $107 million in operating income, despite $170 million in incremental feed costs. Excluding our China start-up losses, return on sales was 4.3%. Average sales price per pound was up 8.2% on 1.1% less volume, versus Q1 last year. Our chicken prices were higher year-over-year, as we focused on getting paid for the value we provide our customers, managing our sales mix, and our value-added growth. Our increased inventory was intentional, in anticipation of promotional activities and volume needs of several large customers. USDA projections indicate chicken production will be relatively flat this year compared to last year. We currently expect feed costs to be approximately $600 million more than fiscal 2012. The capital investments and operational improvements we made in the chicken business, coupled with changes in our mix and pricing, have put us in a position to better handle rising feed costs, while maintaining our expected levels of profitability.

In the beef segment, we had a 1.3% return on sales and $46 million in operating income. Our average sales price per pound was up 11.7%, and our volume was down 10%, compared to Q1 last year. The USDA reported cut-out was up 2.7%, while cattle costs were up 1.9% year-over-year. The fed steer and heifer slaughter was down 1.6%, while carcass weights were up 2.7%. We pulled back in the number of head we processed, in an effort to maintain prices and our sold position. In other words, we opted for margin, not market share, and as a result, our performance relative to USDA prices achieved a new record for our beef division in Q1. Our box beef exports were up, while the estimated US box beef total is down for the quarter. Additionally, the contribution from premium programs was up an incremental 37%. This is an illustration of how we improve our overall mix and revenue.

We expect to see a reduction of industry-fed cattle supplies 2% to 3% in fiscal 2013 compared to last year, primarily in the third and fourth fiscal quarters. Although we generally expect adequate supplies in the regions where we operate our plants, there may be periods of supply and demand imbalance. We anticipated a beef plant would close, likely come off-line in the first half of the calendar year, and we saw that announcement in the third week of January. This helps to correct the supply imbalance between beef packing capacity and the declining fed steer and heifer availability accelerated by the past two years of drought.

We are pleased Japan is going to open to 30-month and younger cattle. Japan was historically a good market for a variety of meats, which was limited by the 20-month age restriction. We anticipate realizing more revenues from the Japanese rising meat market the coming months. For box beef products, the items Japan imported were already being exported to other countries, but this news should help overall beef export demand in future months. Our focus will continue to be on maximizing the total revenues and managing for margin. I think our results in the first quarter, and our response to market conditions, demonstrate our ability to anticipate change, get plans in place, and execute. I'm proud of our team, and have every confidence in our ability to keep it going.

That concludes our prepared remarks. Operator, we're ready to begin Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from Farha Aslam. You may ask your question.

Farha Aslam - *Stephens Inc. - Analyst*

Congratulations on a really strong start. Our first question is on chicken. You have just finished the foodservice contracting season. Donnie, you had highlighted that only 10% of your contracts are now fixed. Could you just share with us how you felt about the level of pricing and flexibility you were able to get, and what gives you confidence to be able to say that chicken should be in the normalized range in the second half?

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

So we're pretty satisfied as we have come through our negotiations, not necessarily just on the food service side, but also retail on pricing. It has been very important to us to continue to work down how many annual fixed price agreements we have, and as of now, coming into calendar 2013, we're at 9%, which is, if you will remember, dramatically less than where we were, say, four years ago. Farha, we have also seen an increase in the amount of product that is sold where pricing is tied to some part of the input cost. Grain-based pass-throughs, those types of things, which gives us more confidence going into the year. But I will tell you, too, our service, our quality, our innovative capabilities, all those are part of the selling story, and we're getting paid for that.

So we are pleased. Now a lot of that pricing will be coming into play during this quarter. Some of those contracts don't roll over until first of February, first of March, those kinds of things. So we still have to work through that in this quarter, but that's what gives us a bit more confidence in our back half.

Farha Aslam - *Stephens Inc. - Analyst*

That's helpful, and then, perhaps a follow-up on beef. Since your last outlook, you have seen Cargill closed a plant. You have seen Japan open up. In your release, your outlook on beef was exactly what it was last quarter. Could you share with us, is it conservatism that's keeping your outlook the same, or is it something else?

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

Oh, it's conservatism. We somewhat anticipated that sometime during this year we would probably see some capacity come out, and we'll see as Japan comes on stream, we're hopeful to get a good share of that variety meat demand in boxed beef. It's really just conservatism until the market shapes up and we have a better forward view. But it all looks fairly favorable going forward.

Farha Aslam - *Stephens Inc. - Analyst*

Thank you very much.

Operator

Thank you. Our next question comes from Heather Jones. You may ask your question.

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

Congratulations on the quarter. A real quick question on beef. I just wanted to confirm, because you said in your prepared remarks, I want to make sure everyone is clear on this, but in your guidance, on your Q4 call, you talked about being below the normalized range. So you are saying that, when you gave that commentary, you had anticipated some kind of capacity rationalization.

