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Tyson Foods, Inc. (TSN)

Q1 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Tyson Foods First 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.

I would now 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 First Quarter Earnings Conference Call for the 2018 fiscal year. On today's call are Tom Hayes, President and Chief Executive Officer; Dennis Leatherby, our outgoing CFO; and Stewart Glendinning, who officially becomes our Chief Financial Officer on Saturday. Slides accompanying today's prepared remarks are available as a quarterly supplemental report on the Investor Relations 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 Thursday, February 8, at 9:00 AM 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 re-distribution, re-transmission or rebroadcast of this call in any form without the expressed written consent of Tyson Foods is strictly prohibited.

Because our annual meeting of shareholders takes place this morning, we need to limit the call to an hour so we can get to the meeting on time. I ask that you honor the operator's one question, one follow-up instructions, and get back in the queue if you have additional questions. We want to get to as many of you as possible, so we'll be moving quickly through the Q&A while answering your questions as fully as possible.

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

Thomas P. Hayes

President & Chief Executive Officer, Tyson Foods, Inc.

Okay, awesome. Thanks, Jon, and good morning, everybody. It's great to be with you on the line today for the first time this year. At Tyson Foods, we're creating a modern food company with a diverse portfolio of protein brands. Building on our momentum from a record year in fiscal 2017, we're off to a strong start in fiscal 2018. We delivered solid results in all of our segments: Beef, Pork, Chicken and Prepared Foods. And our retail and food service sales are outpacing the industry. I'll provide more context on our performance across our segments and channels in a minute.

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So looking at the bigger picture, this was our second strongest quarter of operating income in company history, behind only the same period of last year. We also delivered record adjusted earnings of $1.81 per share. That includes a $0.21 benefit from the recent tax legislation. But even without it, EPS still would've been at an all-time high. In addition, we grew volume 5% in the quarter, and notably, growing value-added volume by 9%, driven by organic sales and the recent acquisitions. We're encouraged by the position we're in to start off the year, even as we experience the typical seasonality of our second quarter.

What's constant is our mind set for growth. Tyson Foods is transforming into a modern food company with unmatched scale, and we're expanding our reach into new areas as we integrate the capabilities of AdvancePierre and Original Philly. As demand for protein grows, we're well-positioned to take advantage of this opportunity.

So as we shared last year, we're also positioning ourselves for growth through ongoing financial fitness. In Q1, we realized $37 million in cost savings. We're confident we'll achieve a net savings in excess of $200 million for the year and become a faster and more agile business in the process.

So let's talk about each of our segments. Please note my references to operating income and operating margin will be on an adjusted basis. In Q1, the Beef segment generated operating income of $257 million with a 6.6% operating margin. While solid, these numbers are down compared to Q1 of last year, which was the segment's best quarter ever. Volume was up 4.5% and revenue was up over 10%, driven by strong domestic and international demand. An expanding U.S. herd is providing our plants with ample supply of cattle and we expect this to continue through FY 2020. With strong domestic demand and robust exports of U.S. beef, the Beef segment's margin should approach 6% in fiscal 2018.

In the Pork segment, in the first quarter we delivered $152 million in operating income with an 11.8% margin. While those are very strong results, income and margin declined compared to the record results of Q1 last year. Volume was down 2.6% as we ran to manage our margin. Revenue was up 2.5% on increased hog costs. As expected, the new capacity in the industry has compressed our margins from recent record highs. That said, our margins are still above normal, and we expect fiscal 2018 to be around 9%.

Although we faced a challenging environment related to labor, freight and small bird pricing, the Chicken segment generated operating income of $281 million with a 9.4% operating margin. Strong demand in our base business and some incremental volume from AdvancePierre helped drive volume up 7.3% and revenue increased nearly 11%. Notably, the segment also benefited from about $14 million in financial fitness savings.

We continue to invest heavily to grow this segment. We invested $135 million in a new plant in Green Forest, Arkansas, to add further processing capacity as we grow with our major commercial chain customers. In line with consumer desires for fresh protein, we announced a new $300 million complex in Humboldt, Tennessee, that will produce retail trade pack fresh chicken. We expect this new plant will start up in late 2019 or early 2020. We're also exploring automation and technology opportunities in positions that are more labor-intensive or at higher turnover. We believe our sales volume in the Chicken segment will grow more than 4% this year, driven by organic growth and a full-year of AdvancePierre, and return on sales should improve to around 11%.

