

07-Aug-2017

Tyson Foods, Inc. (TSN)

Q3 2017 Earnings Call

CORPORATE PARTICIPANTS

Jon Kathol

Vice President-Investor Relations, Tyson Foods, Inc.

Dennis Leatherby

Chief Financial Officer & Executive Vice President, Tyson Foods, Inc.

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

OTHER PARTICIPANTS

Kenneth Bryan Zaslou

Analyst, BMO Capital Markets (United States)

Adam Samuelson

Analyst, Goldman Sachs & Co. LLC

Kenneth B. Goldman

Analyst, JPMorgan Securities LLC

Robert Moskow

Analyst, Credit Suisse Securities (USA) LLC

Farha Aslam

Analyst, Stephens, Inc.

Heather Jones

Analyst, Vertical Trading Group LLC

Jeremy Scott

Analyst, Mizuho Securities

Akshay Jagdale

Analyst, Jefferies LLC

Michael L. Piken

Analyst, Cleveland Research Co. LLC

David Palmer

Analyst, RBC Capital Markets LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Tyson Foods third quarter earnings conference call. [Operator Instructions] Please note this event is being recorded.

At this time, I would like to turn the conference over to Jon Kathol, Vice President of Investor Relations. Please go ahead, sir.

Jon Kathol

Vice President-Investor Relations, Tyson Foods, Inc.

Good morning and welcome to the Tyson Foods, Incorporated third quarter earnings conference call of the 2017 fiscal year. On today's call are Tom Hayes, President and Chief Executive Officer; and Dennis Leatherby, Executive Vice President and Chief Financial Officer. Slides accompanying today's prepared remarks are available as a quarterly supplemental report on the Investor Relations section of our website at ir.tyson.com. Tyson Foods issued an earnings news release this morning, which has been filed with the SEC on Form 8-K and is available on our website at ir.tyson.com.

Our remarks today include forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements reflect current views with respect to future events such as Tyson's outlook for future performance on sales, margin, earnings growth and various other aspects of its business. These statements are

subject to risks and uncertainties that could cause actual results to differ materially from our expectations and projections.

I encourage you to read the release issued earlier this morning and our filings with the SEC for a discussion of the risks that can affect our business. I would like to remind everyone that this call is being recorded on Monday, August 7, 2017, at 9:00 a.m. Eastern time. A replay of today's call will be available on Tyson's website approximately 1 hour after the conclusion of this call. This broadcast is the property of Tyson Foods, and any redistribution, retransmission or rebroadcast of this call in any form without the expressed, written consent of Tyson Foods is strictly prohibited.

I'll now turn the call over to Tom Hayes.

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

Thank you very much, Jon, and good morning, everyone. Thanks for your interest in Tyson Foods, and we're glad that you could join us today on the call. Q3 was our second-best quarter in company history on an adjusted EPS basis, as we closed in on another record year. All 4 segments achieved adjusted operating margins in or above their normalized ranges, and total net sales grew 4.8% versus Q3 last year, with every segment delivering volume growth as we continue to stay focused on delivering growth for customers by satisfying consumers' appetites for protein and fresh foods.

In the third quarter, we completed the acquisition of AdvancePierre Foods, and you should note that our Q3 results include only 4 weeks of AdvancePierre. I'm pleased that we closed the deal quickly and got the integration off to a fast start. George Chappelle is serving as our Chief Integration Officer, and George was the Chief Operating Officer at AdvancePierre, and is bringing his wealth of experience in operations and supply chain to the integration effort.

As we look ahead to wrapping up a great year, we're tightening our adjusted earnings guidance to between \$4.95 and \$5.05 per share, and it excludes any benefit from AdvancePierre's results. We expect AdvancePierre to be a few cents accretive in Q4, which will be on top of our estimated Q4 adjusted EPS of between \$1.07 and \$1.17 per share.

As we move forward with the integration, we're energized by all the opportunities ahead of us. AdvancePierre has manufacturing and channel management capabilities that will propel profitable growth for the entire company. Given our successful start to the integration, we're highly confident we will exceed \$200 million in net synergies through our approach to financial fitness, which will encompass both companies. We'll update on our progress when we complete our planning process later this year.

The integration team is collaborating exceptionally well, and I want to reemphasize that we expect the synergies to be in excess of \$200 million, and their net cost savings will drop to the bottom line. This compares to the synergies from the Hillshire integration, which were growth synergies, and we continue to reinvest the vast majority back into the business for innovation, brand-building, and long-term growth. In the third quarter, we captured an incremental \$17 million above the \$150 million realized last year for a total of \$167 million in synergies for Q3.

Now let's move on to the operating segments and take a look back at Q3. In the Beef segment, operating income in the third quarter was \$147 million, with an operating margin of 3.7%. Sales volume was up 0.4% while average price was up 5.3%.

The big news in the beef industry this summer was that China reopened to U.S. beef imports, and we're proud to say that Tyson Foods was the first to arrive in China with U.S. beef. While shipments at this point are very small, we're optimistic. Chinese consumers prefer high-value cuts, and we think they'll appreciate the superior quality of U.S. beef. Too soon to know yet what this could mean for exports, but we believe there's great potential in this.

U.S. beef export demand was up 20% year over year in Q3. With ample supplies of cattle, we see very good conditions for our Beef business as far out as 2020 as we enter the early stages of a multiyear expansion cycle. Absent a shock to the system such as a drought or an import ban, our Beef business is well positioned for profitable long-term growth.

The Pork segment's operating income in the third quarter was \$136 million with 10.3% operating margin. Volume was up 0.6% while average price was up 3.3%. As with Beef, strong export demand was a key driver for our Pork segment, with U.S. pork exports up 10% year over year. Our operations performed very well, as we've maximized revenue and mix. There's been tremendous foodservice demand for bacon, which was the primary driver of the increased cutout.

While performance could moderate from Q3 levels as global competition increases and labor markets tighten, the Pork segment is expected to perform well in Q4 despite pressure from competing proteins.

In the Chicken segment, Q3 adjusted operating income was \$298 million, with a 10.4% adjusted operating margin. Average price was up 2.9% on 1.6% higher volume. Value-added chicken volume was up nearly 4% on the back of new product innovation and increased consumer demand for fully-cooked Tyson-branded chicken.