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

Yes. We had no idea where that might happen. Over time, as that was starting to shape up and we started to see the steer and heifer supply diminish with the calf crops, accelerated by the drought, just knowing that history would likely repeat itself. We thought it would happen, we just didn't know where.

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

Okay, thanks. Then on chicken, demand has been really strong. But if you look at the past couple of months, production has been up pretty substantially, and that's even before we started seeing expansion in the egg sets, and now we're starting to see some expansion in egg sets. Does that concern you at all, or your outlook for chicken demand, is it so robust that you believe overall demand can absorb these kind of production increases?

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

Heather, this is Donnie. So I use a six-week average. So as we look at the last six weeks, poultry slaughter pounds have been up 2.7%. A lot of that has been driven by weight, because placements have been just shy of 1% up in that time period, and slaughter head has been up 1%. So we're picking up about 1.7% of those slaughter pounds in weight. January is typically a pretty strong month, and I think typically, you would see weights come down during the month of January. We run a lot of Saturdays in January, it's just a good volume month.

But let me give a little bit, and this is going to be on fresh chicken. Let me give you a little bit of recent data, which gives us some optimism going forward. If you look at the last -- I'm going to start at 26 weeks, fresh chicken pounds are up 2.8%. Dollar sales are up 8.5%. If you tighten that up to a 13-week view, pounds are still up 2.7%, dollar sales are up 9.2%. Now, if you go to the last four weeks, fresh chicken pounds, and this would be sold at retail, is up 4.3% and dollar sales are up 10.6%. So what we're beginning to think, and it will take a little bit more time to flesh this out and see if we're right, but what we're beginning to think is that with all of these pressures on consumers today, maybe we are now seeing a legitimate shift from red meat proteins into chicken. And if that's the case we will be able to absorb the 2.7% slaughter pound increase and still maintain the margins and pricing.

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

Okay, perfect. Thank you.

Operator

Thank you. Next question comes from Akshay Jagdale. You may ask your question.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Congratulations. So I'm going to focus on chicken as well. So just on your second half outlook being more positive than before, I'm trying to get to the bottom of that. So the way I see it, from three months ago, supply has exceeded everyone's expectations, grain costs are flat, and prices have been much better. So I mean, just what you said two seconds ago about pricing being stronger, tells us that demand seems to be stronger than anyone had expected. So I'd love to get some color on it. You talked about a share shift, but we've been talking about that for three years, and it's sort of never has happened, where people are eating more chicken now, because beef is too expensive. So I just want to get more color on it.

And more importantly, what are the chances that supply outpaces the demand? So if every chicken company starts seeing this as a positive trend, they are going to step on the accelerator and get supply up. I know you are not doing it because you are buying in the open market, but help me understand that, because I think that may be what's driving your more positive view on demand.

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

Okay. So I'm going to touch on a couple of things. If you look at our pricing in Q1, remember, we do a lot of price negotiations in the fall, November, December, that time period that will kick in, in January, February, March too. But in the fall, pricing covered the incremental grain, I think grain was up 160, 170. And pricing -- well, not necessarily just pricing, but price, volume, and mix covered that. So we would expect that, or we do expect that to continue, particularly in our business. Now, you mentioned the production is up higher than what we thought. Yes, but as if you look at industry benchmarking services, 75% to 80% of the industry on a contribution basis is profitable. We wouldn't have thought that four or five months ago, either. So it does appear from anecdotal evidence that pricing is covering a lot of the input cost, and that had to happen.

One other thing about our business in particular, and you noted the fact that we remain a buyer of raw material, and now we're buying probably 45, 50 loads a week, something like that, of breast meat or averaged that in Q1, anyway. But our value-added poultry business also grew, round numbers, call it 4%, and that category was probably down close to 3%, in terms of center of the plate protein, frozen and frozen meat snacks. In Q1, we grew our value-added in an environment where it was down.

We have a lot of promotional activity planned for subsequent quarters, and the combination of those things are what gives us confidence in the back half. And, two, we mentioned before, we got some cost levers that we still have to pull and other things that will be coming to fruition, too. Our guys have done a great job in live production. So I better leave it there. I could go on and on.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

So just one follow-up there. So, basically, is it fair to say that Tyson -- you feel comfortable today that you will achieve normalized margins in the back half, basically no matter what the industry is going to do on supply, right? There's some limitations to supply increases, we know that, but do you feel comfortable saying that? It seems like it's more a Tyson-specific confidence.

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

Based on what we see today, absolutely.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Perfect. I will pass it on. Thanks.

Operator

Thank you. Next question comes from Ken Goldman. You may ask your question.

