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EDITED TRANSCRIPT

TSN - Q2 2013 Tyson Foods Earnings Conference Call

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OVERVIEW:

TSN reported 1H13 EPS after adjusting certain items of $0.84. 2Q13 EPS was $0.26 and EPS after adjusting certain items was $0.36. Expects FY13 revenue to be approx. $34.5m.

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PRESENTATION

Operator

Thank you for standing by. And welcome to the Tyson quarterly investor earnings call. All participants are in a listen-only mode.

(Operator Instructions)

Today's conference is being recorded. If you have any objections, you may disconnect at this time.

Now I'll turn the meeting over to Jon Kathol, Vice President of Investor Relations. Thank you. You may begin.

Jon Kathol - *Tyson Foods, Inc. - VP of IR*

Good morning. And thank you for joining us today for Tyson Foods' conference call for the second-quarter of our 2013 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, Dennis Leatherby, Chief Financial Officer, and Jim Lochner, Chief Operating Officer. To ensure we get to as many of you as possible, please limit yourself to one question and one follow-up, and then get back in the queue for any additional follow-ups.

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

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

Thanks, Jon. Good morning, everybody, and thanks for joining us today. About a month after our Q1 call, we announced that our second quarter was going to be tougher than we anticipate. And it was. We achieved record sales for the quarter, but our earnings fell short of our expectations. And we'll unpack the reasons for that in a minute. Looking at adjusted earnings for the first half of the year, we're at $0.84 compared to $0.86 last year, off by $0.02. And as you're all aware, we're predicting a strong back half of the year. We are still projecting full-year adjusted EPS better than fiscal '12, primarily due to the performance we expect in the chicken segment. As I've said many times, I think our multi-protein, multi-channel, multi-national model provides for a balanced approach that enables us to take care of our customers and grow over time.

Looking at the macro environment, according to the Perishables Group, at retail, fresh meat dollar sales were up 3.5% for the 52-week period ended March 30 while pounds were flat, indicating higher pricing. In pork, prices were down 2.6% while pounds were up 3.4%. Total beef dollar sales increased nearly 2%, but pounds declined nearly 4%. Chicken benefited from customers' move away from beef. Pounds sold were up 2% while dollar sales were up 7.6%. Tyson, the number one brand of chicken in the US, drove category growth.

In the food service channel, February sales growth was negative, down 1.2% for the first time in three years. NPD reports traffic was flat for Dec-Jan-Feb. With QSR up slightly and full-service down slightly versus a year ago. NPD's preliminary report on March indicates QSR traffic was down by 1% versus last year. Higher gas prices and payroll taxes, bad weather and economic uncertainty all weighed on consumers. So, overall, food service traffic is about flat. But people are ordering fewer items when they visit a restaurant, which means volume is contracting by about 0.5%. However, many of our core categories, such as chicken, soup, tacos and wraps, have gained annual servings in this flat market.

NPD Crest predicts restaurant traffic in 2013 will not be as high as 2012 levels, even in QSR. And, given the slow rate of economic recovery, traffic is expected to be relatively flat through '14, as well. So, in this environment, how do we grow sales? In addition to the quality and service Tyson's known for, we must continue to provide product innovation to drive traffic and sales for our customers, whether they are QSR, a mid-scale restaurant, a big box retailer, a small grocery chain, a convenience store, a club store or a school district. Because of the weak demand, operators are more interested than ever in our new product ideas and business building opportunities.

Year-to-date, we've grown value-added sales by 3.3%, as we started filling up the innovation pipeline. As a reminder, we set an ambitious goal of growing value-added product sales 6% to 8% annually. We believe we'll get there. Our goal is to understand our consumers' needs and provide foods that meet those needs in every day part. Our focus this year has been on three categories -- hand-held or on-the-go, gluten-free, and no antibiotics ever. For a couple of quick examples, in support of the hand-held category, we're extending our current line with new whole grain items and bold flavors. Also look for gluten-free chicken nuggets and other gluten-free breaded products in response to the growing number of consumers who are following a gluten-free diet.

In the no antibiotics ever category, we'll build on the Nature-raised Farm's brand of fresh chicken, which was successfully launched in February. We just started shipping frozen, fully-cooked items under this new brand that features the attributes of no antibiotics ever, 100% all natural, vegetarian fed with independent third-party animal welfare certification. The Nature-raised Farms fully-cooked line includes whole grain and gluten-free offerings to meet the needs of a growing category of consumers who are looking for chicken with no antibiotics ever in their convenience foods. These are a few examples of the 90 new retail products you'll see this year in our aggressive product launch schedule. We're supporting these products through a significant amount of highly targeted MAP spending. And we're already seeing good return on our spend.

I highlighted some of what we're doing at retail. But I don't want to leave you with the impression that innovation is only in one channel. Working alongside our food service customers, we play a key role in developing many of the QSR new product features and promotions you've seen and you will see this year. We'll be introducing well over 100 new products in fiscal '13 in the various food service channels, including QSR, national accounts, distribution, schools, deli and convenience stores.

Speaking of which, as we've mentioned previously, we're focused on expanding our presence in deli and C-stores. We recently hosted the C-Store food service summit here at our Discovery Center. It was a big success. We didn't just highlight our existing product capabilities. We brought them new concepts and products to help C-store chains expand their offerings and drive new and increased sales. Several participants said it was the best industry event they had ever attended.

