13-Nov-2017

Tyson Foods, Inc. (TSN)

Q4 2017 Earnings Call

CORPORATE PARTICIPANTS

Jon Kathol
Vice President-Investor Relations, Tyson Foods, Inc.

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

Stewart F. Glendinning
President & Chief Executive Officer, Molson Coors International, Molson Coors Brewing Company

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

OTHER PARTICIPANTS

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Kenneth B. Goldman
Analyst, JPMorgan Securities LLC

Heather Jones
Analyst, Vertical Group

Robert Moskow
Analyst, Credit Suisse Securities (USA) LLC

Jeremy Scott
Analyst, Mizuho Securities

Akshay Jagdale
Analyst, Jefferies LLC

Michael Leith Piken
Analyst, Cleveland Research Co. LLC

Benjamin M. Theurer
Analyst, Barclays Capital Casa de Bolsa SA de CV

David Carlson
Analyst, KeyBanc Capital Markets, Inc.

Farha Aslam
Analyst, Stephens, Inc.

John Colantuoni
Analyst, Morgan Stanley & Co. LLC

Kenneth Zaslow
Analyst, BMO Capital Markets (United States)

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Tyson Foods Fourth Quarter Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [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 fourth 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. Also with us is Stewart Glendinning, who will become our Chief Financial Officer, effective February 10, 2018. Of course, it's a little early to expect him to answer any questions.

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 release this morning, which has been furnished to 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, November 13, 2017, at 9:00 a.m. Eastern Time. A replay of today's call will be available on Tyson's website approximately one 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 express 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.

All right. Thank you very much, Jon, and good morning, everybody. Thanks for joining us as we wrap up another record year. I want to start by acknowledging the announcement that we made last Wednesday about our CFO transition from Dennis to Stewart. We have company-wide townhall meetings after these earnings calls each quarter that we call those Team Talk. And so, we're just absolutely thrilled that Stewart can be here with us, so he has a chance to meet folks in person.

And this is Dennis' second to last earnings call, and it's bittersweet, but Tyson has had the pleasure of having Dennis on the team for many, many years. As you know, he's been the CFO since 2008 and nearly 30 years with the company, countless contributions. He's been an integral part of my first year as CEO. So, Dennis, on behalf of everybody at Tyson, let me just publicly say thank you for everything you've done for the company. And we appreciate you, we thank you, and we're going to be looking forward to having a proper sendoff in the spring.

But right now – Stewart, also welcome. Thanks for joining us today. As you know, he has some big shoes to fill, but we're happy to have you. And just thrilled that you made the decision to join the Tyson Foods family, and we're looking forward to the massive contributions we absolutely know that you'll make.

Stewart F. Glendinning

President & Chief Executive Officer, Molson Coors International, Molson Coors Brewing Company

Thanks, Tom, and good morning, everyone. I'm really happy I could be here today, and very excited about starting officially in December.

Thomas P. Hayes

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

Excellent. So, we have some work to do, so let's get to it. So we delivered our overall goal of at least 4% operating income growth, EPS growth in the high single digits, and 3% volume growth in value-added products. Fiscal 2017 was a year of great change, and despite some challenges, our team remained focused on delivering for the long term for our shareowners, and driving demand for consumer relevant products through innovation, customer growth and through category leadership, initiating to transformation to a more agile and efficient organization structure to accelerate growth and sustainability. Not only did we deliver exceptional results, we also strengthened our ability to lead change and grow in a dynamic marketplace, while delivering ongoing financial fitness. In the fourth quarter, adjusted EPS was up 49% over last year, and full year adjusted EPS was up 21%, to $5.31.

Turning the page on a significant company milestone, we successfully completed the integration of synergy capture related to Hillshire with three-year synergies totaling $670 million. We now pivot to our ongoing Financial Fitness program in which we expect to achieve $200 million in savings in fiscal 2018 through a combination of synergies from the integration of AdvancePierre and other cost savings. As I've stated before, while the majority of the Hillshire synergies were reinvested to grow the company, Financial Fitness savings will fall directly to the bottom line.

Looking at the top 10 CPG retail food manufacturers in our fiscal 2017, our Core 9 product lines and total Tyson outperformed total food and beverage in dollar growth, and outperformed all but one company in volume growth. As expected, we saw volume decline related to pricing we decided to take in a few categories, and I'll talk more about that later.

So now let's move on to the operating segments and take a look back at Q4 and fiscal 2017. All operating income and operating margin references I will make are on an adjusted basis. In the Beef segment, in the fourth quarter, we produced operating income of $313 million with an 8.2% operating margin. Sales volume was up 3.3% on 6% higher average price. For the fiscal year, operating income was a record $885 million with a 6% operating margin. Sales volume was up 1.8% on 0.4% higher average price.

The Beef segment benefited from cattle availability, strong domestic demand, and increased exports. As we begin fiscal 2018, industry cattle supplies are projected to increase 1% to 2% this year, and we expect ample supplies in the regions where our plants are located. With strong export demand expected to continue due to increased global protein demand, we believe the Beef segment's operating margin should be above 5%.

In the Pork segment, fourth quarter operating income was $124 million with a 9.1% operating margin. Sales volume declined 1.2% as average price increased 11.7%. For the fiscal year, operating income was a record $648 million with a 12.4% operating margin. Sales volume for the year was up 0.6% on 6.1% higher average price.

In 2017, the Pork segment benefited from strong exports, and we expect this to continue into 2018. As we begin our fiscal year, we're seeing counter-seasonal margin compression as new capacity comes online. The industry is in a transition period while new facilities secure their hog supplies. This is playing out as we had expected, and the impact is built into our guidance assumptions. With hog supplies projected to increase 3% in fiscal 2018, there should be ample supply. We think our production capabilities will give us an advantage in the long term. We anticipate our Pork segment margins will be above 9% for the year, and while this doesn't reach a level of performance in 2017, it's still above the 6% to 8% normalized operating margin range.