Higher prices for chicken haven't dampened consumer demand, and per-capita consumption is projected to reach a record high this year. Due to demand acceleration, we are experiencing capacity constraints in some areas, and we'll be pulling forward some capital projects to increase capacity and maintain high service levels with our customers.

In the third quarter, we successfully completed the rollout of No Antibiotics Ever chicken in the Tyson brand at retail, and the product is now in stores nationwide. In addition, we're extending our NAE attribute into our leading foodservice brand, Tyson Red Label.

In the Prepared Foods segment, our adjusted operating income was \$195 million in the third quarter, with a 10% adjusted operating margin. Average price was up 4.9%, while volume increased 2.4% due to a strong start to growing season and new product innovation.

Now I'd like to turn from the segment reports to our customer channels. In foodservice, small operators that are served by broadline distributors are showing the most growth. Our Focus 5 product lines, which are among the most profitable, are well suited to these small operators, and we're growing with our customers, as reflected by the 11% volume increase. This compares to category growth of only 2% over the 52-week period ending in May. In addition to the volume growth, we grew share by 1.9 points.

In the retail channel, Tyson retail packaged brands continue to lead in dollar and volume performance among the top 10 food companies due to consistent and effective brand building and innovation.

We've shown you these comparison slides before, but I want to point out that we've gone to a 52-week view to smooth out seasonality and holiday timing. I will be using a 52-week comparison going forward.

We're consistently growing and consistently outperforming the other large food companies in both sales volume and dollars, as we take advantage of consumer demand for protein and fresh foods. Total Tyson volume was up 5.4%, and our Core 9 businesses were up 6% compared to 0.2% increase for total food and beverage. In fact, Core 9 volume growth has outperformed food and beverage for 10 consecutive quarters, going all the way back to Q2 over fiscal year 2015. In dollar sales, total Tyson grew 3.2% and the Core 9 grew 3.8% compared to only 0.4% for total food and beverage. We grew volume share in eight of nine categories and dollar share in seven of nine.

As I mentioned here today and in our previous calls, we've achieved our leadership position through brand-building and innovation. Our protein-packed brands resonate with consumers. And at retail, this is evident when you look at how Tyson aligns with the retail category growth.

Growth areas are at the perimeter and as consumers are demanding high-quality fresh and prepared foods. Tyson is strong in refrigerated meats, where we're growing 7.8%; and in fresh meats, we're up 10.9%. We're bringing our foodservice experience and expertise to help our customers grow their Prepared Foods offering from the deli, and shipments are up 5% year over year.

Moving to frozen, which is a section that is down overall. We're driving growth in high single-digits behind two of our three \$1 billion brands, Jimmy Dean, Frozen Protein Breakfast and Tyson Fully-Cooked Chicken. Another important element of our value proposition for retail customers is our approach to total category growth. The categories we play in aren't highly penetrated by private label or customer brands as we call them.

Our categories are typically around 12% customer brands versus 17% for total food and beverage. However, customer brands have long been a part of Tyson's go-to-market strategy, and it's a core competency for AdvancePierre. By providing category expertise in both our brands and customer brands, we drive overall category growth with efficiencies of scale.

Our continued success relies on innovation, and we're focused on three platforms that will continue to drive our growth in the retail perimeter: Fresh meal kits and starters, a fresh take on breakfast and keeping the Core 9 fresh. At CAGNY in February, we mapped out an aggressive plan for product launches, and we're on track.

As I've mentioned previously, Tyson Tastemakers have moved beyond e-commerce into select retailers, as we continue to learn and refine in order to expand to a broader audience. The next generation of Hillshire Snacking flavors launched earlier this year and continues to do very well, and we're looking to expand distribution of the snacking platform into additional channels.

Jimmy Dean Simple Scrambles, launched in May, has exceeded our expectations. This disruptive innovation is driving category growth in refrigerated breakfast. Jimmy Dean Pancake & Sausage Bites started shipping in May and are on track for a national launch.

We're just beginning distribution on our newest innovation, Tyson Ground Chicken, and we're looking forward to seeing the great product succeed at retail. We have a strong three-year pipeline of products intended to refresh and disrupt, and that doesn't include the opportunities we have yet to unlock with the AdvancePierre integration.

We seek innovation in every aspect of our business, and not just new products. We continually strive to improve efficiency and sustainability and stay ahead of potential labor shortages, and our automation and technology innovations are becoming increasingly important in tightening labor markets.

I suspect we're already leading the industry in this regard, but the potential is great and we've barely scratched the surface. Some of the areas we've addressed include robotic loading and weighing, automating cutting, trimming, scaling and packaging, visual sorting and grading, and automatic transfers.

Automation and technology are facets of our business that will only become more important as we grow. And I'm glad that we have Scott Spradley, our new Chief Technology Officer, on board. Scott comes to us from Silicon Valley, where he worked for some of the largest technology companies in the world. I expect Scott to amplify the role of automation and technology innovation as a sustainable solution for the continuing challenge of improving efficiency.

Looking ahead to 2018, we continue to expect growth with an emphasis on value-added Chicken and Prepared Foods, specifically, within the Core 9 and Focus 5. We believe the demand in the fresh perimeter will continue, and we're well-positioned to lead growth for our customers with consumer fresh goods. 2017 has been a great year for the Beef segment and with ample cattle supplies and strong export demand, 2018 results should be similar to this year.

The Pork segment should benefit from very strong export markets as well. And while there will be additional capacity coming online, it's needed to process the increased hog supply predicted by the USDA. In 2018, the Pork segment might not reach the lofty returns of 2017, but it should remain well above its normalized range.

The Chicken segment should benefit from our move to No Antibiotics Ever and expanded capacity in value-added products, in addition to brand renovation of the base and continued new product innovation. We expect operating margins to be similar to 2017 and, importantly, with approximately 3% volume growth.

While it's been a challenging year for some parts of the Prepared Foods operations, in 2018, we'll be well positioned to take advantage of our innovation, brand strength, channel breadth and low-cost raw materials.

This, along with portfolio refinement, strong performance at retail, improvements in foodservice and the integration of AdvancePierre, the Prepared Foods segment should achieve operating margins in the upper half of the current 10% to 12% normalized range. We're very optimistic about our plans and our outlook for 2018. Because we believe it's important to proactively control costs and drive efficiencies even when we're performing well, our approach to financial fitness will remove waste, reduce costs and focus on a continuous improvement to create fuel for continued growth.