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To wrap up my thoughts on new product innovation, we've got a lot done, we've got a lot going on, and we've got a lot planned for the next few years. We're in a very unique position in our industry. We don't just sell our products. We help our customers see new opportunity in what our products can do for them. In the area of new product innovation, we're excited about what we do, about how we do it and, most especially, excited that our customers value what we do. I look forward to being able to give you more news in this area in the future as we achieve value-added growth while meeting our customers' needs.

Turning to our international business, I'm really pleased with our growth strategy and how that has taken shape. Our international operations have improved significantly compared to a year ago, primarily driven by great results in Mexico and Brazil. Now, obviously the avian influenza outbreak in China is troubling, and is detrimental to protein consumption in the short run. But I think long-term this validates our business model in China which emphasizes biosecurity, supply chain integrity and food safety. You may have noticed in our Earnings Release this morning that we had a $56 million impairment of non-core assets in China. And I want to explain what this is. Our team in China conducted a thorough assessment of our long-term strategy, and concluded that the capital investment needed to upgrade one of our older poultry complexes would be better spent in other ways. As a result of the change in expectations for this facility, we took an impairment this quarter. But I want to be clear that we are still committed to our strategy of Company-controlled birds in China. And we're looking into how best to use that capital.

My final thoughts are that we got this tough quarter behind us and everybody here is focused on what lies ahead. Not just for the rest of the year, but the next three to five years down the road. Whether it's new product launches, new categories, new distribution channels, training our people to perform at their highest level, or succession planning to ensure we always have a high-performing team in place, Tyson Foods is in a good position. And while our plans are ambitious, they're also realistic and attainable. Which is why I'm so excited about our future. Q3 is off to a really good start. And I believe we'll finish the back half strong and take a lot of momentum into FY '14.

That concludes my remarks. Dennis will now give 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. This morning we reported Q2 earnings of $0.26 per share, or $0.36 after adjusting for the $56 million impairment charge on non-core assets in China, and a $19 million currency translation gain. These adjustments had essentially no tax expense or benefit. And, as Donnie said, adjusting for these two items year-to-date earnings per share is $0.84, down $0.02 compared to $0.86 last year. Adjusted pretax return on invested capital for the past 12 months was 16%. Capital expenditures were $133 million for the quarter, and $290 million through the first six months of fiscal '13, as we continue to invest in projects for both our domestic and foreign operations, that will not only result in improved productive capabilities, labor efficiencies, yields and sales mix but also increase our ability to innovate and introduce new products to our customers. Operating cash flow through two quarters was $230 million, down from fiscal '12 due to increased accounts receivable from an uptick in sales at the end of the second quarter.

This past quarter we repurchased 2.1 million shares for $50 million under our share repurchase program. This brings our total repurchases over the past eight quarters to 29.4 million shares, for $550 million under this program. Including cash of $762 million, and short-term investments of $47 million, net debt was $1.6 billion. Total liquidity was just under $1.8 billion, remaining well above the upper end of our targeted range of $1.2 billion to $1.5 billion. Gross debt remained at just over $2.4 billion, and we still plan to pay off the convertible notes due in October with cash on hand. Net debt to EBITDA for the last 12 months was 1 time. On a gross debt to EBITDA basis, this measure was 1.5 times. Through March, net interest expense is down 26% compared to a year ago at $70 million.

Our effective tax rate for Q2 was 33.2% or 27.7% excluding the impairment of the non-core assets in China and the currency translation gain. Our average diluted shares outstanding for the quarter was $366 million. This reflects the dilutive share effect of options and convertible notes of $13 million. The impact of the 2.1 million shares repurchased during the quarter will not be fully realized until subsequent quarters.

So now here are some thoughts on fiscal '13 as a whole. We expect revenues of approximately $34.5 billion, down slightly from previous guidance. Net interest expense should approximate $140 million. The effective tax rate should be around 35.5% to 36%. And we've widened our CapEx plan to a range of $550 million to $600 million. Our priorities for excess cash remain, first, toward additional capital spending to continue innovating, improving and growing our existing businesses, such as the new products Donnie mentioned in his remarks. Second, acquisitions to fulfill our

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growth strategies around value-added products and our international footprint. As you know, we acquired Don Julio Foods in the second quarter. And we continue to look for opportunities that can contribute to our growth goals. And, finally, by continuing to return cash to our shareholders through share repurchases and dividends, as we've demonstrated recently with our share repurchase activity and increased dividend rate.

In closing, I would like to re-emphasize our confidence that our team will deliver strong results in the second half of the year. And that we will carry that momentum with us into fiscal '14, with our sights set on at least 10% EPS growth.

I'll 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 5.5% return on sales and $72 million in operating income in the second fiscal quarter. Our average sales price per pound and volume were both down 2.2% compared to Q2 last year. Pork exports softened during the quarter, which increased domestic availability by about 3.5% versus a year ago, negatively impacted wholesale pricing. In response, we chose to run reduced volumes in an effort to improve margins. We expect industry hog supplies to be flat but sufficient. And pork exports are likely to decrease slightly compared to fiscal 2012. However, we expect 2013 will be another strong year for our pork segment.

The Prepared Foods segment had a 3.5% return on sales and $28 million in operating income. Our volume was down 0.8% while average sales price per pound was up slightly at 0.3% over Q2 of '12. Volume was down due to reduced food service demand, although we maintained market share. To offset demand we're going after other business across the multiple channels we service, which we believe will improve our volume in 2014. Also in Prepared Foods, our lunch meat plant in Houston is undergoing a renovation project. And it should improve our results in fiscal '14 but it will be a drag on the segment in 2013.