Ken Goldman - *JPMorgan - Analyst*

Can we talk about Prepared Foods for a second? I'm just curious, you mentioned a couple things in there that explained why your EBIT was down year-on-year. How long should we expect those items to continue to impair the margin there? Things like investing in the lunch meat business, for example?

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

Yes, I think we mentioned on the last call we are going to make a fairly significant investment in our Houston lunch meat plant. While that investment, the equipment that we are putting in there, will take a few weeks, by the way, to actually -- for the work to happen, so we're in the process of building up and getting our product in place, so we don't have any service issues during that shutdown. That always adds some incremental cost. So I would say over the next quarter and a half or so, call it four or five months, it is going to impact us a little bit, but the results coming out of that will be very good for our business.

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

During the interim, we will be less efficient than we want to be to maintain that service level.

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

And that lunch meat piece in Prepared Foods, by the way, is the piece that is the drag on earnings.

Ken Goldman - *JPMorgan - Analyst*

Just to follow up on lunch meat as a category, it seems to be getting some good attention from some of the larger manufacturers out there. Seems to be some more innovation coming. Can you talk about that category, what you are seeing there right now. Is it rational? Is there more innovation coming? Do you think it is going to be as good a category as perhaps some of your competitors do, over the next year or two?

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

For the year, let's go to 52 week-ended. Actually, lunch meat category in dollar sales was down 1.9%. So what that means for us is innovation. We're working on several items. I would spread that past lunch meat, too. Let's called it processed meats. It may include dinner sausages and other type of Prepared Foods items. Particularly in lunch meat, we've got several different flavors of chicken lunch meat which are doing very well. I think you will see some innovation in the lunch meat particularly, but in our Prepared Foods, don't just think lunch meat. Think a little more broadly to smoked meats and other processed meats. We've got a lot of innovation that we're working on that we will be bringing to market over the next six to eight months or so in that category. So we feel good about that.

Ken Goldman - *JPMorgan - Analyst*

Thanks.

Operator

Thank you. Next question comes from Christine McCracken. You may ask your question.

Christine McCracken - *Cleveland Research Company - Analyst*

You mentioned the higher weights that we've seen in chicken, here. And maybe the seasonal effect. But we had an awfully warm winter last year, and it didn't seem like there was a lot of stress. I'm just curious, if you think that guys are moving back to larger weights given the optimism in the chicken markets, and what that might mean for pricing over the summer months?

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

I see no evidence of that, and I draw that conclusion from this stat. We, over the last year to 18 months, are typically about 20 points below the non-Tyson industry average on weight. And so we continue to be, over the last six- to eight-week average, 21 points below the average non-Tyson weight. Now, our average weight is up a little bit versus what we planned, and that is a function of the good weather in Q1, but we're running hard now. We got really strong demand, as we add Saturdays, we're pulling that weight down. So I would suspect -- that anecdotal evidence would tell me that industry weights are up because of weather, not for any other reason.

Christine McCracken - *Cleveland Research Company - Analyst*

Great. Just as a follow-up, you have got feed costs coming into the summer, presumably could spike here with the tightness in the grain specs. I'm just curious if you would comment on your exposure to grain, and where you are on that?

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

Our Q2 cost of goods is pretty much baked in. We've got probably, as we normally do, three or four weeks of coverage, two or three weeks of coverage in corn, about the same on meal. We view that grain futures are probably going to trade somewhere like a $7, $7.50 range. You may have some temporary moves a little bit below that or a little bit above that. As we move closer to the low end of that range, we add to our position.

And then as we get up into the upper part of that range, we -- what we call, we grind our coverage. And so, we would continue to do that going into the spring. I think we're all looking for big plantings. As we get closer to the end of March that's probably going to have some psychological effect on the market. But from there on out it is going to be weather.

Christine McCracken - *Cleveland Research Company - Analyst*

Thanks.

Operator

Thank you. Your next question comes from Ken Zaslow. You may ask your question.

Ken Zaslow - *BMO Capital Markets - Analyst*

Can you compare and contrast the implication of Cargill's closure to the closure of your Emporia facility?

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

Yes. Specifically on all the moving parts? A little bit more on the question, for clarity, just for me so I know where to focus my attention?

Ken Zaslow - *BMO Capital Markets - Analyst*

Well, I guess when you closed your facility, beef packer margins from the industry standpoint moved up, probably $60 per head, within four to five months, and stayed pretty positive for two years. So I guess what I'm trying to figure out is why that would not be the case, and -- or maybe it is the case. I sense your sense of conservatism, but if you could compare and contrast the environments then and now, is there the likelihood that you can that have same situation where, by fourth quarter this year you guys could be back in your normalized range? Maybe you won't be there for the full year, but maybe will you be there for the fourth quarter and going into 2014.