The Prepared Foods segment delivered a record first quarter in both operating income and return on sales with $273 million and 11.9%, respectively. Volume was up 11.6%, primarily due to incremental volume from AdvancePierre, whose product mix moved revenue higher by 21%. Notably, Prepared Foods also benefited from about $24 million in financial fitness cost savings. I talked earlier about our position as a modern food company

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with unmatched scale. In the Prepared Food segment, we have aligned our strategy, people and actions to build on our advantage and unlock the top and bottom line potential of this business.

We have a lot of exciting work happening in Prepared Foods and we look forward to sharing it with you at CAGNY on February 20. As we continue integrating the AdvancePierre and achieving financial fitness cost savings, we expect the Prepared Foods segment to have a strong year. Due to the seasonality of our sales, there will be the usual quarter-to-quarter variability, but for the full-year, we expect an operating margin of around 11%.

Across all segments, freight costs have escalated as trucking capacity has tightened nationwide. We expect these costs to continue to rise as carriers compete for drivers and new federal regulations come into play. We estimate this will add more than $200 million to our costs this year. At the same time, marketplace dynamics are driving wages higher, pushing up our labor cost. These additional costs are included in our outlook. However, we're assuming we'll recover the majority through pricing.

Turning from segment results to our sales channels, we continue to deliver strong retail performance, outpacing all other top 10 CPG food manufacturers. Our dollar sales growth rate was three times that of total food and beverage. Our volume grew 1.5%, while total food and beverage declined 1.1%. And our Core 9 volume grew 2.2%, significantly outpacing total food and bev.

Within the Core 9 categories, our customer-branded business or private label also drove growth. We're acting on consumer demand for retail fresh chicken. Fiscal year-to-date, the Tyson brand grew 13% in dollars and 6% in volume, which is three times the category growth rate. Our premium Tyson Trimmed & Ready line grew dollar sales 29% fiscal year to-date.

In the food service channel, restaurant traffic dipped negative in the most recent quarter, although check size grew. With a 4% increase in dollar sales for the quarter in our broadline distribution business, our growth rate doubled that of the industry. Tyson is very strong in the broadline food service area and our volume sales in tracked categories grew 3.6% over the last 12 months. Our broadline Focus 6 product lines are up more than twice that with 8% growth over the past year. But I should point out following our acquisitions of AdvancePierre and Original Philly, we've added Philly steak to our Focus product categories and that brought our Focus 5 to our new Focus 6.

In the food service channel, our poultry sales to major chains showed significant growth in Q1 versus a year ago with a 23% increase in dollars sales as chains promoted chicken in both limited-time offers as well as new permanent menu items.

So finally, I want to touch on tax reform. We expect our adjusted effective tax rate to be about 24% this year, down from 34% last year. So this is obviously significant for us. Our priorities for capital allocation remain the same, investing to sustainably grow our businesses, repaying debt, making acquisitions that support our strategy and returning cash to shareholders through share buybacks and dividends. With the additional capital, we'll be able to deliver on these priorities faster.

In fiscal 2018, we expect incremental cash flow in excess of $300 million. More than $100 million will be paid to qualified front-line employees. That means around 100,000 of our team members will receive a one-time bonus in the next few weeks. Other major uses of the cash will be deploying CapEx projects faster than originally planned, employee training and development, advancing our sustainability agenda and innovation projects.

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As Jon said earlier, we have both Dennis and Stewart with us this morning. This will be Stewart's first time speaking with you as incoming CFO, and he'll be providing the outlook for the rest of the year. I'm confident you'll get to know and respect him as much as I already do.

This is bittersweet for many of us though, because it's Dennis's last earnings call. His leadership has put us in a position of financial strength that we're in today, and I can't imagine where we'll be without him. Dennis, on behalf of everyone at Tyson, thank you for nearly three decades of service and dedication. We'll miss you, but we're extraordinarily happy knowing that you'll be enjoying the next chapter of your life.