Our Chicken segment is performing well and reported a 2.5% return on sales and $78 million in operating income. Volume was essentially flat while the pricing was up 6.2%. Without the impairment from our Chinese assets, the chicken segment has made $241 million the first half of fiscal '13, compared to $177 million in the first half of fiscal '12. This is despite an increase of $335 million in total feed cost year-over-year, showing how much our chicken business has improved. We continue to improve through capital investment and significant operational efficiencies. In the second quarter, we drove more than $10 million out of our cost structure through operational efficiencies, bringing the total to $39 million so far this year. We still expect to achieve $100 million in operating efficiencies for the year.

We've positioned ourselves to better adjust to rising feed costs by changing many of our sales contracts which are now formula-based or shorter-term in nature, allowing us to more readily offset rising input costs through pricing. Our annual fixed-price contracts are in the single digits, and declined further in Q2 compared to Q1. Additionally, food service promotion of chicken throughout 2013 should help drive volume of highly value-added products that are less susceptible to commodity pricing. This, coupled with strong demand at retail for chicken, are positive indicators for the strong back half of the year in the chicken segment.

Although our production has not been directly affected by avian influenza in China, demand has softened for the entire Chinese poultry industry. Concerns over AI, along with an antibiotic residue problem by competitors, have caused Chinese consumers to question their food safety. We believe our modern methods and processes will make our chicken the preferred product, and we'll be in a position to benefit in the long run. Our team in China continues to improve. And apart from this delay in demand, we remain on target with our production goals.

Turning to the Beef segment, we had a negative margin of 0.8%, with an operating loss of $26 million. Volume was down 3.9%, while price per pound was up 6.5%. We had several issues that contributed both positively and negatively to our results. There was a regional disparity in cattle costs followed by the closure of the Texas plant. Our southern plants had an improved relationship between beef prices and cattle cost, which did enhance our margins and improve our utilization. This was positive to our results. However, in some our northern plants, we had margin compression from the increased demand for cattle relative to the price of beef, which was negative to margins.

We experienced an increased operating cost compared to Q2 last year. These were driven by labor costs resulting from product mix changes and higher wages. We also had operational challenges, primarily in two plants, and we've taken steps to rectify the under-performance in these

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operations. Although demand for ground beef was good, overall beef demand was soft, apparently from the higher prices and the resulting consumer movement towards chicken. This was particularly noticeable in our premium beef programs. We were not able to realize optimum revenue for steak and roast cuts because supplies exceeded consumption. To rectify this situation, we have adjusted our cattle procurement strategies to reflect the softer demand and excess supplies from the premium grades. Looking ahead in beef, we still expect industry-fed cattle supplies to decline by 2% to 3% in fiscal 2013. There should be adequate supplies near our plants, although there could be periods of supply/demand imbalance. The operating environment and our performance have improved, and our beef segment was profitable in both March and April.

In conclusion, we've come to the toughest part of the year and are nearly equal to last year. We believe Q3 and Q4 will be significantly better than Q2, but they're not in the bank yet so we can't and won't let up. Our teams know what they need to do. Now we just have to go about the business of day-to-day execution.

That is the end of our prepared remarks. We're ready to begin Q&A.

Jon Kathol - *Tyson Foods, Inc. - VP of IR*

Operator, we're ready for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Ryan Oksenhendler, Bank of America-Merrill Lynch.

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

Good morning, guys. I just wanted to ask, regarding the outlook for chicken, as I look out for the back half of the year, can you see pricing accelerate as we've seen breast meat move here? And I know some of your contracts didn't really get priced until February, March, so we didn't see as much of an increase in the second quarter. And then is there any reason that that can't continue into fiscal '14, given the supplies seem to be disciplined here given the recent pullet placement trends?

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

Yes, couple parts. Let me take the first one. Yes, we do expect to see pricing improve in Q3 versus Q2 and forward into Q4. Certainly market's given us a good bit of help there. Looking on into '14, if you look at the pullet numbers -- and, by the way, the amount of eggs that are going to Mexico -- really don't see that supply is going to change much until -- timing would tell you sometime around late Oct/Nov, And, of course, then you're going into the Thanksgiving and Christmas market slowdown. So it wouldn't make sense for us to do anything on supply going into that period. So really feels like you'll carry a lot of momentum into '14 and on into the front half of the calendar part of the year.

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

All right. Thanks. And then just one follow-up. On the international, regarding bird flu in China, in terms of impacting your business, I know consumption has slowed. You originally had planned to be breakeven, I think in the fourth quarter, fiscal fourth quarter of this year. Has that changed? Can you give us an outlook for fiscal '14 and how that will impact earnings for next year?

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

Yes, it sure has, Ryan. I'd say it probably pushes out that breakeven mark for a quarter or two. Still in our sights, though. In terms of the business operations, we're getting our houses built on time, just like we thought we would. By the end of year we'll have about half of our production in Company-owned housing. That will feel really good going into the plants. So, whereas I thought maybe we'd be there in Q4, it's likely to be maybe Q1 or Q2 now '14. But you should expect sequential year-over-year continued improvements in international. This year, our international results minus the impairment in China, so let's call it an adjusted international results number, will be markedly better than last year. And then you'll see another improvement, we believe, going into '14.

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

Thanks, guys.