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

Let me add a little bit more color to that. I clearly understand what your question is. When we did Emporia, there was excess slaughter capacity, and we had a plant in Emporia that really was deficit cattle. It was on the eastern end of that cattle feeding zone. And so we were inefficient in that plant, predominantly from freight cost moving cattle. But what we did was, we only closed the slaughter portion of that plant. And at that point in time, our other operations were fairly inefficient, because they were trying to manage a very value-added mix, which was decreasing their daily efficiencies and their hourly efficiency.

So our boost to slaughter capacity wasn't just from the shift in capacity utilization and basis in that region, it had as much to do with the fact that we were able to balance our value-added mix by moving certain products to Emporia to continue to add value to them through more trimming, boning, and on semi portioning, then our other plants' efficiency improved dramatically from both a daily efficiency and an hourly pounds per man-hour efficiency, so we got a good boost in addition to that. If you simply look at what's happened with this announcement, it was 4% of the fed steer and heifer slaughter, daily capacity, and it was 10% roughly from my estimation in plants in that greater region of about 300-mile zone from there. So does it a lot of good to try to adjust the excess slaughter capacity, particularly in that region.

I'm just hesitant to put a number on, at this point in time, on how favorable it will be. It will be favorable over the long run, and so we're optimistic. But I wanted to give you a little bit more thought on -- there were more changes than just the pure slaughter capacity, capacity utilization that happened at Emporia, because we were able to improve our operations dramatically in our other plants, as we moved product to Emporia for further processing, and Emporia was generally in the freight lane, where that product was headed anyhow. So we had a lot of other gains from that.

Ken Zaslow - *BMO Capital Markets - Analyst*

And my follow-up question, which happens to be in a different position, once you are done with the reinvestment in the Prepared Foods, why would your margins not structurally be higher? Would you be thinking about increasing your quote-unquote normalized range margins for that business? If you're spending this much money, why wouldn't you think that normalized margin in 2014 would be higher?

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

Well, we are optimistic about our business going forward. It will have a lot more to do with -- hey, we're putting $30 million into one of 22 locations. So that, in and of itself, is not going to change the whole game for us, but if you will remember, we've expanded capacity in our pepperoni facilities. We continue to work this segment hard, because we think there is a lot of growth there. And over time, we do expect it to not only grow but to expand. But to link all of that to what we're doing in Houston would be a little too optimistic on that change. Jim, would you add anything?

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

We needed to get ourselves more efficient, more productive, and that change, we expect to be fully incremental. But, again, that base is so big, that's why we haven't really thought about at this point quantifying the total impact of the whole. And again, there's other moving parts in that Prepared Foods segment. That's very diverse segment in our company.

Ken Zaslow - *BMO Capital Markets - Analyst*

Thank you.

Operator

Thank you. Your next question comes from Ryan Oksenhendler. You may ask your question.

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

Can you just talk a little bit about the export markets for each protein? Specifically pork, Jim, I guess I was surprised to hear you say that exports would be down in the year. It seems like there is plenty of pork in the US. You keep hearing about Europe cutting significantly, maybe on the order of 5%, and that the US would pick up some market share in the export market. So, can you just talk about that? Maybe what needs to happen for chicken to get leg quarters above that $0.51, $0.52 level?

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

Let me talk about all three. Specifically, pork, and there's a gap here, you've got to get into our fiscal year, which included October, November, December in 2012. That looks like at least through November was down, and I think December will be down, keeping in mind that the prior year was so big. And then January, February, March of a year ago was a very, very strong export quarter for pork. You are right. Europe production should be down. My other reason to state that I don't think it will be as great as last year, I think it will still be a very big year, probably the second biggest year as the current issue on ractopamine in pork into Russia, that probably will need some time to get resolved. But it very well, I could -- I have been very wrong on projecting exports before, but against just those two strong -- our first half months last year, it looked to me like it would be a difficult chore to equal them or surpass them, but they will still be very strong. So that hopefully gives you some color on pork.

Beef, we're very encouraged with the opening of Japan to 30-month and down, predominantly on that variety meat side, but also we think that increases the demand over the bulk of the items in beef that were going to other countries, and we expect to see some of domestic disappearance and some increase in pricing as we go forward. On chicken, we expect to see exports to continue, we expect to see continued diversification from Russia, we see some more interest across other parts of the world, potentially Egypt, potentially Africa, the Americas. We were not anticipating a major shift into Mexico, so we would consider, even though chicken exports were up 4% year-over-year on the best estimate against the calendar year last year, we don't really see anything negative going forward. We might see a slight increase, or potentially even more increase. Again, world supplies of chicken seem to be pulled back, particularly in South America, and across some other countries. So it's very possible that we could see an increase in overall chicken exports.