In FY 2018, we expect to grow sales dollars and volume to grow EPS in the high single digits while remaining disciplined in our allocation of capital for long-term value creation. This concludes my prepared remarks.

And now Dennis will take us through the financials. Dennis?

Dennis Leatherby

Chief Financial Officer & Executive Vice President, Tyson Foods, Inc.

Thanks, Tom, and good morning, everyone.

Q3 was another great quarter, and it positions us for our fifth consecutive record year on a GAAP basis and our sixth straight record year on an adjusted basis. We delivered record EPS and operating income for the first three quarters of fiscal 2017 and utilized our strong balance sheet to complete the acquisition of AdvancePierre in June,

a company with strong capabilities that will spur sustainable, high-margin growth in our value-added businesses. As Tom mentioned in his remarks, you should note that our Q3 results include only four weeks of AdvancePierre.

Fiscal 2017 year-to-date revenues were up 1.4% compared to prior year and up 4.8% for the third quarter, as volume and pricing increased in each segment, along with the incremental benefit of AdvancePierre in June. Record adjusted operating income through nine months of fiscal 2017 was just shy of \$2.4 billion, up 5% compared to a strong comparable period last year. Adjusted operating income for Q3 was \$756 million, with an adjusted return on sales of 7.7%, with each of our segments in or above their normalized ranges.

Our year-to-date adjusted EPS of \$3.88 is a record and represents a 13% increase over \$3.43 a year ago. It's also important to note that on an adjusted basis, our last 12 months EPS is \$4.84. Our operating cash flow for the first three quarters was \$1.4 billion, and we spent \$782 million on capital expenditures. This outpaced our depreciation by \$308 million, as we continue to invest in projects that are focused on delivering high ROIC.

Our effective tax rate in the third quarter was 31.7% on an adjusted basis. Including cash of \$231 million, net debt was \$10.6 billion, and total liquidity was approximately \$1 billion for Q3. Net debt to adjusted EBITDA was 2.7 times on a pro forma basis, including AdvancePierre's results for a full 12 months.

We are committed to investment-grade ratings, and with the strong cash flows we expect to generate, along with divestiture proceeds and incremental cash flows from the AdvancePierre acquisition, we expect to quickly delever to bring our net debt to adjusted EBITDA to around 2 times by the end of fiscal 2018. Net interest expense was \$69 million during Q3. For the quarter, our diluted shares outstanding were 370 million.

In early June, we closed the acquisition of AdvancePierre, and we expect to realize net synergies in excess of \$200 million within three years from both Tyson and AdvancePierre. The majority of these benefits will be realized in our Prepared Foods segment.

The synergies are expected to come from manufacturing, procurement and distribution efficiencies as well as addressing redundant commercial capabilities and duplicative corporate overhead at the combined company. AdvancePierre's results are included in the Prepared Foods and Chicken segments.

In addition, last quarter, we announced our plan to sell three non-protein businesses currently included in our Prepared Foods segment. The net carrying value of these businesses at the end of our third quarter was \$838 million, and we expect to record a net pre-tax gain as a result of their sale.

We anticipate we'll close the transactions by the end of calendar 2017 and expect to use the proceeds to pay down debt. As noted in our press release issued this morning, these businesses' results are excluded from our fiscal 2018 outlook.

Now here are some thoughts on the full year of fiscal 2017. We now expect revenues of approximately \$38 billion, as we grow volume across each segment. We expect AdvancePierre will have an incremental impact of approximately \$550 million. Net interest expense should approximate \$270 million. We currently estimate our adjusted effective tax rate to be around 34%.

CapEx is expected to approximate \$1 billion, and based on our average share price in Q3, we expect our average diluted shares to be around 369 million. Our strong performance and record results for the first three quarters of fiscal 2017 gives us confidence to narrow our adjusted annual EPS guidance to a range of \$4.95 to \$5.05. This range excludes the impact of AdvancePierre, which we expect to be a few cents accretive in fiscal 2017 on an

adjusted basis. This new EPS range is approximately 13% to 15% over our record fiscal 2016 adjusted EPS and represents a five-year compounded annual growth rate of approximately 20%.

As we move into the fourth quarter of our fiscal year, our annual outlook includes a quarterly view. Our fiscal 2017 outlook by segment includes Beef return on sales of approximately 5%, Pork return on sales of approximately 12%, Chicken adjusted return on sales of approximately 10% and Prepared Foods adjusted return on sales of approximately 9%.

For modeling purposes, we've included a fourth quarter projection, which supports our annual outlook for fiscal 2017 detailed on slide 15. To be clear, our Q4 adjusted EPS estimate is \$1.07 to \$1.17 before considering AdvancePierre. While we remain focused on ramping up a record year in fiscal 2017, we expect growth in sales, operating income and EPS in fiscal 2018, as our Beef and Pork segments should remain strong, with our earnings mix shifting more to our value-added segments of Chicken and Prepared Foods.

Now here are some early thoughts on our fiscal 2018 outlook. We expect top line sales growth of approximately 6%, with revenue just under \$41 billion, as we grow volume and have the benefit of a full year of AdvancePierre as a part of our operations. We expect AdvancePierre sales in fiscal 2018 to approximate \$1.7 billion or an incremental \$1.15 billion over fiscal 2017. Additionally, as we begin to realize the net synergies associated with combining these two great companies, we expect AdvancePierre to be accretive to EPS in the upper teens, which includes incremental interest expense, depreciation and amortization.

Net interest expense should approximate \$330 million. We currently estimate our adjusted effective tax rate to be around 34.5%, and CapEx is expected to increase compared to fiscal 2017. We expect solid top line growth in each segment for fiscal 2018, and overall margins should remain strong, as we expect the Beef segment should be similar to fiscal 2017 around 5%. The Pork segment should be above its normalized range of 6% to 8%. The Chicken segment should be similar to fiscal 2017 around 10%, with nearly 3% volume growth. And the Prepared Foods segment should be in the upper half of its normalized range of 10% to 12%, with approximately 10% volume growth excluding the divestiture's impact.