Operator

Heather Jones, BB&T Capital Markets.

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

Good morning. My first question is on beef. Using Hedgers Edge as a proxy, you guys' sequential and year-on-year performance in beef deteriorated pretty dramatically. Some of the things that you discussed in your prepared remarks were Company-specific, but some were issues that the whole industry struggled with. So I was wondering if you could give us a sense of magnitude of the Company-specific issues you referenced. And how soon those will be resolved so we could expect you to get back to your typical spread to the industry?

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

Let me address that. First of all, the North-South does make the Hedgers Edge, which is one number, a little bit more difficult to interpret. But, yes, we did have some specific, particularly related to our normal premium for, what we call the premium grade. And we saw the softness in demand, which put pricing pressure on that. And we usually lag how we pay for cattle based on what the lagging premium grades warrant. And we weren't rapid enough to correct that and push that premium for the higher-end grades, the Angus approaches, even the Prime were all soft. We didn't adjust that fast enough. And that was particularly, as well, in the Northern tier where the cattle did trade higher. So we really got hit, specifically in our Northern tier plants, with higher-priced beef relative to what the beef warranted, as well as paying more than we should have for the premium grades. So we have that corrected. And then we're working through getting our operational cost issue that I referenced in a couple plants. I'm comfortable that we'll get our arms around that and push forward to get ourselves back to where we normally are in beef.

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

Okay. As a follow-up, you talk about being in your normalized range for chicken in the back half. And I understand, given the structure of your business model, that your magnitude of improvement's not going to track like when the industry is improving as quickly as it is now. But, given what we're seeing with breast meat, given what we're seeing just with demand, there seems to be an acceleration in demand, should we anticipate you guys being at the high end of normalized in the back half? How are you thinking about that?

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

We're expecting, yes, to be in the high end. And we expect domestic chicken to do very well in this back half of the fiscal year. Again, we're seeing the pricing where we want it, our operational efficiencies, we're set up very well on understanding our demand and supply. So we're in very good

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balance, at least we anticipate to be in very good balance with what we know today. We're seeing a tremendous amount of features at food service on chicken products. And we're also seeing the same follow-through so far into early Q3 here, with chicken at retail continuing to show demand shift away from beef. So we're very encouraged with the back half on chicken in fiscal '13. And I do believe it will carry right on into '14, the way the supply structure is set up currently.

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

Okay, perfect. Thank you.

Operator

Tim Ramey, D.A. Davidson.

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

Good morning. Just wondering if you could give us any color on Japan and the increasing age and some of the specialty cuts that you might be able to ship into there at greater margins. Is that starting to flow? Are we seeing any real impact there?

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

It is now, actually. And if I think back a mere quarter ago when that was just announced, the enthusiasm was very high. And I fully well know that the lag time to get those supply chains, and get the customer base re-established into Japan, would take some time. And it did. So we didn't really see any positive benefit through the Jan, Feb, March period, to speak of. Although in March it started to heat up on the shipment side, and we're starting to see supply chain be re-established. In fact, the US, when I look at March, popped up 28%. And we got a very high share of that. In fact, when we track our numbers, our Tyson share into Japan was up 95%. So we feel pretty good. As well as the market for the non-muscle cuts starting to -- the interest is starting to expand there. But it's going to take a little bit more time than what everybody originally thought. And markets never move and demand never moves as fast as one wants. But I'm very encouraged with what I see going forward from the Japanese market on beef exports.

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

Okay. And if I could just follow up on China. You obviously have a great story to tell there, and I just don't know whether you can tell that story. It's always hard when you have these avian influenza outbreaks. Nobody wants to hear about chicken at all. But at the end of the day, your story is one that should be well received. Who's going to lead that charge? Is that the YUM! brands of the world that will do that? Or does everyone just want to be quiet a little bit for a while on chicken?

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

Tim, I think early there's just a consumer issue around AI and "Don't buy chicken, just don't buy it." And so demand has really dropped a lot. Particularly in the Shanghai area which is where our operations are. I think that's temporary. We believe that whenever the number of confirmed cases quits growing, let's call it a time clock, if you will, will begin. And then a few months after that consumer acceptance of poultry will be right back to where it was. The one thing that this unfortunate event has done is absolutely validated our model for extreme biosecurity, the best in food safety. Our supply chain is very well protected. And that's getting recognition. And so over time I believe that will continue to validate our model and we'll see the value from that. It's just right now we're a little bit overwhelmed with -- I don't want to say fear, but folks backing off from chicken. Jim, anything to add?

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

The only thing I'd add is, yes, the short term here we've seen the demand, but there's some long-term structural changes that appear to be in place. Particularly when you think about the wet market eliminating all live fowl chicken and other fowl out of the market. And you're seeing that fragmented, independent producer that got hurt hard, and the antibiotic issues in November, December followed with this. So we expect to see a reduction in that independent fragmented supply chain, which actually will position us on the rebound very well because we haven't backed off anything on our Company-owned controlled production. So, actually, the silver lining will be out in front yet. So we're comfortable with it.

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

Thanks much.

Operator

Christine McCracken, Cleveland Research.

Christine McCracken - *Cleveland Research Company - Analyst*

Just on a follow-up to the discussion on beef. You talked about some of the regional challenges and the pressure on margins there. Do you think there was any impact from the snow in May or the really cold spring we've had, in terms of the grilling season? And then how big a deal has this trade disruption been with China on the beta agonist?