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

All right, thanks, Jim, I appreciate that. Dennis, real quickly, I was surprised by the cash flow generation in the quarter, despite the inventory build and higher grain costs. Can you give us a target for the year for free cash flow, or cash flow from operations?

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

We don't really give any kind of guidance along those lines. You can certainly expect it to continue to be strong for the year, and when we get back to what we always say about our priorities for excess cash, and that's to invest in growth through CapEx and acquisitions, still in acquisitions that might help us with our value-added strategy or international, then returning cash to shareholders.

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

Thanks, guys. Congratulations.

Operator

Thank you. Next question comes from Tim Ramey. You may ask your question.

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

Good morning. Thanks a lot. Jim, thinking back to ancient history, I recall how helpful --

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

Beyond you and I, or --?

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

Well, I recall how powerful some of those variety meat sales were to Japan. It seemed to me like it there was a tendon that if you sold it, it was worth $10 a head, something like that. So the increment on just the variety meat sales was meaningful on a per-head basis. Can you just refresh my memory on how that all works?

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

Yes, and that's why we called out the category as a whole variety meat, because Japan, pre- the closing of BSE in 2003, we had very strong sales of tongues, skinned tongues, leg tendons, a variety of intestine products for Japan particularly, those items were in high demand. They were both through -- predominantly through the food service trade in Japan, and some through the retail trade. But we're hopeful, particularly that we'll see those items rebound. I think it will take a little bit of time to get those items back on the menu, back through a variety of items. Tongues, we think will happen fairly quick.

Our whole thrust during that period of time was to really try to be the high -- get as much market share and add as much incremental value to the animal as we could. Again, try to always drive our position of being the best revenue net cost player in the region. So I'm optimistic. You're right, those are very good items from a contribution margin standpoint.

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

I had forgotten about the tongue thing, but that was like $4 a pound versus $0.40 a pound.

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

My memory is a little fuzzy, but I think skinned tongue was north of $12 a pound at that time.

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

Wow. And compared to, what's the alternate?

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

Just a basic tongue would be, probably, I haven't checked lately, so I have to guess, but I think under $1 a pound. I could be wrong. I haven't checked lately.

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

Great. That's what I was looking for. Thanks so much.

Operator

Thank you. Next question comes from Diane Geissler. You may ask your question.

Diane Geissler - *Credit Agricole Securities - Analyst*

I wanted to ask about your capital budget. I know in the last few years it's been a large percentage of your capital spend has been spent on efficiencies and modernizations within your existing processing base. You probably have reached the tail end of that, so obviously you are doing some work in the three facilities on the value-add side, but could you just talk about what is your maintenance CapEx at this point, and then sort of how would you break your CapEx budget by value-add efficiencies and international?

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

That's a great question, Diane. As we came into the year, with grain spiking late in August and September, we took our budget down to $550 million, as you know. Jim has recently met with all of our business leaders, and approached them about going back into their capital lists, and determining if they have projects that meet certain criteria, that being growing value-added, not just having a good marginal internal rate of return, but also driving that business unit's return on invested capital into that 20 range or above, which is what we're looking for, and asking them to re-look at some projects and see if some of those might need to be accelerated.

So there is the potential, as we go through the year, that our CapEx would be a little higher than $550 million. I have to hasten on to say, projects don't usually happen in the month that you approve the capital. A lot of those take three, six months, that type thing. So that may have a little more impact on our 2014 CapEx spend than this, but it could have some effect on this year, but we continue to look at those things. We are laser-focused on growing value-added poultry and our Prepared Foods business. International growth, we're trying to build chicken houses in China as fast as we possibly can, and if we get ahead of our plan we will absolutely put the capital in place to get those houses built more quickly than what we had planned going into the year. Then as Dennis said, we still view there's a lot of potential in our business, and that's one of the levers we have in using our cash, but depending on how things go, and what our free cash flow is, we'll continue to return cash to the shareholders as well.

Diane Geissler - *Credit Agricole Securities - Analyst*

Could you give me an idea about what your maintenance CapEx is, and what are the percentages for the programs?

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

In round numbers, $225 million, $250 million, something like that. That would be a pretty close.

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

That would be pretty close. It ebbs and flows, particularly on roof projects, big mover in there. And then freezer replacements. Our whole philosophy on those is we want to keep them current, but we don't want to basically pull ahead our maintenance spend. We spend a lot of time managing capital on the planning side, and balancing between the projects that require return, versus those with purely maintenance. So our groups do a fantastic job of really planning our CapEx needs. But we look out actually over a two-year period.

Diane Geissler - *Credit Agricole Securities - Analyst*

Okay. Thank you for that commentary. Jim, I just wanted to ask, on the flow of cattle this year, I think last year, you benefited a little bit from a shift out of Texas into the northern plains, but we didn't see El Nino, so I'm just wondering if you expect to see a reversal of that this year at all, and maybe that's some of your hesitancy about third and fourth-quarter supply/demand and what's going to flow through your plants?