In closing, we remain laser-focused on executing our strategy and confident we will deliver high single-digit EPS growth in fiscal 2018, as we build on our momentum and drive shareholder value.

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

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. [Operator Instructions] And your first question this morning will come from Ken Zaslow of BMO Capital Markets. Please go ahead.

Kenneth Bryan Zaslow

Analyst, BMO Capital Markets (United States)

Hey, good morning, everyone.

Q

Dennis Leatherby

Chief Financial Officer & Executive Vice President, Tyson Foods, Inc.

Good morning.

A

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

Hey, Ken.

A

Kenneth Bryan Zaslow

Analyst, BMO Capital Markets (United States)

So my two questions are, with AdvancePierre being closed and \$200 million of net synergies, at this point, can you confirm that 2017 is now Beef earnings in which you can grow for the foreseeable future?

Q

And then my second question is, with the \$200 million of net synergies, pricing in the foodservice as well as some operational improvements, can you help us bridge how you think of Prepared Foods long-term margin potential?

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

Absolutely. Yes, so Ken, as it relates to the first one, we do believe we're starting – that we have a new base. We feel great about 2018, and we've been asked the question before, is \$5.00 the base amount for EPS, and we do believe that it is. I'd say that the combination of the companies we thought was going to be great. And then, of course, we're optimistic about synergies. Having gotten into the integration, we are extremely, extremely excited about it. And we know that we'll be in a position to be in excess of \$200 million on a net basis.

A

When you look at the overall improvement of the Prepared Foods business as it relates to the things that we're doing to drive the protein pack brand strategy, it is consistent with giving us a position across the retail perimeter; that is, I would say, best-in-class as well as convenience, and AdvancePierre is doing an excellent job. I'd say in July they had fantastic numbers, and we're very, very impressed with the addition of the company.

As it relates to long-term segment, we talked about the past we'll continue to look at what the segment's normalized range could be, but it's not something that we are going to put a size at the moment. But we think that the idea of getting to a 12% to 14% normalized range seems like if we execute well, that's where we'll wind up. So I hope that answers your question regarding that.

Kenneth Bryan Zaslou
Analyst, BMO Capital Markets (United States)

Q

Great, thank you.

Thomas P. Hayes
President, Chief Executive Officer & Director, Tyson Foods, Inc.

A

You're welcome.

Operator: The next question will come from Ken Goldman of JPMorgan. Please go ahead.

Kenneth B. Goldman
Analyst, JPMorgan Securities LLC

Q

Hey, good morning, everybody.

Dennis Leatherby
Chief Financial Officer & Executive Vice President, Tyson Foods, Inc.

A

Good morning.

Thomas P. Hayes
President, Chief Executive Officer & Director, Tyson Foods, Inc.

A

Good morning.

Kenneth B. Goldman
Analyst, JPMorgan Securities LLC

Q

I just want to make sure I'm understanding the guidance correctly. You're guiding to high single-digit EPS growth for next year, so two questions there. First, is that off the \$4.95 to \$5.05 base which excludes AdvancePierre, or is that off the slightly higher base that adds a few pennies to fiscal to 4Q 2017?

And then my second question, I guess as a follow-up to that, is the high single-digit growth that you're guiding to next year, anyway, I just want to make it 100% clear because there are so many puts and takes. Does that include or exclude the benefits from AdvancePierre in that year? Again, I know you've talked about some of these in your prepared remarks. I just think it's important to review that again.

Dennis Leatherby
Chief Financial Officer & Executive Vice President, Tyson Foods, Inc.

A

Sure, Ken, great question. The high single digits would include the results of AdvancePierre. And remember, AdvancePierre is split into two parts. About 80% of it goes into the Prepared Foods segment. About 20% goes into the Chicken segment. And we're also dealing with about \$87 million of incremental D&A. And as I said in my remarks, AdvancePierre will contribute mid to high teens EPS accretion.

Kenneth B. Goldman
Analyst, JPMorgan Securities LLC

Q

Okay, I'll leave it there. I'll follow up with you after. And just quickly, the personnel changes made last week, can you elaborate a little bit more on the reasons behind that? And what do you think the company needed that it wasn't getting in the prior structure?

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

A

Hey, sure, Ken, it's Tom. The primary reason why we made the decision we did to flatten the organization was just that. We look at the acquisition of AdvancePierre as an opportunity or catalyst, which I talked about before, to have a significant and I think aggressive look at all of our costs. But the other thing is we want to maintain a completely aggressive approach to satisfying customers.

Then as we looked at our structure, we felt particularly in Prepared Foods that we needed to streamline across, have those segments reporting directly to the CEO, take some of the resources that were at the center of the company and put them into those individual segments so they could control the amount of spending and focus on growth. And so it's really an effort to make sure that we are doing the right thing by being quick to our customers, taking advantage of the opportunities, and making sure we manage costs in the most effective way for our shareholders.

Kenneth B. Goldman

Analyst, JPMorgan Securities LLC

Q

Thanks, Tom.

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

A

You're welcome.

Operator: The next question will come from Farha Aslam of Stephens, Inc. Please go ahead.

Farha Aslam

Analyst, Stephens, Inc.

Q

Hi, good morning.

Dennis Leatherby

Chief Financial Officer & Executive Vice President, Tyson Foods, Inc.

A

Good morning.

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

A

Good morning.

Farha Aslam

Analyst, Stephens, Inc.

Q

You talked about your value-added chicken doing well and pulling forward some CapEx. Could you just detail which areas of poultry are doing particularly well and a little bit more detail on the CapEx?

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

A

Yes, sure, Farha. This is Tom. The Chicken business is doing well overall, I would say, particularly as it relates to fresh tray pack and our value-added, whether it's par-fry or fully-cooked business, both at retail and at

foodservice. So we have a plan we talked about before that's coming up in Green Forest, and that's going to help. But frankly, that's already sold out, to the extent that it gets up and running on plan, starts shipping in the fall period here and then up and running full force in January.

So the capital projects we're looking at pull-forward are ones that actually help us get more supply based on our demand as well as that productive capacity in both fully-cooked and tray pack. We're essentially busting at the seams on both those areas.

Farha Aslam

Analyst, Stephens, Inc.

Q

Okay. Does that mean water as well as value-added in that CapEx, just as it all builds out?