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

The snow in May is always a surprise to everybody. But I don't think that's really negatively impacted cattle supplies. If anything, maybe slowed down the availability slightly. But that will quickly rebound. We'll have those clearly available through the balance of May, June, July, August. So I expect beef to be much like last year with a very strong back half, and it's certainly set that way, set itself up that way. Then I do think the cold weather has hurt consumption until recently when we've seen the cut-out start to rebound here in the last week or so. So yes, I think that demand -- again, we always make money in the slope of change, so when beef revenues are under pressure and they're declining, the cattle costs have to correct down to it. And vice versa, when the positive revenues are going up, the cattle costs tend to lag it up. So we're in that mode right now with fairly ample supplies coming at us.

The ractopamine -- any time you lose a market and you create more domestic availability, you put pressure on wholesale prices. And that did have some impact on beef. And it clearly had some impact on the pork wholesale prices because that domestic availability, as I referenced in pork, did go up 3.5% on a nominal increase in production pounds. So loss of markets does influence those wholesale prices, which ultimately influences the value of the hogs and cattle.

Christine McCracken - *Cleveland Research Company - Analyst*

Just as a follow-up, talking about that pork, that situation doesn't seem like it's going to get a lot better. Inventories are growing. How should we be thinking about it as we look forward? Seasonally I think you'll get a little tighter supplies here over the next couple months. But then looking into later this year, it seems like that growing inventory of pork and the inability of the US market to take that is going to be a big problem. How should we be thinking about pork long term?

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

I think from our margin perspective, I'm very positive, again, once we get through the typical April, May, is usually your tighter supply. There may be some pressure on the wholesale prices but I think that's largely built in. That lack of domestic disappearance through exports is already adjusted. So I think the balance will be there. And I actually expect us to come through and end the year very strong in pork margins. But there won't be -- I don't think we'll see the robust pricing that we saw in prior years either.

Christine McCracken - *Cleveland Research Company - Analyst*

Okay.

Operator

Ken Goldman, JPMC.

Ken Goldman - *JPMorgan - Analyst*

Good morning. On chicken wings, we continue to see frozen storage numbers climb. And there's a theory out there that inventories are rising in preparation for a pretty major national launch by a QSR. But at the same time, prices are soft for wings so it's not like all these wings going into storage instead of market are driving the price on shelf higher. So can you give us a bit of color as to what's happening there? And specifically, are there enough wings for a QSR to do a major national launch all at once? Or does it have to be piecemeal region by region, in your opinion?

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

Probably shouldn't comment on what a QSR might do. But let me talk about wing supply. Typically this time of the year prices are going to fall. You get out of the -- past March Madness, you're going to see prices drop. I'm grateful. Wings are currently trading upper $1.20s, low $1.30s, that kind of number. That's probably $0.25, $0.30 a pound above what the four, five year average would be for this time of the year. So I still think -- I like where wing prices are.

And typically what will happen, Ken, is folks like us, you get into the latter part of the summer deal and you know you're going to have a big wing season coming up, say call it Dec through March. Folks will start buying wings and further processing those, and putting those in inventory to get ready for big retail or food service features that are going to be coming during the next wing season. You're going to sell a whole lot more wings during wing season than what you could produce. So it gets a little soft this time of the year. It firms up. I'm sure if there's a QSR that's working on a promotion, that there's going to be plenty of wings to supply that. It may mean that wing prices are firmer next wing season, but we'll deal with that then.

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

The only thing I would add is the strength in the breast meat, breast meat trim prices probably are also long term going to supportive of the wing because you won't have the ability to go chase a lowered meat block in the boneless breast meat contribution to boneless wings.

Ken Goldman - *JPMorgan - Analyst*

Interesting. Urner Barry has jumbo wings at $1.10. You guys are seeing actual prices trade well ahead of that, it sounds like.

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

Yes. Most of what -- well, what I was quoting was probably the medium wing market, which is what we do. But, yes, jumbo would be about $1.10.

Ken Goldman - *JPMorgan - Analyst*

Okay. And then on pork, in the last month or so we've seen hog and pork prices jump higher. I realize of course part of this is seasonality. But the growth rate is higher than what we usually see this time of year so maybe seasonality isn't the only driver. We're still seeing -- I guess I'm curious. We're still seeing a very unfavorable dollar/yen translation rate, and export debt is not great. So I'm curious, in your opinion, why we've seen sequentially pork prices rise maybe more than what some of us would have expected lately.

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

A little bit of that rise when I look back at it, because we got hurt in the margins in Feb through March in that decline. And then they started to shore back up and that relationship came back together. But as of late, bellies were running -- they corrected back -- they were running up fairly sizable on increases, as well as hams, and loins were starting to show a seasonal increase. I was actually very -- maybe not surprised but I guess gratified on seeing the shore-up in pricing and the increase, suggesting, again, maybe that the retail consumption and overall demand was starting to show some strength. Particularly, as we said before, because this cold spring I do think has had a very negative influence on just purely the grilling rates. So maybe that's the sign.

Ken Goldman - *JPMorgan - Analyst*

Great. Thank you.

Operator

Diane Geissler, CLSA.