And now I'm going to turn it over to you for the financial report.

Dennis Leatherby

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

Great. Thanks, Tom, and good morning, everyone. Before I get started with my prepared remarks, I'd like to say that my 28 years here at Tyson have been a rewarding experience as we overcame adversity to not only grow but thrive. We transformed from a chicken company to the biggest U.S. food company. It was an amazing experience and a privilege to serve as CFO. I want to thank the many great Tyson team members I've had the privilege to work with over the past 28 years, and especially my team.

With that said, let's focus on our performance. Q1 was another record quarter, highlighted by record results in our Prepared Foods segment. The ongoing investments in our businesses continue to provide consistent, stable growth as we are on track for our sixth straight record year. First quarter revenues were up over 11% to $10.2 billion as we grew sales volume by 5.2%. Excluding incremental volume from the AdvancePierre and Original Philly transactions, base volume grew a solid 2.6% compared to prior year. Adjusted operating income was $950 million in the first quarter, with our earnings profile shifting more to our value-added segments with record performance in Prepared Foods and solid results in Chicken in a difficult environment.

Total company adjusted return on sales was strong at 9.3%, as each of our segments performed within or above their normalized ranges. Our record adjusted EPS of $1.81 includes a $0.21 benefit from the impact of tax reform and is a 14% increase in adjusted EPS compared to $1.59 last year. Our operating cash flow for the first quarter was $1.1 billion, and we spent $296 million on capital expenditures. This outpaced our depreciation by $121 million, as we continue to invest in projects with a focus on delivering high ROIC.

Net debt to adjusted EBITDA was 2.3 times on a pro forma basis, including AdvancePierre results for the 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 and additional cash from lower tax rates, we expect to bring our net debt to adjusted EBITDA ratio to around 2 times by Q3 this year and we'll consider additional share repurchases when we reach this goal.

Total liquidity was $1.1 billion at the end of Q1, including cash of $293 million. Net debt was $9.4 billion, a reduction of nearly $500 million, as we used our strong cash flows during the quarter along with net proceeds of $125 million from the sale of a non-protein business to pay down debt. Net interest expense was $86 million during Q1. For the quarter, diluted shares outstanding were $371 million. Our adjusted effective tax rate in the first quarter was 22.1%.

We're excited about the positive impact the tax reform will have on the company, as both EPS and cash flow will be significantly impacted. Stewart will provide some additional details on the incremental cash flows in a moment.

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In the first quarter, we had a one-time noncash tax benefit of $994 million related to a re-measurement of deferred tax liabilities to reflect the reduction in the U.S. corporate tax rate. This impacted our GAAP effective tax rate significantly. We currently expect our adjusted effective tax rate to be approximately 24% in fiscal 2018 and 25% in fiscal 2019. As previously mentioned, our adjusted EPS benefited by $0.21 in the first quarter due to tax reform. The full year fiscal impact of tax reform is expected to increase our adjusted EPS by an incremental $0.85 from our previously-stated guidance.

Before I turn it over to Stewart, who'll walk us through our capital application priorities and fiscal 2018 outlook, I want you to know that Stewart is a great addition to the team. And I'm confident he will take us to the next level of our potential as a company.

Stewart?

Stewart F. Glendinning

Incoming Chief Financial Officer, Tyson Foods, Inc.

Dennis, thank you for the kind words, and best of luck to you. I'm happy to be here and excited about the fundamentals we have to work with. Tyson is in an enviable position as the largest food company in the U.S. It has an increasingly branded product portfolio and a strong team, whose record speaks for itself. And while we expect over $300 million of incremental cash flows as a result of tax reform, our capital allocation priorities have not changed. We will continue to be disciplined in our long-term focus on driving shareholder value, as we plan to continue to use our cash to reduce debt and grow our businesses organically through sustainable operational efficiency and capital expansion projects, along with investing in innovation and brand building.

Also, we will still have the flexibility to acquire businesses that support our strategic objectives along with returning cash to shareholders through share repurchases and dividends, while maintaining plenty of liquidity and investment-grade credit ratings.