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

A

It does, absolutely. Yes. Yes.

Farha Aslam

Analyst, Stephens, Inc.

Q

And then just as a follow-up, Tom, you highlighted Tyson's strength in both branded and private label. Historically, that's been challenging for food companies to manage both branded and private label. Could you share with us Tyson's particular capabilities that allow it to manage both of those?

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

A

Sure. This is something that has long been part of the company's history, as I said, being really strong on branded and increasingly strong as with the acquisition of Hillshire Brands, I'd say. But the customer brand business has been the source of growth for many, many years. What makes the company particularly powerful is the acquisition of AdvancePierre, there are capabilities that they have demonstrated and ways of running the business that allow the AdvancePierre team, whether its customer brands or branded business, deliver a margin that is what is at or above the target.

So we're looking to take advantage of that and amplify the idea that we're focused on growth, whether it's in our brands, in our customer brands, we are about growth. And so it's leveraging that across the entire company and learning as we go, which we're excited about.

Farha Aslam

Analyst, Stephens, Inc.

Q

So your margins in your customer brands can be equal to your or above your branded business?

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

A

They absolutely can.

Farha Aslam

Analyst, Stephens, Inc.

Q

That's helpful. Thank you.

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

You're welcome.

A

Operator: The next question will come from Jeremy Scott of Mizuho. Please go ahead.

Jeremy Scott

Analyst, Mizuho Securities

Thanks. Good morning.

Q

Dennis Leatherby

Chief Financial Officer & Executive Vice President, Tyson Foods, Inc.

Good morning Jeremy.

A

Jeremy Scott

Analyst, Mizuho Securities

I wanted to maybe walk-through the sales guidance a little bit. I think if you remove the incremental AdvancePierre, there's a little less than \$2 billion of incremental sales growth. Where exactly is that coming from? It seems like a good piece of it is coming from your chicken pricing. I just want to sync-up your margin guidance with the impact of volume, price, and then your feed cost impact of \$100 million – can you walk us through maybe the sales bridge there?

Q

Dennis Leatherby

Chief Financial Officer & Executive Vice President, Tyson Foods, Inc.

As Tom said, Jeremy, in all the segments, we're expecting growth in volume and price so overall sales would be up. And as we said, incrementally, AdvancePierre would contribute an incremental \$1.15 billion in 2018 over 2017. And in terms of the guidance for Chicken, it does include \$100 million of incremental grain costs, still being around 10% return on sales. But very importantly, think about the incremental 3% volume growth on a base of, call it \$1.1-ish billion, 3% meaningful to operating income year over year.

A

Jeremy Scott

Analyst, Mizuho Securities

Got it. And then just to follow-up on Farha's question, of that 3% volume increase, what percentage of that is going to be increased slaughter levels?

Q

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

Yes, we don't break that out. And what we are focused on is making sure our supply meets our demand, and we're having a challenge right now. Our demand is extraordinarily strong, and we're focused on trying to make sure we can do all that we can do to supply it as well as keep our extraordinarily high service levels with our customers, which is a challenge we have right now.

A

Jeremy Scott

Analyst, Mizuho Securities

Q

Okay, then one quick follow-up. Just given your confidence in Prepared Foods synergies, when do you expect to update The Street on normalized margins?

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

A

Yes. So now two things I'll say there, Jeremy. The first is that we expect to update The Street on how the integration is going, how we feel about it in specific terms as it relates to the net synergies that we're going to be delivering. And I would say, later, at the end of this year, early into 2018, we'll talk about that more, maybe have a follow-up to talk about it. And beyond that, for our focus, its how do we continue to grow where customers are growing, grow where the consumer is buying and leverage that strength that we have to increase our margins over time.

Timing, as it relates to how that plays out, we gave you the guidance for 2018. And beyond that, we see there is incremental upside, and that's going to be largely dependent upon what we talk about as it relates to the overall synergies we get from the combination of the two companies as well as where we see the growth opportunities as we look at the revenue synergy side that we haven't talked a lot about.

Jeremy Scott

Analyst, Mizuho Securities

Q

Thank you.

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

A

You're welcome.

Operator: The next question will be from Michael Piken of Cleveland Research. Please go ahead.

Michael L. Piken

Analyst, Cleveland Research Co. LLC

Q

Yeah, I just wanted to dig a little bit more in terms of the Beef side of the business. And I know you said you expect to have adequate cattle availability. But just sort of looking at the numbers on hedgers edge in the third quarter, it certainly would appear that the margins may have been kind of record levels, and I would have expected something higher in your fiscal third quarter than potentially what you would do in fourth quarter. But maybe you could just talk about was this just a timing issue in terms of when some of the cattle was purchased? And what gives you the confidence that you'll hit the 5% next year?

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

A

Yeah. So of course, we have definitely spoken about this in the past, Michael. And you know that we have – our margins are kind of based on where we're regionally located. So Beef is still a very regional business. Cattle in the north, where we compete, we're higher priced last quarter. That's just the fact of the matter. Going forward, we see that supplies growing in our regions. In fact, 2017 and 2018, better numbers on fed cattle in our regions overall. Placements of cattle and feed, high.

Heifer retentions is something that is certainly on our minds, 25-year low, supplies more cattle and calves and cattle in the future. So we feel, for our areas that we are, again, barring some sort of shock to the system, we are at the front-end of a multi-year expansion in cattle that is great for Tyson.

Michael L. Piken

Analyst, Cleveland Research Co. LLC

Q

Okay, great. And then you talked about potentially the market for Beef remaining strong through 2020, barring some supply shock like a drought or whatever. But your normalized margins are 1.5% to 3%. Do you have any feeling for whether that number might go up? Used to be at 2.5% to 4%? How should we sort of be thinking about marginalized margins for Beef going forward in this type of environment?

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

A

It's a great question. We have talked about what we see in the future. And what we want to make sure that we do is we have a demonstrated track record behind us. We typically like to have a long period of time, where we've been able to demonstrate those margins. Certainly, I would say, on beef import, in addition to what we've already talked about it with Prepared Foods, we are thinking about it.

And so, all I can say is we'll continue to keep you posted, and our objective is to drive year-over-year EBIT growth and year-over-year EPS growth, and that's what we're focused on. And if we can expand our margins wherever we can, we'll do it. But nothing that we want to share today, but certainly, it's on our minds.