Diane Geissler - *Credit Agricole Securities - Analyst*

Good morning. I wanted to touch back on the China issue and maybe take it from a different angle. The Chinese consumer, it seems to me, has just been beleaguered with bad news about protein, between the feed issue, avian flu, dead hogs in the river and now rat meat. I have to believe that the multinationals that are operating there, and the government itself, is eager to move the professionalism of that industry, the variety of industries there -- hogs and poultry -- a little bit more quickly, just because it's been, I think, a little scary for the Chinese consumer. So what is the biggest impediment, in your view, to really ramping up what you have going there in terms of the biosecurity protocols and the vertical integration? And then can we talk a little bit about the margin structure, because I know you've said in the past that you're aiming for margins in that business to be in excess of what you experience in North America. And if you could just talk about -- I think on a normalized basis if you look at your current revenue base in the US in the poultry business, normalized would be somewhere $600 million, $700 million, $800 million in total operating profit. Do you see China as that kind of opportunity over the next five years?

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

Diane, let me go to the first part. You're absolutely correct. And I liked your term -- the beleaguered consumer there. And, remember, a lot of poultry consumers in China are still -- they are readily capable of moving back to a vegetable-based diet. And so that's what's happened. Now, I do believe that there's increasing concern on the part of everybody on getting to a more biosecure supply chain. As well there should be. So we think that portends a great future for our business. That industry is very, very, very fragmented. The number of true integrated suppliers is an incredibly small percent of the poultry in that supply chain. There's still white bird versus yellow bird -- a pretty good disparity between the amount of white birds

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sold in the market versus yellow birds. That market's pretty fragmented. And it's going to take several years for that industry to consolidate and integrate. But I believe it will because of the biosecurity concerns. So that portends well for our business. What hinders us is we're building chicken houses as fast as we can, and that, frankly, is our bottleneck. Our processing plants, we've got two big, beautiful processing plants. And our profitability, by the way, will improve dramatically when we are running those with Company-owned birds at a much higher rate than we are today.

Now, let's talk about our margins. If you look forward, we'll probably be somewhere around 3 million head a week when we look out into the latter part of FY '14 and FY '15. And our plants will be full and we expect then our margins to be above -- in a mature complex, we would expect our margins to be above the normalized range here in the US. Be thinking low double digits. Now, also, though, we do intend to grow our China poultry business fairly rapidly. And so you may not see a recognized double-digit margin continuously if we're bringing on new complexes, because we're layering in, if you will, some efficiencies, building for the future -- inefficiencies as we're building for the future. But we do believe, though, that on a per bird basis, our customers in that region will pay for the added value and the added biosecurity and food safety and that type thing that we provide. We are seeing our margins to wholesale in areas that we expect them to be. But I think maybe a lot of people underestimate currently the demand destruction in China. But I do believe, as I said a little bit earlier, that will correct itself as soon as the number of cases quits going up. Does that help?

Diane Geissler - *Credit Agricole Securities - Analyst*

It does. Can I just ask a follow-up on the chicken house construction, which is, I appreciate, a fairly specific question. Is the biggest bottleneck there the siting process? In other words, negotiating the rights to use the land? Is it your own construction capabilities? Is it training the people who are going to raise the birds? Or is it all three of those?

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

You've got really two things. Number one, the construction process, we can build the houses. There's plenty of folks over there, plenty of construction companies that can build the house. Obtaining the land use rights is a bit of a bottleneck. And then when we open up a new farm site, which may have up to 8 to 10 chicken houses on it, we'll double staff that site, and then train the next, if you would, live production crew for the next farm site that will open. So we're handling our training issues. It does impact cost a little bit. Not dramatically, but it does impact our cost a little bit. But the land use rights is the most difficult bottleneck.

Diane Geissler - *Credit Agricole Securities - Analyst*

Okay. Great. Thank you.

Operator

Farha Aslam, Stephens.

Farha Aslam - *Stephens Inc. - Analyst*

Good morning. Just first continuing on Diane's question on China and chicken, could you just share with us going into the second half of the year how you think about Mexico versus China? Do you think the improvement year over year in Mexico profitability will offset the level of weakness you're seeing in China?

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

Yes, definitely. Our Mexican operation's having a really good year. By the way, Brazil is profitable and doing very well. Still pretty small, but doing very well. So, yes, what we were expecting to see was the China group being breakeven or profitable during our fourth quarter. It doesn't look like that's going to happen now, but we do believe Mexico and Brazil will be more than making up the gap.

Farha Aslam - *Stephens Inc. - Analyst*

Okay. And then just turning to beef in the second half of the year, again, do you expect it to reach your normalized margin levels for the second half of 2013?

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

Yes, we're clearly headed into that zone right now. I expect it to be very similar and maybe even a bit stronger than the back half last year, just because April started out so much better than a year ago. A year ago April was a real tough segment in beef, if you recall. We had some issues relative to the ground beef segment and overall demand. We're not facing that this year. The biggest obstacle we've had is cold weather and consumption. But, again, that seems to be turning around now and we came through March and April in very good shape. That's why I'm very confident back into the back half, or the second half of the year, that we'll be very comparable or probably perhaps better. A lot of moving parts, but I certainly don't see any impediments in beef. And then the strength I think -- I'm a little more encouraged with Japan going forward than I would have been a quarter ago because we were early into that game. So I'm seeing enough positive signs.

Farha Aslam - *Stephens Inc. - Analyst*

Okay. Great. Thank you so much.

Operator

Robert Moskow, from Credit Suisse.