Now, here are some additional thoughts on fiscal 2018. We expect top line sales growth of around 6% to 7% to approximately $41 billion. The expected increase is attributed to base volume growth and incremental advanced [ph] beef (00:18:01) sales of approximately $1.1 billion. Net interest expense should approximate $335 million.

As Dennis mentioned, we currently estimate our adjusted effective tax rate to be around 24%, which reflects the impact of tax reform. CapEx is expected to approximate $1.4 billion to $1.5 billion, which is up about $100 million from our previous guidance due to incremental reform – tax reform investments, as we accelerate spending on additional capital projects to further unlock operational improvements with a focus on sustainability and innovation. Based on our average share price in Q1, we expect our average diluted shares to be around $371 million before share repurchases.

Overall, Q1 was a great quarter with more than $100 million improvement in our value-added segments: Chicken and Prepared Foods. The remainder of fiscal 2018 is consistent with how we viewed it coming into this year. And with the incremental tax – with the incremental impact related to tax reform of $0.85, we are now raising our annual adjusted EPS guidance to a range of $6.55 to $6.70.

To be clear, our previous guidance has not changed other than accounting for the positive impact of tax reform. This new range is approximately 23% to 26% of the fiscal 2017 adjusted EPS and represents a 5-year compounded annual growth rate of approximately 24%.

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In closing, our Q2 is historically choppy. And with added margin pressure and increased freight and labor, as Tom described, this Q2 will be no different. However, despite these challenges, we do expect Q2 earnings growth compared to prior year on both a pre-and post-tax reform basis as we remain focused on executing our strategy to drive long-term shareholder value.

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

QUESTION AND ANSWER SECTION

Operator: Thank you, Mr. Glendinning. Ladies and gentlemen, we will begin the question-and-answer session. [Operator Instructions] And your first question will come from Jeremy Scott of Mizuho. Please go ahead.

Jeremy Scott
Analyst, Mizuho Securities USA, Inc.

Q

Thank you, and good morning. And thank you, Dennis, for everything, and best of luck to you in the future.

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

A

Thanks, Jeremy.

Jeremy Scott
Analyst, Mizuho Securities USA, Inc.

Q

I just wanted to ask on Prepared Foods, clearly, a strong quarter at 11.9% and you upped your synergy target for the year, but you nudged down the guidance 11% to 12%. Is this primarily the freight issue that you called out? And as you move through the year, can you give us a sense of how much that $200 million – how much of that $200 million you are going to have to eat and how much can be passed through and maybe frame it quarter to quarter? It sounds like 2Q, you're going to have the brunt of it. But if you'd help us with the next quarter and the back half of the year, that'd be helpful.

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

A

Yes, sure. Hey, Jeremy. It's Tom. Absolutely. It's great performance in the first quarter. We're extraordinarily excited about it. We're extraordinarily pleased and proud of the team and what they've been able to do. As you called out, freight is a tough one. I mean, it's affecting all of our business so, to be clear, not just Prepared Foods. So, we do plan to and are in the middle of pricing for it, and it's not always easy to do that. But it's something that we have to do because it's a cost. We got to pass it through.

And ultimately, the consumer is going to pay for it at some point, but it's – to say how it's going to actually hit every quarter, I can't give you that specificity. But suffice it to say, we feel great about Prepared Foods business. It's still early. It's Q1. Typically, Q4 is little bit challenging for us, as you know. So, the mix of products would be different, consumption base, schools being of season and so forth. But we think that the year is going to be fantastic. We're guiding to around 11%, and we will overcome the challenges that we have with freight.

Jeremy Scott
Analyst, Mizuho Securities USA, Inc.

Q

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Great. And maybe on the – just on that same issue, you called out it impacted every segment. Can you give us a sense of the impact in the quarter across each of your segments?

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

A

Not the quarter. We told, for the year, it's about $200 million, but not specific for the quarter. We can't. Sorry.

Jeremy Scott
Analyst, Mizuho Securities USA, Inc.

Q

Okay. I'll jump back in. Thank you.

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

Heather Jones
Analyst, Vertical Group

Q

Good morning, and congratulations, Dennis. I hope you enjoy your retirement.