Michael L. Piken

Analyst, Cleveland Research Co. LLC

Q

Thank you.

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

A

You're welcome.

Operator: The next question will be from Adam Samuelson of Goldman Sachs. Please go ahead.

Adam Samuelson

Analyst, Goldman Sachs & Co. LLC

Q

Yes, thanks. Good morning, everyone.

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

A

Hey, Adam.

Adam Samuelson

Analyst, Goldman Sachs & Co. LLC

Q

Maybe first, in the Chicken business, I want to think about the performance this quarter, margins were down about 350 basis points year over year, and you had about \$84 million or so of EBIT declines. And maybe any help on breaking down some of the pieces. You gave some disclosure on the feed costs, on the employee incentive issues, but maybe whether it's antibiotic-free and the ramp there, there's incremental grow costs, mix, the

commodity pricing environment where you do have it, whether it seemed favorable, so just help me looking for additional color on the Chicken business performance given what seemed to be very strong market conditions in the quarter.

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

A

Sure. The biggest thing you got to keep in mind is that true commodity players will do very well in an environment where there are low feed costs, higher pricing, but what you see in our margins is a great illustration of the different business models. Ours isn't typically as volatile as a commodity player. And so our portfolio is designed to deliver those consistent margins. We do expect to have growth. We want to make sure we're driving EBIT north. And we don't want to be on a roller coaster. We want to have consistent margins and then consistently grow volume.

There are times for us, when the buy versus grow model is a bit expensive, and we're in one of those today. There's also times where we have to consider adding capacity, which is where we are right now, like tray pack and FP that we talked about, the further process. And this is where we live. We live in a space where we want to be consistently growing the business and do it with consistent margins. So we won't be at the highs when fresh meat or market prices are high. And so, but we won't be on those lows on the other end either.

Adam Samuelson

Analyst, Goldman Sachs & Co. LLC

Q

Okay. And then in Prepared Foods, can you talk about where you are on the pepperoni plant transition? The outlook for margins in the fiscal fourth quarter is down sequentially. Appreciate there's a lot of AdvancePierre noise in that. But any update on where you are with your own foodservice business as you work through some of the plant issues there?

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

A

Yeah, sure. One of the things to be clear about Prepared Foods, there is typical seasonality. Some of the softness is driven by some of the promotional aspects of the drilling season, back-to-school; certainly, there's volumes associated with schools that we don't have, which we're a heavy player in. And note last year, we had similar results. Q4 was 7.3% margin for instance. The fourth quarter is always a difficult quarter in Prepared Foods overall.

What I would say is, as it relates to the pizza toppings and pepperoni, we are on track. So we are building out the capacity that we need. We're still paying that Coleman premium that we don't like. And we will be in, not this season, but next season, as we go into our fiscal 2019, into the pizza season, ready to take advantage of the business with a lower cost structure, just as we talked about. That's the timing and we are on track.

Adam Samuelson

Analyst, Goldman Sachs & Co. LLC

Q

So just to be clear, my follow-up to you, the point there is the benefits from lapping the pizza, the plant issues are going to be more of a fiscal 2019 benefit, not a fiscal 2018 benefit?

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

A

That's right, because pizza season is right around the fall season, and its sports, football and so forth. That's when it really picks up. And so the plant will not be up for this fall. It'll be up for the following fall. So that's the reason why you'll see the uptick there.

Adam Samuelson

Analyst, Goldman Sachs & Co. LLC

Okay, I appreciate it. Thank you.

Q

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

You're welcome.

A

Operator: And the next question will be from Rob Moskow of Credit Suisse. Please go ahead.

Robert Moskow

Analyst, Credit Suisse Securities (USA) LLC

Hi. Just a couple of miscellaneous questions. One, on Chicken, will you still be a net buyer even after you make these capacity expansions? And will it be similar to your normal pace of net buying that you've quantified in terms of truckloads in the past of white meat that you buy?

Q

And then second, I'm trying to tease out the price impact just in the quarter in Prepared Foods. Your price mix was up 4.9%. You attributed it to the mix impact from AdvancePierre. Can you give us a sense of what's underlying in your core Prepared Foods business in terms of price? Is it pretty stable? Or is there anything happening underneath there? Thanks.

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

Yes, sure. So on the first, Rob, absolutely, we'll continue with the buy versus grow model. We will take some pressure off the amount that we have to buy in the market, and that's certainly something that is going to be helpful for us. So we stand behind them all, what works well for us. And we want to produce in [indiscernible] (42:37) increments, and focused on eating and matching best for us in supply versus demand while continuing to grow our volume year over year. So the pace, to answer your question, is not going to change as it relates to the truckloads that we buy, what we've given in terms of color on that in the past.

A

As it relates to the price impact in the quarter, absolutely, there's pressured margins in Prepared Foods, particularly as it relates to higher belly and beef and pork trim costs. Pricing is chasing the rising belly and bacon markets. For us, we are a large trim buyer. So the trim effect that rose in Q3 isn't really felt in Q4 quite a bit, but I would say that there's a lot of costs that move around right in advance of the hot dog season. We are both hot dog and smoked sausage, we're a heavy player. So pricing dynamics are good.

I'd say, we will continue to stay aggressive. And one of the things that we have learned with the AdvancePierre acquisition is different pricing approaches that they have been very successful on pricing to value. And we do well in retail. I think they do exceptional in foodservice, and we'll take advantage of that to continue to improve the underlying margin structure. But I feel good about price.

Robert Moskow

Analyst, Credit Suisse Securities (USA) LLC

Q

Okay, Tom, maybe a follow-up. So it would just be – just a little more clarity. Do you think your retail margins and foodservice margins and your core business were going to be down because of those higher belly and trim costs in the quarter, and then maybe in fourth quarter, you offset it with price adjustments?

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

A

No, so the margins will be a Q4 impact. So the trim prices I spoke of, those will be a Q4 impact. That's why we're giving the guidance that we are on margins. And the way that our models work, our pricing models is that it pushes it forward a bit. And so it will be tight in Q4 and it will be a little bit into Q1. But that's what happens, particularly with trim. Beef 50s is the issue. And we are also looking at ways in which we can avoid that. There are certain price purchasing mechanisms we can use. We don't use the freezer historically a lot, but there are some things that I would say AdvancePierre has done that we want to take a look at, to make sure that we don't have that be a huge impact. But as you probably have seen, the beef 50s rose dramatically this year versus historically seasons.