Robert Moskow - *Credit Suisse - Analyst*

Thank you. I went to a conference for the chicken industry a few weeks ago, and I thought that the message there was that the top chicken companies are making money right now but the majority of the industry is not. I look at spot margins, it doesn't look quite that bad. It actually looks like everyone's doing pretty well. Can you give us a sense about your quarter and whether you think you were in the top one-third of performers or not? And whether you think that there's an increased probability that the bottom one-third might be unable to increase production as the year goes on.

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

Rob, as I look at industry benchmarking data which we participate in, I would tell you that the majority of the industry is making money. Probably 80% or so of the industry ought to be profitable, at least at the operating margin level. And we continue, and now for months and months, operate in the top quartile of the industry.

Robert Moskow - *Credit Suisse - Analyst*

Got it. And a follow-up on China, maybe the ninth question asked. But you said that you chose not to invest in a non-core asset. What is a non-core asset in China? It's not your processing facilities. Is it something else?

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

We have a complex that, as we looked at it, in order to get that complex to, let's call it, perform at a level that we would have been happy with, the capital required to do that was going to be better spent in other ways. So our team over there did a thorough analysis of what it was going to take to get this complex to a level that we would have been happy with it long-term. And it just like to us -- or, it didn't feel like to us, the numbers showed us -- that that money would have been better spent put into other areas. So that's what we chose to do. But when we did that, it forced us to take an impairment on that complex.

Robert Moskow - *Credit Suisse - Analyst*

Donnie, what kind of complex is it? Is it one of these two big processing facilities or is it something else?

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

No, it's an older complex.

Robert Moskow - *Credit Suisse - Analyst*

An older complex. Okay. Are you going to shut it down or are you going to keep operating?

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

Too early to say. Undetermined at this time. We're working through all of our options.

Robert Moskow - *Credit Suisse - Analyst*

Okay. Thank you.

Operator

Akshay Jagdale, KeyBanc.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Good morning. Donnie, just looking at where you are today versus three months ago, grain cost guidance is roughly $0.26 to EPS better than before. Boneless skinless breast prices, if I'm not wrong, are the highest that they've been since '04. And chicken makes up 50% of your business. So, isn't the year shaping up net-net to be better even though you had a weaker quarter? That's the first question. And to elaborate on that, can you just be more specific about this quarter being off to a good start?

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

Yes. The answer to your first part of your question is yes, very much so. If you looked at our quarter on an adjusted basis, year to date we have absorbed $335 million in incremental feed ingredient cost. And I think on an adjusted basis we're probably --

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

$241 million year-to-date.

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

$241 million year to date, so $64 million better than the run rate of a year ago on an adjusted basis. In my opinion, that's really good. And we're taking a lot of momentum into the back half of our year. Pricing feels good. Now, we're not a commodity player, but we do have features and lots of things that price off higher commodity markets. So in a summertime kind of environment, we may not ever get to the high of pure commodity players. But you also won't see the lows during the other parts of the year either.

But, yes, Akshay, I think you've got a good read on it. We've got a great back half lined up. And when I say we're off to a really good start, what I'm talking about is that our margin structure is better than what we planned it would be going into this year. And we've been saying since -- well, since a month after our last call when we started talking about Q2 being a little tougher than we thought, we've been talking about a strong back half since then. And our margin structure's coming in a little better than that. So we feel really good.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Just to follow up on that, where are chicken margins today?

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

I can't answer that. They're better than we planned.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Okay. And then just again on the chicken business, it was a good quarter. But what I'm seeing -- and maybe I'm just reading this incorrectly -- is the revenue per pound sequentially was not as good as it typically is. So, one, am I reading that correctly? And two, can you explain what might be going on there? From the December to the March quarter, typically your revenue per pound goes up a little bit more than it did this quarter.

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

Yes, you are reading that correctly. And here's the deal. There's been a mix change. With the economy being a little softer, we've seen our mix change to more chopped and formed than whole muscle, what we would normally see. And so that mix change, the products sell for cheaper but don't think that translates necessarily into the cost, into the margin structure, because it doesn't. So, while our revenue per pound is down, our margin per pound is not. It's just a mix change to a more chopped and formed basis. And also too, although we've had significant pricing improvements in our fresh business, our fresh items, which might not carry the same revenue per pound as a further processed, fully cooked, whole muscle breast item, for example, still we're running a great business there. So the revenue per pound might not be up but our margin structure is really good. So I'm very happy there.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

One just last one on beef, if I may for Jim. You said you were tracking in your normalized range right now for beef. So should we assume that even if the cut-out remains in the 180, mid-180s, high 180s on beef, you'll still be able to do as good or better than last year?

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

As I said, we thought the back half would track there. And if the cut-out corrects because of any demand issues, which I don't anticipate we're going to see that degree of correction, but if it does, you're coming into the time of the year with the most plentiful supply. So to get the price of beef to the price of cattle relationship, this is the best time of the year to be doing that with the supply coming at us. The cut-out will be, as it always is, really a function of what the consumption is against the weekly supply. That's why we really pay such close attention to what meat is disappearing, and try to keep our offering in balance with what we have within our plants and what we see our cattle supply, and what we see the beef supply or beef demand and consumption going forward. But this is a time of the year generally, and historically if you look back, this back half is usually our beef packing's strongest time frame. Even if the price pressures on there, I think we'll get back and still in the back half approach what I said on normalized, or get within normal.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

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

Operator

Tim Tiberio, Miller Tabak.