Both our Beef and Pork segments are doing well, despite tight labor markets. We believe our efforts in increasing wages, running chain speeds efficiently, focusing on safety and staffing, have resulted in less turnover and improved efficiency now and will so over the long run. Also in the Beef and Pork segments, we saw record sales and volumes for our Open Prairie Natural brand of fresh meats.

Consumer demand is growing double digits for our no antibiotics ever and no added hormones natural fresh meats. And we intend to provide consumers and customers with the product attributes they're looking for. Favorable market fundamentals, maximizing revenue on a per head basis and operational excellence at the plant level contributed to our Beef and Pork segments' record performance this fiscal year.

In the Chicken segment in the fourth quarter, operating income was $322 million with a 10.6% operating margin. Volume was up 4.1% on 3.7% higher price. For the fiscal year, Chicken segment's operating income was more than $1.1 billion with a 9.8% margin. Sales volume was up 1.2% attributed to strong demand and incremental volume from AdvancePierre. Average price was up 3.1%.

Chicken demand remains strong. With our leading brand position, Tyson has an advantage. Strong growth in premium and branded fresh chicken products was a key driver in sales dollar growth. Converting our retail Tyson-branded chicken to no antibiotics ever was a significant accomplishment in 2017, and we've been very successful from both a production and a sales perspective.

Core Tyson frozen fully cooked chicken sales have responded well to increased advertising, highlighting the NAE attribute. And volume and share has been growing now for five consecutive quarters. In FY 2017, we increased dollar and volume share 1.2 points and 1.7 points, respectively, across channels.

We're continuing the evolution of the Tyson master brand, and we're in the process of modernizing our retail packaging and graphics. This will start showing up on shelves in early calendar year 2018. Additionally, we continue to increase our focus on Tyson-branded innovation, with 86% of our new product concepts scoring either Outstanding or Ready Now compared to only 30% in the competitive benchmark. This gives us great confidence in our pipeline of new products.

In foodservice, our chicken sales volume increased more than 10%, with value-added products outpacing the category due in part to our QSRs customers' successful limited time offers featuring chicken. Within broadline distribution, Tyson had a one-third share of total chicken and continues to gain share, driven by double-digit growth in value-added Tyson-branded chicken. To wrap up the Chicken segment, in fiscal 2018, we expect operating margin to improve to around 11%, importantly, with around a 3% volume growth.

Moving forward to Prepared Foods segment, in the fourth quarter, operating income was $152 million with a 6.7% operating margin. On our third quarter call, we said Prepared Foods margin would be between 7% and 8% for Q4. We came in just below projection due to our decision to buy out a raw material supply agreement, which sets us up well for FY 2018 and beyond. Excluding the short-term impact of that change, we were in line with our expectations. Volume for the quarter was up 9.5% with sales price up 12.5%. Incremental volume from AdvancePierre was primary contributors of the volume increase in Q4, offset by some seasonal softness in overall foodservice volume.

For the 2017 fiscal year, Prepared Foods produced $675 million in operating income with an 8.6% operating margin. Volume for the year was up 3.2% with average price up 3.6%. Based on higher input costs, we took price increases in some categories, and while there's been an expected reduction in volume and share, it was necessary to position ourselves going into fiscal 2018.

I'll also note that some of the branded volume declines in Q4 are being offset by growth in our customer branded business. Brands are very important to us, and while we're investing in our brands for long-term growth, our relationships with our customers are just as important. Customers look to us for category leadership and our ability to drive growth through our Tyson brands, in addition to being a reliable supplier for their brand. This is critical to driving relevance and total category growth.

We have some smaller emerging brands that we call our rapid growth brands, and we're pleased with how well they're doing. Aidells continues on its growth trajectory, and Hillshire Snacking and Golden Island premium jerky are gaining traction, and we expect this to continue into fiscal 2018. We're strengthening our foundation in Prepared Foods. Sally Grimes has her team in place and are hard at work setting up the business for long-term success through a simultaneous focus on innovation and efficiency.

The first quarter in Prepared Foods is off to a strong start, as we expected. Retail volume and share are likely to be down in Q1 for hotdogs, smoked sausage and breakfast sausage, but for the year, we expect growth. We expect the Prepared Foods segment to grow volume around 10% and produce returns between 11% and 12% for fiscal 2018. As we closed the sale of three non-protein businesses and further integrated AdvancePierre, we will continue to enhance margins of this great business.

And now I'd like to turn from the segment reports to our customer channels. In the broadline distribution channel, we see both volume and dollar expansion. Total broadline volume grew 1.7%, while Tyson grew 4.5% and increased share. Our Focus 5 sales grew 10% over last year, nearly six times the rate of broadline distribution in total. The Focus 5 categories represent more than half of our total foodservice volume.

In the retail channel, consumer trips were up, but the units purchased were down. This is believed to be attributed, at least in part, to the impact of the hurricanes. We continue to focus on innovation and brand building, and we have increased our total points of distribution on new products by more than 1,200 points. We're also expanding our footprint of retail stores. An IRI shelf audit showed that we gained an average of 4.3 linear feet per store in the U.S. over the previous year. That's 46 miles of additional shelf space overall.

We have a strong pipeline of retail innovation with the successful testing of meal kits, more Hillshire Snacking expansion and a stronger ingredient meats portfolio coming in fiscal 2018. Our innovation vitality index was 13% for the fiscal year, which is a best-in-class range.

In the C-Store channel, Convenience Store News recently recognized three of our products in its 21st annual Best New Products Awards: our Hillshire Farm bacon gouda premium chicken sausage, our western omelet wrap from AdvancePierre, and our ham and cheese stuffed Bosco Sticks. Bosco Sticks are stuffed breadsticks that are primarily sold to schools, but by marrying Tyson's scale and innovation expertise with the unique manufacturing capabilities of a small acquisition, we're able to develop new products for different channels. And with AdvancePierre, we're looking forward to even more of this type of innovation and growth.

Today, before announcing the acquisition of Original Philly Cheesesteak Company, one of the nation's leading producers of raw and fully-cooked Philly-style cheesesteak and components and appetizers. This is a great tuck-in acquisition of a company highly regarded in the foodservice industry and a natural, strategic fit, combining our commercial and operational resources with their product portfolio.