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

The key number I really watch is where the cattle placements are and what's on feed, state by state, and you are seeing numbers year-over-year down in Texas and Kansas, and up in Iowa and the Pacific Northwest. So we are seeing cattle feeding shift around to some degree. I don't know how much of it is weather related as much as it is just a combination of grain basis, cattle basis, and cost of gain differentials between the regions. But that seems to be the primary driver, but you are definitely seeing some shifts when you just look at the cattle on feed by state.

Diane Geissler - *Credit Agricole Securities - Analyst*

Okay. Great, thank you.

Operator

Thank you. Our next question comes from Ann Gurkin. You may ask your question.

Ann Gurkin - *Davenport & Company - Analyst*

Congratulations as well for great start to the year. I wanted to ask about this overall production outlook in the protein, with the numbers down 1% instead of 2%. Is there any risk that we'll have a build in supply and maybe won't realize pricing as much as expected? Is there any kind of potential cap on the upside in pricing?

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

Well, and is that the pricing across all proteins?

Ann Gurkin - *Davenport & Company - Analyst*

Across all proteins, yes.

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

I mean, I really think we've got a fairly good grasp of what the fundamentals are going to look like. We have not just pricing, but also mix opportunities and growing value-added that helps us get into categories that are less price-sensitive. I think that what we're seeing coming into the year is that with the payroll tax increase, gasoline prices doing what they're doing, the consumer is feeling these effects, but they're not eating less meat, they're eating different meat. Jim, add anything to that?

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

I would, because I think, overall, proteins we're not going to see a major shift up. We're still thinking they're down 1%. The mix is changing, because beef will be down more, pork will be flat up to slightly, and chicken up slightly. But I think the last quarter's perishable data is pretty insightful, particularly when you look at the price of beef being very high, and then you look at the wholesale prices of beef being up with actually flat pounds because carcass weights contributed so much to the pounds that were available.

Chicken up, that 8.8% on price with 1.1% or so increase in pounds, that really starts to tell me that the price spreads are starting to be felt and noticed by the consumer, and they're shifting their patterns. So if beef continues, which it is likely to increase and inflate the price with decreased supply and probably the influence of exports, we will start to see the consumer probably continue to have some more interest in chicken, and hopefully we'll see that pricing hold together, and then pork, we don't really expect to see a major increase in supply, and that pricing elasticity seems to be right on target with historical demand planes. So I'm not overly bullish price, as the consumer will fight the increases, but the reality is, that balance is happening.

Ann Gurkin - *Davenport & Company - Analyst*

That's great. That helps. Thank you.

Operator

Your next question comes from Tim Tiberio. You may ask your question.

Tim Tiberio - *Miller Tabak - Analyst*

In light of relatively flat wholesale cut-out on the pork side, and lean hog futures, can you, perhaps walk us through why you are so confident that fresh pork margins will remain at or above your normalized range during the fiscal year? I know that, just looking at the spot processing margins, there's not always a one-to-one translation, but I'm just curious of whether you are more confident that we will see a rally in pork prices through the year, or whether you are just confident that you can outsource the market from a hedging and a hog supply perspective?

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

Let me answer that. Hedging has no real bearing on that, but if you did look at the last four weeks, the cut-out has climbed up. Belly prices have come up. Some of the retail have been a little bit flat, but the overall cut-outs have come up. But our focus is always watching the forward supply against our sold position and trying to make sure that we focus on adding as much revenue and keeping our cost in line. So it's always that slope of change equation that we really look at, try to make sure that we're not overselling against what we think the forward supply, or underselling against what we think the forward supply, so we can try to maintain that spread as best we can. And if you look just at Q1 versus a year ago, we still had a very good quarter, but we had more pressure on the cut-out, and it just took a little longer for the hog costs to correct.

Right now in this quarter, that's the way it started out. Now it is starting to change as we come through January and into February. So, I don't know, hopefully I didn't confuse you, but we're very confident that we can maintain our relativity to the market, and keep our focus on maximizing our revenues, and keeping our costs in line, and we really try to read that forward supply as best we can, so we don't get ourselves out of balance. And that helps maintain our sold positions.

Tim Tiberio - *Miller Tabak - Analyst*

Great. Thanks for your time.

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

Hopefully, that will throw more color into it without having to get real precise.

Operator

Thank you. Next question comes from Vincent Andrews. You may ask your question.

Vincent Andrews - *Morgan Stanley - Analyst*

Nice results today. I just want to get a better understanding of this beef plant situation, and how it positively impacts you, because my understanding, from what I have read in the trade press, is that they are going to idle this plant, and the cattle that they were processing at that plant is going to, instead go to their other plants, which were running at lower utilization, so net, demand for cattle isn't going to change. I don't believe that you have a plant that's terribly near where that plant closed, but could I be wrong about that. So what are the dynamics that ultimately will help you out, if it is true that they are going to shift the cattle somewhere else?