Tim Tiberio - *Miller Tabak + Co., LLC - Analyst*

Good morning. Just a very quick question on Brazil. You were mentioning that results were performing very well there. Does this give you more confidence to maybe accelerate your investment in that market, especially as feed costs are falling a little bit quicker than even in North America on the soy meal side?

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

Yes. And one of our emphasis that's there is growing our value-added sales. So, yes, very much. We're happy with our Brazilian assets and are going to grow them.

Tim Tiberio - *Miller Tabak + Co., LLC - Analyst*

Okay. And just one follow-up question. In the lunch meat section, you mentioned that there was some cost pressures because of a new ramp in a facility. But are you also seeing any increased competition that would be impacting those results that we should be aware of?

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

Not so much. Our lunch meat issues are wholly our own. We're spending a lot of money down in Houston, getting that facility to a point that we need it to be. And when you're going to have an extended shutdown to change a lot of equipment out, we're having product co-packed. And working through all the supply chain issues to make sure we take care of our customers and all that. And that adds quite a bit of cost into the supply chain. We'll work through all that over the next four, five, six months. And we think by the time we get into Q1 of '14, our lunch meat business is going to be operating where it needs to.

Tim Tiberio - *Miller Tabak + Co., LLC - Analyst*

Great. Thanks for your time.

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Operator

Ken Zaslow, Bank of Montreal.

Ken Zaslow - *BMO Capital Markets - Analyst*

Good morning, everyone. Let me ask, in terms of 2014, do you think that the back half of 2013 is more representative of what you're going to be able to produce in 2014? Is there any businesses that you don't think will be in the normalized range?

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

The answer is yes and no.

Ken Zaslow - *BMO Capital Markets - Analyst*

So no, you don't think there will be any businesses that will not be in the normalized range in 2014?

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

That's correct. And I do think that the back half of '13 is indicative of the kind of performance that we should certainly carry into '14 and probably sustain. Now, Ken, you know all the fundamental issues and corn crop and all that stuff. What we can see, there we go.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay. In Prepared Foods, you gave a little representation of what in beef is being corrected. You continue to say that there's going to be a drag on Prepared Foods. Could you give a quantification of what that actually is?

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

Say that again. I missed your question.

Ken Zaslow - *BMO Capital Markets - Analyst*

You said that in Prepared Foods that there is a drag on earnings in the back half of this year from last quarter to this quarter, and continuing on for we don't know how many quarters but for a period of time. How much is that and when will that go away?

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

Hard to quantify because our team is busy minimizing that impact, as we speak. But I could tell you in the Prepared Foods, there's two things that are really impacting that segment. Number one, and the biggest majority of it is our lunch meat business, which we're working on. Number two is we had pretty soft food service demand in Q2. And it felt particularly heavy in our Prepared Foods business. We got a lot of new products that we're working on and a lot of things we're doing there. I tend to think that our Prepared Foods group will perform a little bit better in Q3 and Q4 than they did in Q1 and Q2. When we went through our quarter, I told them to quit digging a hole, and I think we're there. But it may, as we start into the quarter, I think they're just now at the point to where they're getting a grip on the rope like we need them to. So I think the worst is over there but I don't think we're going to fill in the hole very much in the back half.

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

The big change is in Houston as we modernize that. But the other lunch meat plants in that group have also added some new modern equipment to improve yields and labor efficiencies. We really just needed to get more equipment, to get ourselves more efficient and improve our yield and improve our overall quality. So that also applies to a less dramatic way in the other plant, other than Houston. So I expect, like Donnie says, to improve into this back half.

Ken Zaslow - *BMO Capital Markets - Analyst*

Great. Appreciate it.

Operator

Ann Gurkin, Davenport.

Ann Gurkin - *Davenport & Company - Analyst*

Good morning. Just wanted to review a question. With the outlook now for a 1% increase in domestic protein, and some discussion as to global demand and domestic demand maybe a little softer for different protein classes, and now looking for chicken production up 2% to 3% and pork exports down, can you just walk through what is the biggest driver to giving you the confidence to maintain guidance for '13, look for '13 to grow modestly maybe versus '12?

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

Let me start. That still boils back down to what we've seen in the Perishable data and other sets where beef consumption has been dropping, which has put price pressure generally on the wholesale cuts but not necessarily at the retail. So that's been the strength of chicken demand. And I don't know that I agree with personally some of the forecasts I saw on the overall, because they're all predicated on exports being down. I don't particularly see chicken exports declining going forward. And I think the pork decline in exports has already been built in. And we've seen those wholesale prices adjust. So, in other words, I think the beef, chicken switch has happened, and that will continue to support the chicken segment.

Ann Gurkin - *Davenport & Company - Analyst*

The outlook for the chicken segment, what gives you really great confidence for the year?

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

That, and the fact that if you look at the infrastructure, the pullet placements and the ability to rebound supply quickly, it isn't in there. You look at the egg sets to hatch, you're seeing more aged hens and less productivity, as well. So you're seeing enough signs that the supply chain will struggle to keep up. And even though, again, the real wild card has been on the pork exports, but I think that's largely built in.

Ann Gurkin - *Davenport & Company - Analyst*

Great. Thank you for your comments.

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

Before we go, I just want to re-emphasize that we're still on track for an adjusted EPS that exceeds last year's. For the first half of the year we're at $0.84 adjusted versus $0.86 last year. And we've done that with an incremental $335 million in feed cost. Tyson Foods is on pace for another very good year. So I want to thank you all for joining us today. And have a great day.

Operator

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

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