Original Philly is a strong, double-digit margin business with approximately $130 million of annual sales, and the transaction will be immediately accretive. Going forward, the majority of Original Philly's results will be reported in the Prepared Foods segment, with the remainder going to the Chicken segment.

So, in closing, I'm extremely pleased we delivered another record year, but even more excited about the future of Tyson Foods. We are in the early stages of a transformation to become a more modern food company. We have a hardworking and resilient team that is leading change in a dynamic marketplace. Our entire Tyson Foods family remains squarely focused on growing the business through differentiated capabilities, delivering on ongoing financial fitness through continuous improvement, and sustaining our company and the world for future generations.

That wraps up my prepared remarks, and now I'd like to turn it over to Dennis to take us through the financials. Dennis?

Dennis Leatherby

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

Thanks, Tom, and good morning, everyone. We finished fiscal 2017 with a strong fourth quarter, as we delivered record EPS for our fifth consecutive year on a GAAP basis and sixth straight year on an adjusted basis. We have a lot to be excited about in fiscal 2018, and we expect another record year with more solid growth in both operating earnings and EPS.

For fiscal 2017, total company adjusted return on sales was a record 8.5%. Adjusted operating income was also a record at $3.3 billion, representing a 15% increase compared to last year. This represents our fifth consecutive year of growth in operating income and return on sales. Our record adjusted EPS of $5.31 represents a 21% increase over $4.39 reported last year. Over a five-year period, our EPS compounded annual growth rate is over 22%, a measure few companies in the food space can claim.

Our operating cash flow was $2.6 billion, and we invested $1.1 billion in capital expenditures. This outpaced our depreciation by $427 million as we continue to invest in projects with a focus on delivering high ROIC. In addition to significant CapEx investments, we deployed our cash in fiscal 2017 by returning cash to shareholders by repurchasing over 10 million shares for more than $650 million. We paid down debt by more than $600 million since the AdvancePierre acquisition, and we increased our dividend in fiscal 2017 by 50% to an annual dividend rate of $0.90 per share.

And as announced in the 10-K filed this morning, our board increased the annual dividend rate for fiscal 2018 by $0.30 to an annual rate of $1.20 per share, representing an increase of 33%. Our fiscal 2017 effective tax rate was 32.3% and, on an adjusted basis, was 33.8%.

Net debt to adjusted EBITDA was 2.4 times on a pro forma basis, including AdvancePierre results for a full 12 months. We are committed to investment-grade ratings, and with the strong cash flows we expect to generate organically along with divestiture proceeds, we expect to bring our net debt to adjusted EBITDA ratio to around 2 times by Q3 of fiscal 2018. When we reach this goal, we plan to resume our share buybacks at a level similar to our repurchases prior to the AdvancePierre acquisition.

Including cash of $318 million, net debt was approximately $9.9 billion. Total liquidity was just over $1 billion. Net interest expense was $92 million during the fourth quarter and $272 million during fiscal 2017. For the quarter, average diluted shares outstanding were 369 million. As announced earlier this year, we anticipate completing the sale of three non-protein businesses currently included in our Prepared Foods segment by the end of calendar 2017 or early calendar 2018. And we expect to use the proceeds to pay down debt.

The net carrying value of these businesses at the end of our fourth quarter was $803 million, and we expect to record a net pre-tax gain as a result of their sale. As noted in our press release issued this morning, these businesses' results are excluded from our fiscal 2018 outlook.

In addition, during our call at the end of September, we announced our Financial Fitness program, which is expected to contribute to the company's overall strategy of financial fitness through increased operational effectiveness and overhead reduction. Through a combination of synergies from the integration of AdvancePierre and additional cost optimization, the program is expected to result in net savings of $200 million in fiscal 2018; $400 million in fiscal 2019, including incremental net savings of $200 million; and $600 million in fiscal 2020, including incremental savings of another $200 million.

The majority of these savings, which are focused on supply chain, procurement and overhead improvements, are expected to be realized in the Prepared Foods and Chicken segments. As Tom said earlier, these savings will fall to the bottom line. In the fourth quarter, we incurred $150 million of restructuring and related charges as part of this program. See our 10-K for further disclosure regarding this program.

Now looking forward, here are some thoughts on fiscal 2018. We expect top line sales growth of around 7% to approximately $41 billion, which excludes the revenue of the three non-protein businesses held for sale. The expected increase is attributed to incremental AdvancePierre sales of $1.2 billion and increases in sales volumes at each of our segments. Net interest expense should approximate $325 million. We currently estimate our adjusted effective tax rate to be around 34.5%. CapEx is expected to approximate $1.4 billion, as we focus on capacity expansion and operational improvements that create long-term shareholder value.

Based on our average share price in Q4, we expect our average diluted shares to be around 369 million. We expect to generate a tremendous amount of cash in fiscal 2018 through strong operational execution and the proceeds expected from the sale of three non-protein businesses. Our balanced capital allocation priorities are governed by a disciplined focus on driving long-term shareholder value, as we plan to use our cash to reduce debt and grow our businesses organically through operational efficiency and capital expansion projects, along with investing in innovation and brand building. Also, we still have the flexibility to acquire businesses that support our strategic objectives, along with returning cash to shareholders through share repurchases and dividend, while maintaining plenty of liquidity and investment-grade credit ratings.

We have a tremendous amount of momentum going into fiscal 2018 as we come off a year of 21% EPS growth. Our first quarter in fiscal 2018 is off to a great start, which strengthens our confidence in achieving adjusted EPS growth of 7% to 10%, to a range of $5.70 to $5.85. In closing, we have laid the foundation for success. We have the right strategy and the right team to deliver growth.

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

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. We will now begin the question-and-answer session. [Operator Instructions] And your first question will come 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

Good morning.

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

A

Good morning, Adam.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

So, maybe first digging a little bit more into Prepared Foods in the quarter, and you called out in the prepared remarks a contract buyout that impacted the quarter. Any way to quantify that? And then just thinking about next year, can you provide some of the details in going from the 8.5% to the 11% to 12%, just bridging it between AdvancePierre, lapping some of the inefficiencies you've had on pepperoni side, maybe changes in brand spend and then in product innovation, et cetera?