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

First of all, we do have a plant fairly close to that. Again, my reference, when you look at where plants are, against what their USDA reported daily slaughter capacities are, and then you put the factor in of what's the practical limit of how far you can move cattle; somebody has to pay the freight bill. So that's why I just took a 300-mile radius, did my own research on what I've known on the area, and so that's roughly 10% of the capacity in that 300-mile zone out, in the greater panhandle, west Kansas, west Texas area. I don't know what Cargill's intentions are or aren't, I just know the reality that it costs money to move cattle, and who absorbs the freight will take the hit and the loss. So it should, in theory, improve the ability of the packer or to buy a more favorable basis for a while in that area, and improve the overall capacity utilization in that region for a period of time. So those are the points that just fit the overall supply/demand. Beef packing is a very regional play, because, again, the limitation and the expense of moving cattle any great distance. So hopefully that helps.

Vincent Andrews - *Morgan Stanley - Analyst*

Sure. Maybe as a follow-up, if I follow what you said correctly, you are saying they are going to be buying less cattle in that area, which will benefit you, but presumably they have to buy more cattle in other areas, which will --?

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

I didn't talk about what they buy. I just talked about the number in the area relative to the slaughter capacity in the area, which shifted. And then, again, and the practical reality of having the cost to move cattle.

Vincent Andrews - *Morgan Stanley - Analyst*

Okay. I can follow-up off-line. Thanks very much.

Operator

Thank you. Your next question comes from Robert Moskow. You may ask your question.

Robert Moskow - *Credit Suisse - Analyst*

Regarding beef capacity and processing capacity, do you think this Cargill move is enough to get the industry back in balance, or do you think there's other regions in your analysis that probably could have additional capacity reductions?

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

We'll know a lot more this afternoon, when the census report comes out, particularly as we look at the estimated calf crop from the spring in 2012. But with the decline we have been on and the overslaughter capacity, I think it is probable that we will see change going forward with some regional plants not having sufficient supply, and they will have to deal with it. We can't replenish the herd quick enough. Then the other thing, I think when you look at the cattle on feed report that we just saw, you saw that the heifer reduction in the numbers on feed was fairly sizable. So that we are seeing, what I would call a mild rebuild, but it won't -- it will be several years out before we realize that. So I do think there's still a slight imbalance.

Robert Moskow - *Credit Suisse - Analyst*

Okay. And, Jim, when we're trying to do the math around what the upside of Japan coming back online is, I quantify about 500 million pounds of a difference today between what they were buying before BSE, and what they're buying now. But then you and Tim started getting into tongues, intestines and tendons.

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

Those are the good items.

Robert Moskow - *Credit Suisse - Analyst*

Should I be adding up all the pounds of tongues, intestines, and tendons and figuring out $12 a pound, or should I try to think through the bigger cuts of meat would get you back to where you were before?

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

Well, the answer is both, but you can't -- I don't think we'll shoot tongues up to that, because now in Japan, that demand has to be probably recreated to a degree, and we have to get back in, and hopefully the Japanese markets start to consume the product. I think there will be a reasonable shift back towards US beef and increasing supplies. But I think it would be very premature to try to quantify all that at this stage. Our whole approach is always to try to meet what the customer's expectations, and get the innovation behind providing products that they can use, and just keep driving the overall revenue of beef up as best we can. So it's way early to try to start putting numbers behind those pounds and price relationships. And I think it is very difficult and not terribly meaningful to go back and look at what was pre-2003, because the dynamics in the Japanese demand structure have likely changed significantly.

Robert Moskow - *Credit Suisse - Analyst*

Thank you very much.

Operator

Thank you. Next question comes from Akshay Jagdale. You may ask your question.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Thanks for taking the follow-up. I have two follow-ups. One on chicken. Can you talk a little bit more about this inventory build? It seems significant. It looks like a 15% increase in what's in, at least from what I can tell, from your Q, year-over-year increase, and it's significant on a quarterly basis. I don't have much insights into that, so I'm concerned that maybe that's going to hit the market and impact pricing. So that's where I'm coming from on that. So if you can give a little bit more color, and basically give me confidence that it is not going to impact pricing negatively, that would be helpful.

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

Okay. I'll tell what you it is and I'll tell you what it isn't. What it is, is promotional volume, because of capacity constraints that we have to ramp up to get into -- it's a promotional build for a retail and/or foodservice promotion that will come in subsequent months. What it's not is leg quarters and breast meat that we couldn't sell. Our leg quarter inventory is in great shape. We're buying breast meat, so we're not putting stuff in the freezer, hoping for a better day. Those days are long past for Tyson Foods. But we've got to ramp up for some pretty good promotional activity coming our way.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Okay. That's helpful. Is that value added or commodity, the promotion?