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

A

Thank you.

Heather Jones
Analyst, Vertical Group

Q

Yes, you're welcome. On Chicken margins, you mentioned a difficult environment during Q1. And clearly, we saw the dynamics in breast meat and wings. But you guys are a net buyer of breast meat. And so, I was just wondering if you could – because Chicken – if you take away the non-recurring comp costs from Q1 of 2017, Chicken was essentially flat year-on-year. So, I was wondering if you could give us a sense of what you're talking about when you say it was a difficult environment.

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

A

Yes. So, the – it's what we talked about earlier with Jeremy, Heather. It's between the freight and weather. There were some issues, certainly, that affected us. But what I'll say is we believe it will be around 11% for the year. And it's critical that we recover these increased freight costs. We're pretty tight right now. We are very full. We have a lot going for us, and that's a good thing on one hand.

On the other hand, to the extent that we have any bumps on the road, it does cause us to maybe work not as efficiently as we potentially could have. , o it's really freight and labor. We're overcoming that. We're getting on top of whatever little inefficiency that creates. But I'll just refocus you back on the full year margins of 11%. We're extraordinarily excited about that. And then, not for nothing, you got to look at the growth. The growth in the Chicken segment is phenomenal, right, compared to our competitors – even our own expectations. I mean, I am so proud of what that team has been able to do.

Heather Jones
Analyst, Vertical Group

Q

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No, it's impressive that you're able to maintain your margin in the face of the freight issues. It's a difficult environment to be taking price in. And so, I was just wondering, based upon the discussions you've had thus far, I mean, what's your level of confidence that you're going to be able to recover the majority of this and be able to make the guidance?

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

A

Yes. It's pretty high. What I'll tell you is the sales team is great at representing what we do really well and the value that we provide. We are so focused on our customer's growth that nobody wants to take a price increase for sure, to be clear on that. However, we have partners, and they want to grow the business. They understand the value that we play in their overall growth, whether it's branded Tyson – which is growing like crazy – which I talked about, or private label products. So, not an easy discussion, absolutely. But the sales team is after it. And I feel very bullish about our prospects of getting that ball covered.

Heather Jones
Analyst, Vertical Group

Q

Awesome. Thank you so much.

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

A

Yes. You're welcome.

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

Thomas Hinsdale Palmer
Vice President, JPMorgan Securities LLC

Q

Good morning. It's actually Tom Palmer on for Ken. Just had a couple of quick ones. First, wanted to ask – and I guess some of this relates to the accounting. But your decision to exclude the employee bonuses from adjusted EPS [audio gap] (00:26:17) ask about kind of how the tax rate flowed through in the first quarter, it looks like for the remainder of the year you're actually guiding for a slightly higher tax rate as the year progresses. So, just kind of wondering, were there certain non-recurring items in that first quarter?

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

A

I'm going to turn it over to Stewart here in a minute, Tom. But you're in for Ken Goldman. I do have to say congratulations to Ken for the Eagles' victory. I'm sure he's at the parade today or something. Being a Pats fan, it was terrible for us. But hey, congratulations to Ken. Please pass that on for me.

Thomas Hinsdale Palmer
Vice President, JPMorgan Securities LLC

Q

I will. He was very excited.

Stewart F. Glendinning
Incoming Chief Financial Officer, Tyson Foods, Inc.

A

I've only been here a month, but that's a big statement coming from Tom. So, anyway, listen, back to business. So, two points here. First of all, your question on why did we choose not to adjust, look, that expense is coming as

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we pay out the $100 million. You're going to have a huge amount of transparency to that, so whether I adjust for it, don't adjust for it, you're going to know the $100 million is there and you can decide how to put that into your models. I can commit to giving you transparency, as you say.

Relative to the tax rates, because of the timing of tax reform, we take out three quarters of benefit this year. We'll pick up full four quarters next year. There is a bit of an oddity in that the tax rate goes up next year for us, and that is simply because whilst the better rate is coming down, we do get a domestic production credit which exists in fiscal 2018 which is not there in 2019. And so, that takes us back by a few percentage points in 2019. But I would just look back at the, in total, our tax rate goes down dramatically and there will be a lot more resources available for the company. So, net-net, good result.