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

A

Yeah, sure. Hey, Adam, it's Tom. So, as it relates to the charge, I'm not going to get into a lot of detail, was the right thing to do for us. We have contracts with suppliers that prohibit us from maximizing the internal consumption of materials that we produce ourselves through the Fresh Meats group. So, it was a pill that we wanted to swallow this past quarter to make sure that we're prepared for 2018, and it was the right thing to do.

So, let me try to give you some more information, so I can bridge the 2017 to 2018. Think about we printed $675 million for the year in Prepared Foods, the base sort of APF earnings less what we're going to be divesting is about $100 million, net. Incremental D&A, $55-ish million, $56 million. The Financial Fitness that is going to hit the segment will be about $100 million.

We are making improvements in the legacy business, so what you talked about in terms of pepperoni and other things. So price, I would say, and cost improvements, that should total about $150 million for the full year. So, if you roll those up, it's about a $970 million OI, which puts us in that 11% to 12% range, with sales being about $8.3 billion for the year.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

Okay, that's very helpful color. And then maybe, on similar lines in Chicken, as you think about the improving margin outlook for 2018, you obviously called out volume growth expectations. But on the cost side, I mean, you had some pretty significant investments on the [ph] ground (27:15) and freight expenses on the cost side, just any of the bigger variances on the Chicken outlook for 2018?

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

A

Yeah, sure. So, Chicken will improve on the cost structure by about $150 million. There's the Tyson Production System that we talked about in the past, where it's taking Lean to the next step across the entire system, that'll contribute about $150 million. The APF chicken business, we don't talk about it a lot, but it is a decent-sized business, about $50 million in EBIT.

And Financial Fitness, as we talked about, about $90 million of this total cost takeout in Financial Fitness will hit the Chicken segment. And there's some volume-mix impact, but the total gets us to about $1.4 billion for the Chicken segment.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

All right. Great. That's all very helpful. I'll pass it on. Thanks.

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

Hi. And, Dennis, congrats on your pending retirement. If any CFO started his tenure with trial by fire, it was you in 2008, we remember.

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

A

Thanks Ken, appreciate it.

Kenneth B. Goldman
Analyst, JPMorgan Securities LLC

Q

Just curious for you, or whoever it's appropriate, Tyson's highlighting a few new tailwinds today for fiscal 2018. You're guiding now to over $200 million in synergies and savings, versus the prior $200 million. You see around $100 million less in feed costs than you did the last time you guided.

And I think, if I'm right, your EBIT guidance for the other segment is about $30 million better than last time, but you're not raising total EPS guidance, you're just maintaining it. So, what I'm really trying to get is a sense of whether this means you're just being conservative on EPS, given that it's very early in the year, or if there are maybe some tangible incremental headwinds, I guess, we should be thinking about, too?

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

A

Ken, I'll start, and then maybe Dennis can chime in here. And absolutely I agree with you that Dennis did enter the equation in a trial by fire, just done a nice job. So, yeah, it was certainly early in the year. I mean, we're just out of the box, Q1 looks good, but we have to sort of stay where we are. Absolutely, things look good. We continue to say that absent a shock to the system, we're going to be in a nice position for 2018.

And we also just want to make sure that we emphasize, we are in a growth mode. So, we're going to continue to invest and make sure that we're doing the right things for growth. But the objective is consistent, predictable, sustainable growth, top line and bottom line. So, we're not going to be getting out ahead of ourselves. And certainly, we're making investments, right? We're making investments in CapEx and we guide to that. The year looks good.

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

A

The only thing I would add, Ken, is remember, our Q2 which ends in March is always very erratic with weather patterns and order patterns, never the same from year-to-year. So, that's why we always start out pretty measured in our approach.

Kenneth B. Goldman
Analyst, JPMorgan Securities LLC

Q

Okay. Thank you for that. Okay. And then a quick follow-up, you said that 1Q is off to a very good start. I'm paraphrasing a little bit there. But a couple of things we've noticed. And you guys talked about the Pork business and the industry margins have been weaker, you said that's in line with your guidance, but it's still weaker than it was sequentially. And Beef margins for the industry have weakened as well.

And I know, again, it may not be the same for you. But you've also seen some chicken prices drop. Now, again, you may get the offset with boneless skinless. But in general, I would have thought 1Q would have been a little, not weak at all, but maybe you wouldn't have been quite as bullish on it as what we're seeing, so I'm just trying to get a sense as we dig into the quarter, what you're seeing so far in the first half of the quarter that's been going so well, perhaps?

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

A

Yeah. So, Ken, what's happening with Pork is just about what we expected, so that's in our guidance, right? I mean, that's – yes, things are compressing a little bit, but we had expected that and that's in our full guidance. So, new players are coming in the market, the pie gets cut up a little bit differently based on trying to find that supply of hogs. But like I said, again, all the assumptions were built into our annual outlook of greater than 9%.

What I'd say is this happens the same way every time a new entrant comes into the market, and it's done this for decades. So, being an established processor like ourselves, we like where we are, especially given the team that we have. We'll work our way through it. But on Pork, I would say that it's playing out as we expected and then built into our guidance. And our Chicken margins, I went through the bridge right for the full year, so I think maybe that speaks for itself. But if there's anything that we haven't been clear on, certainly let me know. And Prepared's made the balance that we anticipated, and we're pleased with that.

Kenneth B. Goldman
Analyst, JPMorgan Securities LLC

Q

Okay. Thank you.

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

A

You're welcome.

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

Heather Jones
Analyst, Vertical Group

Q

Good morning.

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

A

Good morning.

Heather Jones
Analyst, Vertical Group

Q

And, Dennis, congratulations on your retirement.

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

A

Thanks, Heather.

Heather Jones
Analyst, Vertical Group

Q

Both my questions are pertaining to Chicken. So, first, for 2018, so you're guiding to 3% volume growth. It seems like about two-thirds of that is AdvancePierre's. And so I was wondering, is the remainder of that, should that be in your value-added segment, given the capacity that you've added there?