Robert Moskow

Analyst, Credit Suisse Securities (USA) LLC

Q

Okay, yes, thank you.

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

A

You're welcome.

Operator: And the next question will be from Heather Jones of the Vertical Group. Please go ahead.

Heather Jones

Analyst, Vertical Trading Group LLC

Q

Good morning, thanks for taking my question. Looking at your Q4 guidance on the Pork segment, it's honestly a little more conservative than I would have expected. And you mentioned something in your prepared comments about increased global competition and labor costs. And just wondering, surmising maybe your increasing labor rates at some of your plants in anticipation of the new plants, or I just wonder if you could flesh out those comments and that outlook more for us.

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

A

Sure, Heather. Talking about labor rates, labor is tight all over. I'll say a few things, maybe Dennis, you can come over on this, but certainly labor is tight. We have added a lot of our operations double-digit increases on labor costs and wages that we're paying. And we see that as something that we have to do and we're happy to do it to make sure that we have the turnover levels lower than we've had in the past, and we do. We have better turnover levels. I would say that that is the reason why we are driving really hard against automation, something I spoke to in my prepared remarks.

As it specifically relates to Pork, the biggest influence on margins is going to be the productive capacity that's coming on. We think we're still going to be in good balance. Our thoughts for 2018 are it's still above the

normalized range of 6% to 8% ROS. But there's definitely going to be some equilibration that will happen to put us above the normalized range, but it's a moving, fluid thing.

Exports remain extraordinarily strong. So more than 27% of production. It's up about 10% year over year. We are a preferred supplier, frankly, to the Pacific Rim markets. And we believe that, that's going to continue to take some of that productive capacity. But it's definitely going to be something that is going – we don't predict today that it's going to be as good as it has been in 2017 for those factors.

Dennis Leatherby

Chief Financial Officer & Executive Vice President, Tyson Foods, Inc.

A

And, Heather, as far as Q4 goes, as you know, Q4 is typically our weakest quarter in the Pork segment, so we were just factoring in our normal seasonality. But you could be right, we could be too conservative on those numbers.

Heather Jones

Analyst, Vertical Trading Group LLC

Q

Okay. And you've mentioned something earlier that I was actually going to ask you about. So AdvancePierre over the last two or three years have put in place, for lack of a better word, pricing mechanism where it tried to forward price. And so in the past, your legacy Prepared Foods as well as a lot of your chicken contracts, our cost pass-through or grain related or whatever, but they've been on a lag. And so I was wondering if you could speak to your ability to adopt more of their process in both Chicken and Prepared Foods or just the customer base to limit your ability to do that across most of the legacy Tyson business.

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

A

I would say there's really nothing that limits us. We have been really engaged deeply with understanding their pricing models. And I'm sure some of the teams are listening from AdvancePierre. We are extraordinarily excited about how they have been pricing to value, both on their Chicken business as well as Prepared Foods outside of Chicken, which frankly has been, I would say, the largest driver. So we will leverage everything that they know and use what we can to improve our system.

As you know, Heather, we have many different pricing models. And I would say, like I said earlier in retail, pretty good pricing approach I'd say both at retail and foodservice, frankly. But I think there's a lot of improvement that can be made in the foodservice area specifically.

Heather Jones

Analyst, Vertical Trading Group LLC

Q

Okay, thank you so much.

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

A

You're welcome.

Operator: The next question will come from Akshay Jagdale of Jefferies. Please go ahead.

Akshay Jagdale
Analyst, Jefferies LLC

Q

Good morning, thanks for taking my question.

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

A

Good morning.

Akshay Jagdale

Analyst, Jefferies LLC

Q

I wanted to ask you about the AdvancePierre synergies, and thank you for making the distinction between net and gross. So our analysis shows that on the Hillshire deal, around 50% to 70% of whatever you saved has in fact dropped down to the bottom line, so that's a significant number. But it is a gross number. And then on AdvancePierre, the synergy number is pretty large, and you've now said you have greater confidence in exceeding that number.

So can you just talk to the sources of synergies and why the net number here is as high as it is and why you feel comfortable about that net number, especially given when you bought this business, it had already had a pretty significant margin improvement? So it's all great. We appreciate the numbers. But I'm just trying to get color on why you and we should have greater confidence about that \$200 million dropping down to the bottom line. Thanks.

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

A

Absolutely. So, Akshay, the biggest thing to take away is that this synergy work is across the entire company. So these are not costs that are coming out of AdvancePierre. These are costs that are coming out of all of Tyson. And so the buckets, and it's too soon to discuss the sizes, but we will be in front of you talking in more detail, like I said. The typical areas are what you can think of. Procurement is a big bucket, manufacturing, certainly, logistics, distribution, transportation, redundant overhead, the teams that are running the integration have been extraordinarily aggressive. And they are very focused on making sure that they're dealing with costs, but also not damaging our growth potential.

And so that's something, again, we haven't talked about in terms of revenue synergies, but very, very comfortable that will be in excess of \$200 million on a net basis. As we finalize these targets, we'll give you more information, like I said, but those are the buckets. Extraordinarily exciting, the key takeaway is that it's across the entire Tyson Foods enterprise.

Akshay Jagdale

Analyst, Jefferies LLC

Q

Okay, great. And then on Chicken, another sort of long-term, big-picture question that you can maybe tie it into the 3% volume growth number that you're estimating for 2018. But what do you see as the margin up? Is there a big margin-up opportunity within Chicken? So you have a very good base business here. Is there an opportunity to make this a higher-margin branded business, more branded business down the road?

And can you tie that in with sort of your near-term plans, right, where I think you've launched the ground chicken in your Tyson brand recently, and you're modeling a 3% volume increase. So can you help me, big picture, and then sort of bridge the gap a little bit with where you were in 2018? Thanks.

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

A

Yes. So we like Prepared Foods, we will continue to look at the margin structure, but let me come back to; we're not going to sacrifice growth. We are going to grow the business, and that is a unique thing about Tyson Foods, frankly, as it relates to all food players in the business today, is we are a growth company.