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

No, that is value added, you bet.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Okay, great. Then just for Jim, on pork, we recently wrote a note on this, but the cut-out on a year-over-year basis, flat to down so far in the calendar year, hog prices are showing up in the futures curve. So if all packers do what you do well, which is balance supply and demand to manage the spread, that would imply that either the futures price is too high or packers are not going to be able to manage that spread, right? So my guess is the futures price for hogs today is anticipating demand that's more favorable than what we're seeing currently. Perhaps exports, China, that's my guess. But is that the right way to think about it? Because we all tend to do this, because the futures price is available, right? Can you help me understand that? How do you look at the futures curve on hog and your spread analysis?

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

The way we look at the futures curve, we go back and always check what the supply assumptions with pig crop report, et cetera, would imply going forward and see if they match, looking at really what the quarterly demand curve is against the total cut-out, against the domestic availability. If the supply looks like it is less, and going down, and if the price looks like it's right on the demand curve, obviously, tighter supply will drive it up. Then you have to anticipate whether or not there is a demand shift against your projected supply, what would shift it, generally speaking, export change can have it, or another dynamic, but generally when you look at pork elasticity curves off of the cut-out as an index, there's very few times in history that you see dramatic shifts. Swine flu would have been one in 2009. You would have seen some other shifts in 2004, but for the most part there is not a lot of deviation. That's how I look at it. Anticipating export shifts is the most tricky component of that, because it can create a shift in domestic availability that accelerates or decelerates basis of supply that is forecast against the pig crop report. Long answer but that's how we look at it.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

So, bottom line, do you think the futures curve today for hogs is overly optimistic, or --?

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

It appears to me to be so, simply because I don't see the supply deficit pulling the domestic availability back that hard.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Perfect. Thank you. I will pass it on.

Operator

Thank you. Our next question comes from Ken Zaslow. You may ask your question.

Ken Zaslow - *BMO Capital Markets - Analyst*

Appreciate the follow-up. Dennis, in your comments, you made an interesting point that the rolling four-quarter number is $1.97. And I guess my first question on this is, why reference that, and on top of that, if I go back, the rolling four quarters, both beef and chicken, are not in the normalized range. So what are your implications here?

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

Remember, on the last call, Ken, we talked about foreshadowing for 2013 that we'd do at least $1.90 again. We made the case. So the best way we know how to illustrate that we're going to do that is to tell you what the last 12 months was. So that would be the first part of it. You are right about beef and chicken being below the normalized range. We're performing well, and we're going to get better.

Ken Zaslow - *BMO Capital Markets - Analyst*

I guess the last question I have is, if I look into 2014, back half of chicken in 2013 is already going to be in the normalized range, beef seems to be potentially moving up. Which business will not be in the normalized range in 2014? It seems like all the businesses have a reasonable probability of being in the normalized range in 2014. Am I missing something?

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

Nope, you're right. Time to do that and keep improving.

Ken Zaslow - *BMO Capital Markets - Analyst*

That's all I wanted. Thank you.

Operator

We do have a question from Christine McCracken. You may ask your question.

Christine McCracken - *Cleveland Research Company - Analyst*

Just one follow-up. Jim, you mentioned Russia's ractopamine issues. We've seen similar push-back in China and the US. Is there any chance that the industry moves away from Beta agonists, and what does that many for industry supply?

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

I don't know for sure. I wish I knew. I think there's always a possibility of those things. Let's just say it would happen. Obviously the efficiency gain and the increased carcass pounds would be gone, so would you have a shift or decrease in pounds of pork produced, so that would be favorable on prices. Now, whether it offsets -- the price decrease offsets the loss of efficiency, and how that impacts the producer will be very dependent on the price swing accordingly in each individual producer's case on the contribution of that efficiency gain that he gets.

Christine McCracken - *Cleveland Research Company - Analyst*

And on beef? Wouldn't that exacerbate the issue that we have right now, and the weight gains we see?

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

Yes, same answer, it's just how much beef supply comes off if the growth promotants from Beta, or Beta agonist growth promotant went away, it would it take pounds off the market.

Christine McCracken - *Cleveland Research Company - Analyst*

We can talk more about it off-line. Thanks.

Operator

At this time I'm showing no further questions.

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

Okay. Well, thanks, everybody, for joining us today. As always, we're grateful for your interest in our Company. We're going to cut out and head over to the shareholders' meeting now, so we hope you have a great day and a great weekend.

Operator

Thank you. This does conclude today's conference. We thank you for your participation. At this time, you may disconnect your lines.