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

A

Yeah, Heather. It's about half-and-half. So, half is AdvancePierre, and about half is just organic chicken growth and that is through the value-added, as you described.

Heather Jones
Analyst, Vertical Group

Q

Okay. And then I wanted to talk about like how you're positioned, how your Chicken business is positioned. So, when we're looking at – it's a longer-term question, but as we're looking at over the next two, three, four years, the industry is looking at increased supply, including you guys adding a plant.

But given the relative position of Tyson, how you are net short in some key items, and as you have a larger-than-average value-added business, I was wondering, is it reasonable for us to assume that your relative performance should improve over the next few years as we see that capacity grow. But you guys grow more into value-added, and you would assume that some of these inputs could come under some price pressure. Just wondering if you could speak to that. And is that a reasonable way to be thinking about this?

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

A

It is a reasonable way to be thinking about it. What we're playing for is long-term shareholder value creation. So, as it relates to the chicken supply growth, we're squarely focused on what do we need. The USDA estimates about a 2% growth, and that's in line with consumer demand, I'd say, roughly. Our demand has been outstanding and outpacing.

So, as it relates to serving what we need, we're not going to change our approach. We're going to keep supply short of demand. But because of that demand strength, that's why we're adding on to the plant that we talked about in Tennessee, and it's why we're building another plant. We just want to continue the approach to be net short, but we are focused on value business.

Heather Jones
Analyst, Vertical Group

Q

Okay. Perfect. Thank you.

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

A

You're welcome.

Operator: The next question will come from Robert Moskow of Credit Suisse. Please go ahead.

Robert Moskow
Analyst, Credit Suisse Securities (USA) LLC

Q

Hi. Thank you for the question. And, Dennis, congratulations on your retirement.

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

A

Thanks, Rob.

Robert Moskow
Analyst, Credit Suisse Securities (USA) LLC

Q

You're welcome. AdvancePierre, my recollection, it's a very complicated business, especially in foodservice. It seems that their strategy was to do all things for all customers. So, I wanted to know, as you're integrating the sales forces of your business and AdvancePierre's, how have you managed to hold on to your customers and communicate to them, what product lines you're continuing to make, maybe you're going to discontinue others? How have you executed in that regard?

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

A

Yeah. Sure, Rob. I'd say, what AdvancePierre did really well and continues to do well, is two things. One, they handle complexity very effectively, so they know how to make money and continue to meet the customers' demands. And the second thing is, they taught us how we can be really efficient and, at the same time, focusing on, I would say, the consumer branded business as an area to make money. So, that complexity is something that they're getting paid for, and that will be the expectation that we would always have. But I'd say, they have done a really nice job of managing that complexity.

As it relates to combining the efforts, our selling group has really done a nice job pulling things together. AdvancePierre is very heavily vested in the C-Store space, which was highly attractive to us. Since we combined efforts in Tyson and Hillshire, we've grown more than 75% in the last three years. Not a huge base business, but it's in the hundreds of millions of dollars range and it's a great example of one plus one equals three. We're going to take that to a new level with APF. They have a completely focused effort to make sure the integration is going to go seamlessly and really, really like how we've started the integration. Our customers are giving us positive feedback about that, in addition to the other segments that we serve through the business.

Robert Moskow
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. So, your customers are giving you positive feedback. You haven't lost any business or anything like that?

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

A

No. I mean, there's always a little bit here and there that may come and go. But on balance, we are gaining new business, so that's correct.

Robert Moskow
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. 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 Jeremy Scott of Mizuho. Please go ahead.

Jeremy Scott
Analyst, Mizuho Securities

Q

Hey, good morning. And, Dennis, it's been a pleasure and congrats on the retirement.

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

A

Thanks, Jeremy.

Jeremy Scott
Analyst, Mizuho Securities

Q

Just a couple questions on the Pork and a follow-up here. Just when you say the pork capacity impact was anticipated in your guidance, what does that mean exactly? When do you expect to see the markets settle? And on the 9% plus, how does that flow front half versus back half? Do you expect to close the year above 9% or under 9%? Just maybe a little color on how that trends over the course of the fiscal year.

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

A

Yeah. So, last year or maybe two calls ago, we talked about our front half, back half sort of discussion. That's important for us because we continue to be focused on, there are some things that can flip between quarters. It's an annual outlook. And when we say that it's playing out as we had expected, demand is so strong, I would say export demand is really strong. And we're seeing that, that compression is about what we thought. So, I don't know what more I can say to that, Jeremy, but other than like I said before, this is something that we've seen this play. It's not the first time this has happened. And, yes, there'll be a little bit of choppiness, but we feel like we'll level out to the right place. And what we're guiding to is what we think will happen.

Jeremy Scott
Analyst, Mizuho Securities

Q

Okay. And then just going through your 10-K you recently filed, so it seems strong growth in utilization rates for Beef and Pork, but a bit surprise that your capacity utilization didn't nudge you back up in Chicken. And so, how do you reconcile that with your commentary that you're hitting your ceiling on your tray pack operations? And are there underperforming plants that you're simultaneously ramping down and as you grow your mix of breast meat purchases in the year? Just walk us through maybe some of the puts and takes as to why that rate didn't nudge back up.

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

A

Yeah. It's a buy versus grow strategy that we have. So, I think that we'll continue to play. It works to our advantage, particularly when breast meat is very low. So, that's how we play that continuously.

Jeremy Scott
Analyst, Mizuho Securities

Q

Okay. Thank you.

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. And, Dennis, congratulations on your retirement.

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

A

Morning. Thank you.

Akshay Jagdale
Analyst, Jefferies LLC

Q

So, I wanted to ask about Chicken. How should we think about the margins? Like, when we think about overall shocks to the system, which you talked about, on the one hand, you have the grain shock, right? And on the other hand, you have any volatility in chicken commodity prices. And it seems like you've already proven out that commodity swings can be absorbed without any volatility in your margins.