So the margin structure will continue – we're happy to make more and more margin and we're going to play for that aggressively. And it'll be through creating more valuable products that consumers' love, customers' love that will continue to grow our volume, which we've been tremendously successful at. If that puts us in a point in time where we look at the normalized range we will do that, but the idea of us having the ability to do that, absolutely.

And it's going to be on the back of innovation, just the way that we talked about, whether it's in fresh fruits, there's a lot of going on in the perimeter, as you're well aware, but also value-added foods that are finding ingredients, marination, meal kits. There's a lot of activity in the space. Chicken is extraordinarily exciting as a category for consumers and retailers, and we feel like our leadership position puts us in a great position to be the leader from the dialogue in both customer brands and our brands.

Akshay Jagdale

Analyst, Jefferies LLC

Q

And can you just talk a little bit most specifically about innovation that's underway in Chicken, so maybe some early reads? And a little more color on this 3% volume increase. I'm guessing most of it is from prepared chicken, but maybe some color as to where that consumer demand is coming from? Thank you.

Dennis Leatherby

Chief Financial Officer & Executive Vice President, Tyson Foods, Inc.

A

Very, well. Yes, so remember, we're as big in foodservice as we are in retail. So there's a lot of innovation happening at foodservice on Chicken. And we'll be continuing to drive No Antibiotics Ever. Certainly, fully cooked. There's a lot of fully cooked businesses, we're a leader in that space, and we have more capacity coming online and different forms, different packaging types and, I would say, that cuts across all, whether it's fresh or fully cooked.

So without tipping our hand too much, Akshay, there are some things that are in the pipeline that you'll see, when we're ready to talk about them, but rest assured that we feel really strongly about our overall innovation pipeline. And I would say, we do feel strongly about our businesses, specifically as it pertains to Chicken.

Operator: And the final question this morning will come from David Palmer of RBC Capital Markets. Please go ahead.

David Palmer

Analyst, RBC Capital Markets LLC

Q

Thanks. First, just a follow-up on the changes in management and the structure, you mentioned the flattening of the organization and just taking the opportunity to do that in light of AdvancePierre. But I know there's one line that Tyson will be going all-in on branded food in the future, and it can't depend on protein and feed cost cycles in

the future. And I know that many of the same people and if something comes quite a bit and talking about Tyson is we're confused about this AdvancePierre acquisition, perhaps, being a first step in the journey towards that because many, perhaps, expecting branded in the food retail channel in particular. So if you have like sort of an end goal or big dream that this is signaling, we'd love to hear about that. Thanks.

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

A

Okay, thanks. It's a very good question, David's very long-term focused and I appreciate it. The AdvancePierre acquisition gave us capabilities, so production capabilities, markets extraordinarily strong, in the convenience market. And they are exceptional at delivering high-quality growth, whether it's a brand of their own or a customer brand. They figured out how to make money in both as we have with the two together, are about growth. So the long ball, if you will, is we're a growth company.

So we're gaining traction and growing categories. Now we're going to be able to extend these capabilities into our brands, both on the legacy Tyson side as well as some of the APF brands, although they're more foodservice focused. Think about our strategy. We are all about growth, we're about delivering exceptional results and we're about doing it in a sustainable way. We talk about those three words all the time, grow, deliver and sustain, and that is what we want to do.

Now as it pertains to branded business, we want to continue to grow our brands, and we will, as demonstrated by our track record in the Core 9. But make no mistake about it. We're going to be focused on growing our company as a growth food company, the largest food company, frankly, in the U.S. and to be really unapologetic as it relates to getting growth wherever it comes.

David Palmer

Analyst, RBC Capital Markets LLC

Q

And just a follow-up on the foodservice side, and thank you for that. You – we're seeing some pretty big market share swings right now in restaurants. It's easy to think because McDonald's is doing well that everything is going great in restaurants. But as you know, volume is – and traffic's down a lot of the places in restaurants. What does that mean to your business? And then in parallel, there's also a move towards a little bit more of – the people are upping the specs of their chicken at some of these big system distribution chains. Could you talk about mix impacts from all this stuff and what it means for your business? Thanks.

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

A

Yes. So yes, we're constantly moving around. One of the things that we have declared with this new organizational structure, to be honest, is that it's about making sure that we are focused, channel-agnostic on where the growth comes from. We are exceptional in foodservice. We're exceptional at retail. There's other channels that we play in, whether it's meats and so forth. But I would say that we're not choosy about where the growth comes from. We want to follow the consumer, and we want to, first and foremost, excite the consumer and excite our customers.

We want them to be looking to us when they're looking for growth and protein in fresh foods. So as it pertains to where the volume moves and how operators are doing. I would say there's some real operator strength. We're focused, both in AdvancePierre and with Tyson, on broad-line distribution, where the growth is and making sure that we offer the right model for them to succeed.

I don't have a view that – of the channels should make that amount very much different as it relates to our earnings potential and our growth trajectory, because we are a well-balanced company and channels. And so, we like that about our model, and so we're very aggressive growing wherever the growth may come.

David Palmer

Analyst, RBC Capital Markets LLC

Thank you.

Q

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

You're welcome.

A

Operator: And ladies and gentlemen, this concludes our question-and-answer session. I would like to hand the conference back over to Mr. Tom Hayes for his closing remarks.

Thomas P. Hayes

President, Chief Executive Officer & Director, Tyson Foods, Inc.

Excellent. Hey, well thanks for all the great questions. Before I go I just want to say Q3 was a strong quarter as you can see. We're wrapping up another record year. We feel great about 2018. We got to focus on the integration, executing our approach to what we call financial fitness across the board, growing sales, growing volume and growing EPS in the high single digits. That's our commitment.

We believe that continuous improvement, and we believe in it, and that the fact that we are doing well, frankly, it's the best time to drive efficiency for the enterprise when we're performing well. And that's what we're doing and we're going to continue doing it. So thanks for the interest in our company. And I would say for all the team members from Tyson that are listening today, everywhere, thanks for everything you do for our great company. Very much appreciate it. And we'll talk to you next quarter.

Operator: Thank you, sir. Ladies and gentlemen, the conference has now concluded. Thank you for attending today's presentation. At this time, you may disconnect your lines.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2017 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.