So, can you just talk through the commodity chicken price swings, and how if at all, it has any impact on your margins outlook, because there is a view that potentially commodity chicken prices might be weak next year? So, in that environment, will you still be able to produce 11% margin is really the question. Thanks.

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

A

Yeah. First, Akshay, I have to say, as everybody else has been congratulating Dennis, he's got to be here through April and so you'll hear from him again on next quarter's call. But, yeah, so the Chicken margins, like we said, we believe to be around 11%. And we expect our business to grow, especially in value-added frozen and 3% overall. We do believe that we're expecting similar feed environments. We're looking at the forward curve at this point, it seems like it's going to be benign.

So, as it relates to commodity breast meat or cheaper products, we're heavily weighted towards further processed breast meat sales. So, we tend to make more money in low commodity breast meat markets rather than high ones. We've done a nice job, as you know, diversifying our price type. So, we don't tend to be as volatile. There's some obvious economic benefit between the pure spread and buy versus grow. But the long-term value is generated by selling all the parts that we have [ph] to find a home floor (41:52), so as it relates to the commodity markets being low, that's something we see, frankly, as an opportunity.

Akshay Jagdale
Analyst, Jefferies LLC

Q

Perfect. And one on Prepared Foods, if I can. There's been a lot of choppiness, right, quarter-to-quarter, year-to-year in a way. So, I'm really focused on the cadence of the margin and the top line delivery, especially as you sell these non-core assets. So, can you talk a little bit more about maybe, one, first quarter, if we should be expecting Prepared Foods margins to inflect back to the annual number in the first quarter? Just try to make sure expectations are in the right place short term. Thank you.

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

A

Welcome. Prepared Foods is off to a good start. So, that's all I'll say, how we're going to finish the quarter. What I would say is our innovation efforts are really kicking in and paying back. I've talked in my prepared remarks about how our future innovation is scoring. And I think it's going to put us in a position where you have – not just on Prepared by the way, also on Chicken – some really strong results. We're in the right categories, we're in the right part of the store.

So, in the Prepared business, one of the things we're also certainly benefiting from is the perimeter. Certainly, there's a lot of growth there. But also, the center store, if you include frozen, frozen is growing for us in the center stores. Certainly, I know that shelf stable's having some challenges, but the frozen section is growing well. And that's heavily indexed towards Prepared. Certainly synergy capture, everything that you already know about. In terms of how it flows and the cadence, I won't give you any thoughts on that. I'd just ask you to focus on the year-end and the fact that I told you – Dennis told you that the first quarter has started really well.

Akshay Jagdale
Analyst, Jefferies LLC

Q

Thank you. I'll pass it on.

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 Leith Piken
Analyst, Cleveland Research Co. LLC

Q

Yeah. Hi. I just wanted to circle back a little bit more to the Pork side of the business. If you could talk a little bit about what you're doing to make sure you have enough supply procured and also your expectations for, if you think some of the new facilities are eventually going to go double shift, or how much the labor situation may or may not allow those new facilities to go double shift?

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

A

We don't – what I'll say, Michael, is, we don't have any problem getting the hogs that we need. We're in a pretty good situation there. So, I don't know what else to say other than, the outlook includes anything that is going to happen in the Pork business. We don't find any challenges as it relates to getting what we need and, as you know, it's a spread business.

So, certainly, exports are going to continue to be supportive, and we are a big player in exports, so we like that. So, the fact that the business is doing – going through a margin compression right now, we thoroughly thought about that, analyzed it, and it's where we wound up with our guidance.

The other thing I'll say is, we are seeing some growth in NAE pork, still a really small percentage of our business, I talked about it in my prepared remarks. But we have access to the hogs if we have demand, and we're seeing demand increasing. So, that's something that is also a small, but supportive piece of our equation as it relates to margin.

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

A

Hey, Michael, we typically don't like to speculate on our competition. That's just – it's a fruitless exercise, in our opinion.

Michael Leith Piken
Analyst, Cleveland Research Co. LLC

Q

Okay. I guess, in general, though, I mean, you guys had talked about raising wages. Maybe you could give us a little more color in terms of kind of the competitive environment, and what type of wage or cost inflation we should expect kind of going forward there?

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

A

Yeah. Again, it's in the outlook, but I would say we have increased wages, and we started doing that about a year ago. And it's to make sure that our turnover rates are lower. We achieved lower turnover. It's been successful. We've done a nice job, I think, in all of our plants, not just on Pork, but also Beef and Prepared Foods and Chicken. And we are also doing things to make sure that we're running well within control; to the extent that we need to modify our line speeds, we're doing that. And so again, everything is in our guidance, but we have increased wages at our plants.

Michael Leith Piken
Analyst, Cleveland Research Co. LLC

Q

Okay. Thank you.

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

A

You're welcome.

Operator: The next question will be from Ben Theurer of Barclays. Please go ahead.

Benjamin M. Theurer
Analyst, Barclays Capital Casa de Bolsa SA de CV

Q

Hi. Good morning, gentlemen, and well, congratulations on the results. I just want to go back on the Prepared Foods business and your outlook into 2018. And obviously, in the fourth quarter, you had a couple of one-time charges. You had the impairment, the $45 million, the $82 million from restructuring. There was another part on the restructuring booked into Chicken.

So, if I do the math and I'll actually adjust for that, I end up with a margin that's closer to like 13% for the quarter. So, I just want to understand, with your guidance into 2018 and the outlook, 11% to 12% margin, that would be a notch below my adjusted thoughts around the fourth quarter. So, could you elaborate a little bit if there are any additional charges, restructuring-wise, et cetera, that we should take into consideration to get to that 11%, 12% margin in 2018? Thanks.

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

A

Yeah, Ben, so nothing else that's not disclosed in the 10-K. What I'd say as it relates to more the longer-term potential for Prepared Foods margins. I've said before, we'll say again, we expect 12% to 14% is certainly within the horizon. Again, innovation is a big key to that, continuing to get the synergy capture, frankly, over-delivering to the extent that we can know we have a very diversified business. And we have a business that is very focused on making sure we're growing, both with customers and through consumer relevance, on innovation. But also the customer sees us as a partner. So, we are a category captain in Prepared Foods almost everywhere. I mean, everywhere that we would want to be, I'd say.

And we are balancing our approach with customer brands. There are certain categories that make sense for us to be focused with our customers on driving their growth, regardless of whether or not it's our brand, and we're going to make high margins on those businesses as well. So, I don't know if that scratches the itch for you, but I would say that longer term, we see those margins in that 12% to 14% range at some point in time.

Benjamin M. Theurer
Analyst, Barclays Capital Casa de Bolsa SA de CV

Q

Okay, perfect. Thanks. And then just one follow-up on Beef, I mean, clearly, the 6% full year margin was significantly better than what everybody would, I guess, expected. And now your outlook into 2018, again just above 5%, so is that going to be significantly above 5%? Or do you actually expect margins to slightly contract compared to 2017, considering that livestock supply and so on looks pretty favorable, and actually even more favorable into 2018 than it looked into 2017?

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

A

It does, use 5% as the number, that's where we're guiding towards, so I wouldn't run away with that. What we're seeing is certainly more cattle next year, we are in the right locations, we like where we're located. And certainly, placement levels show a lot of cattle on feed. So, supplies are growing in our regions. That is why we're bullish, no pun intended. But the idea of us being properly positioned in the right regions, I'd say, is what you should focus on. And 5% is the number you should model.

Benjamin M. Theurer
Analyst, Barclays Capital Casa de Bolsa SA de CV

Q

Okay. Perfect. Thank you very much.

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

A

You're welcome.

Operator: The next question will come from David Carlson of KeyBanc. Please go ahead.

David Carlson
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey, thank you very much. Tom, my question relates to the Beef segment. Obviously, some very strong results during the quarter. I think you called out increased export activity in the press release.

With China recently lifting the ban on trade with the U.S., I was hoping you might be able to frame up the opportunity as it relates to export activity longer term. And also, especially given the experience the incoming CFO has with international, I guess as you look at it today, how long can export activity serve as a tailwind for the company?

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

Yeah, we think it could be a multi-year phenomenon. And we like where we're positioned as a country, frankly, and certainly where Tyson Foods is positioned. We were the first company to ship beef to China after the resumption of trade, and we have a huge market share already in that market. Our brand, ibp, is actually a very well recognized brand in China. And this is great for a number of reasons, but the primary reason that we think about is that it creates domestic disappearance. So, for us, anything that is in support of exports is really helpful.

Having access to that market allows us to be in a position to have the meat cleared at a better price. There's no question. And our original assumptions on what we're including in our guidance, we are expecting strong export trade continuing. What I'd say is global supplies are relatively flat, right, and coupled with strong demand for protein overall, then it really makes a nice environment for us. And, yes, I'm fully counting on Stewart bringing his full value on international with him.

David Carlson Q
Analyst, KeyBanc Capital Markets, Inc.

Thank you, guys.

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

You're welcome.

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

Farha Aslam Q
Analyst, Stephens, Inc.

Hi. Good morning.

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

Hey, Farha.

Farha Aslam Q
Analyst, Stephens, Inc.

Dennis, congratulations. You're leaving the balance sheet in a fortress whereas you inherited it at a challenging time.

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

Thanks. You're right.

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

A

Stewart is smiling ear to ear.

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

A

It's a great balance sheet.

Farha Aslam
Analyst, Stephens, Inc.

Q

My question really focuses on your NAE efforts. Could you talk about what percentage of that Chicken business is now NAE? Kind of the margin benefit you're getting from NAE, and how much additional cost do you incur by producing NAE?

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

A

Yeah. So, Farha, certainly, the benefits are economic, but also consumer preference. I would say, to the extent that we didn't move to NAE, we'd be having a very different conversation. The consumer does expect it, and by the way, the customer expects it. So, gatekeepers within the customer are asking continuously to be NAE and so for us, we're fully NAE now, and we're actually buying meat on the outside that's NAE. So, in terms of the economics, what I would say is the cost, a little bit more on the upfront, and we've been able to swallow that cost and then remove that cost.

And I think we're in a great position today, very few of our flocks are actually treated. And so we feel like it's a competitive advantage today, whether or not it'll be for long term, who knows, but that has been a key to our growth. We feel like so far – so, I'd say the latter part of 2017, but also moving into what we've guided for 2018, [ph] which is the total (53:47) 3% which doesn't sound like a huge number, but in our business it's meaningful.

Farha Aslam
Analyst, Stephens, Inc.

Q

That's helpful. And then, Dennis, perhaps, you could give us just some more color on that $90 million that you expect in Financial Fitness in Chicken and $100 million in Prepared Foods. Could you break it down a little bit more and kind of share with us where that $90 million roughly will come from and where the $100 million will roughly come from?

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

A

Well, in both cases, it's going to be coming from the overhead reductions, supply chain efficiencies and procurement, are the largest categories. And so given that they both use largely the same distribution system, it's natural that they would largely both get the benefit of those synergies.

Farha Aslam
Analyst, Stephens, Inc.

Q

Okay. And the procurement really stems from that buyout of the contract. And I just want to make sure that internal sourcing contract buyout didn't cause this extraordinary, but rather folded them into fourth quarter earnings?

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

A

To be clear, the procurement – the raw material buyout was, it was in Q4, but is not a major component of the procurement savings. Think in the procurement savings, leveraging Tyson's scale with billions of pounds at some rate that's more efficient than it was at AdvancePierre.

Farha Aslam
Analyst, Stephens, Inc.

Q

Okay. That is helpful. Thank you.

Operator: The next question will come from John Colantuoni of Morgan Stanley. Please go ahead.

John Colantuoni
Analyst, Morgan Stanley & Co. LLC

Q

Good morning, everyone.

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

A

Good morning.

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

A

Hi, John.

John Colantuoni
Analyst, Morgan Stanley & Co. LLC

Q

Hey. It's been about six months since Tyson completed the acquisition of AdvancePierre. Can you just walk us through some of your learnings and any practices from the company you've adopted since?

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

A

Absolutely. Let me talk about three things. One is, we talked about a few times on this call, but it's the focus on customer growth. And we, as Tyson, prior to AdvancePierre, very focused on customer growth. But I would say, AdvancePierre cranks that up a notch. They really are focused on making sure the customer gets what they need as it relates to branded products or customer brands.

Second thing I'd say is the level of accountability that the team has across the organization. We were highly accountable at Tyson. I would say, they are extremely focused on removing non-value-added costs, so things that aren't valued by the customer; and having a disciplined approach to looking at it on a weekly basis [ph] where are we running (56:36) yellow. And so we are adopting that across the system. There's some ideas that they brought to the table that, I think, are very, very exciting.

And the third is just the channel, channels that they played in predominantly in convenience stores provide us some great benefits, enthusiasm about what the program together can offer overall to customers because that is a space that is growing. And also, I would kind of throw in the retail perimeter, the products that are served either ready-to-heat or ready-to-eat. They have done a very, very nice job. So, those three things I'd point to that there's a lot of other learnings we spent a lot of time talking about it, but I'd highlight those three.

John Colantuoni
Analyst, Morgan Stanley & Co. LLC

Q

Thanks. And in the past, you've mentioned considering raising your normalized targets for Beef and Prepared Foods, maybe even at some point Chicken. Is this something we should still expect you to update us on in the second half?

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

A

We will update you, like I said last quarter, and give you our then current thinking. And we believe that we continue to execute taking costs out or holding costs flat, while we're growing the business we will leverage the model for expanding margins. So, absolutely, we'll talk about it again, and you should expect us to be back to you with [ph] a receipt (58:02) on that.

John Colantuoni
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Great, thanks.

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

A

You're welcome.

Operator: The final question today will come from Ken Zaslow of Bank of Montreal. Please go ahead.

Kenneth Zaslow
Analyst, BMO Capital Markets (United States)

Q

Hey, good morning everyone.

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

A

Hey, Ken.

Kenneth Zaslow
Analyst, BMO Capital Markets (United States)

Q

Dennis, congratulations, and we appreciate all your help through the years. And best of luck for sure.

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

A

Thanks, Ken.

Kenneth Zaslow
Analyst, BMO Capital Markets (United States)

Q

Tom, can I ask just two questions? One is, just to be clear, on 2018, you haven't even reported your first quarter, and you gave initial guidance a month or so ago. Is your confidence higher or lower relative to that month ago and why?

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

A

You always ask that question. It's difficult for me to say that how much confidence you should take from this other than we're very confident, and that's reflected in the outlook. We have a great year ahead of us. We're continuing to grow where we want to grow value-added versus commodities, certainly, in Chicken and Prepared Foods. We talked about the Core 9 results and our Focus 5 foodservice. The balanced portfolio in terms of the customer channels is a big deal. So, we like the traction we're getting at those customers that where we're serving the perimeter of the store and convenience.

And yeah, I don't know how to quantify, Ken, because we have guidance other than to say that I am extremely enthusiastic about everything that I'm seeing, and I think the team would chime and say the same thing. Chicken should benefit from the move to NAE. We do also, by the way, have an organic offering. Certainly, Prepared Foods is well positioned. I would say one other thing is maybe it's on the Financial Fitness, we had to lose some weight. So, that's the reason why we call it Financial Fitness. We had some weight to lose out of the box and we have to have process discipline to keep the weight off. And that's making us really confident about how we can continue to have great cost structure as we grow, as I mentioned a moment ago. So, sure, overall, I'd say very optimistic.

Kenneth Zaslow
Analyst, BMO Capital Markets (United States)

Q

And my second question is, is can you give us concrete synergy examples of what you're actually doing? Are you moving product in-house to make the sandwiches yet? Are you doing more like actual concrete anecdotes that kind of show the progress, not just high level, but like – of a couple examples of what you're actually doing on the synergy level. Are you automating the chicken process yet? What are you doing physically and concretely?

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

A

So, I'll say two things. First is that I can't name names. As you can well imagine, that's not fair to suppliers. But we have negotiated cost out of our suppliers, right, and not small amounts, large amounts. That's number one. Number two is we are being able to look at where do we make products the least cost and maximize those plants first and so that is underway, and it's certainly something that will continue as well as there will be probably – not probably, there will be some plant rationalization at some point in the future.

The other thing is just the pricing side – it was not a cost takeout, the pricing side of things is I think there's a lot of proper focus on that. Where do we need to make sure we're taking the discipline that AdvancePierre had on pricing? And maybe the final thing on cost is as we look at our products and how they are made, we are seeing some things that AdvancePierre did that was extraordinary in terms of making sure that we're flexible on formulas, sort of utilize the raw materials that are the best for us at that point in time, given the costs, without sacrificing and in some cases, increasing the quality. So, that's a big deal, and we're seeing a lot of savings from that already that we have implied into our forecast. We're excited about that, so hopefully those will help.

Kenneth Zaslow
Analyst, BMO Capital Markets (United States)

Q

That's great. Thank you very much.

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

A

You're welcome.

Operator: And ladies and gentlemen, this will conclude our question-and-answer session. I would like to turn the conference back to Tom Hayes for any closing remarks.

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

Excellent. Thank you all for the great questions. I really appreciate it. And before I go, I do want to say to Dennis and Stewart, we are both looking to you – I'm looking to you to have a great transition. I know that as we transition from one superstar to the next, it's going to be seamless. And it's very exciting.

So, also, as I've been prone to say in the last couple of quarters here, I'd like to thank the Tyson team members that are listening to the call because they are on the call and we had another record year, which is really, really good and we're all very excited about that. But I already have seen tremendous amount of work that is focused on delivering another record in 2018.

And so I appreciate in advance all the work that everybody's doing, so thank you. And then, because we're not going to talk to you between here and the end of the year, hopefully, everybody has a safe and happy holiday season. And so we're going to be kicking into holiday season shipments, which is great, but I would like to say happy holidays to everybody and certainly, please stay safe. Thank you very much for dialing in today.

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