Kenneth B. Goldman
Analyst, JPMorgan Securities LLC

Q

This is Ken. I just heard I got called out, so I had to jump in and just say fly, Eagles, fly.

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

A

Oh, man. Congratulations, man.

Kenneth B. Goldman
Analyst, JPMorgan Securities LLC

Q

Thanks. I'm sorry it couldn't be on the call. Tom is taking care of it. Take care.

Thomas Hinsdale Palmer
Vice President, JPMorgan Securities LLC

Q

I Just had a second follow-up just on the general pricing environment across different segments, including Prepared Foods. You mentioned that a lot of the labor issues will be offset – or rising labor costs will be offset by pricing. It – we cover the retailers and have seen a little bit of compression on their end and a little bit of pushback on pricing. What are you seeing? Anything in terms of challenges? Are you seeing differentiated product that's still able to pass on that pricing?

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

A

Yes. Tom, I'll just start reiterating what I just said when Heather asked the question. For us, it's a matter of the value that we provide. And certainly, some customers are going to be more challenging than others, depending upon what our relationship is. The ones that are most strategic get it. If we have transactional relationships, yes, it's going to be tougher. But I'd say, overall, I'll just reiterate, we feel very bullish about our ability to price for our products because of the value we provide.

Thomas Hinsdale Palmer
Vice President, JPMorgan Securities LLC

Q

All right. Thank you.

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

A

You're welcome.

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

Farha Aslam
Analyst, Stephens, Inc.

Q

Hi. Good morning.

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

A

Good morning, Farha.

Farha Aslam
Analyst, Stephens, Inc.

Q

Question about AdvancePierre. Just wanted to understand, is your sales guidance kind of down about $50 million to $75 million? And is that an SKU rationalization program versus your prior guidance?

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

A

No. We're not down. I think the overall is up. AdvancePierre is strong, as well. They continue to perform in line with our expectations now. Remember, the results are split, all right? It's between Prepared Foods and Poultry. And we're probably not going to be talking a lot about this in the future, parsing out AdvancePierre right with the base business. They're part of the team. I would say the integration has gone extraordinarily well.

We're really excited about the growth potential they're providing in all areas of our business on all channels. So, I wouldn't take away that the business is underperforming. If anything, I think it's having a real positive impact, not just on the product lines but also the team members that are now a part of the Prepared Foods and the Poultry business that are helping us grow.

Farha Aslam
Analyst, Stephens, Inc.

Q

That's helpful. And then, in beef, you had a particularly strong quarter and you've had a very strong guidance for the full year. Given the latest Cattle on Feed report, we had some questions on the beef cycle. How long do we expect it to last and kind of how you're thinking about your Beef business over the next few years?

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

A

Yes, sure. Yes, we are really proud of our results in the first quarter. I mean, 6.6% is an excellent result. Like I said, we projected about 6% for the full fiscal year. I will hurry on to say Q2 is going to be a little choppy, right? It's exhibiting sort of the same thing since I've been with the company. And certainly, the history happens in the market.

But as it relates to where we are with the cattle cycle, the structural nature of the business, we have pretty good visibility into 2019 and 2020 at this point. We see the number of animals that are out there. Exports, a major part of the revenue stream, up 10% year-over-year for the industry.

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As we say on most calls, it's not every call. It's a very regional business, and we like the regions we're in. So, as Beef changed structurally, what I'd say is the cycle correlates to long-term producer profitability. We've done a nice job expanding our revenue opportunity with premium programs. We had continued to talk about it even over this past week, the excellent progress we're making in getting our premium programs out to our retailers and our food service operators as we continue to margin up that part of the business. I'm really proud of the team for the work we're doing there. But from an overall outlook perspective, we're bullish, no pun intended.

Farha Aslam
Analyst, Stephens, Inc.

Q

That's helpful. Thank you.

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

A

You're welcome.

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

Robert Moskow
Analyst, Credit Suisse

Q

Hi. Thank you. And, Dennis, best wishes to you. Thank you for your patience over the years with us sell-siders. I have to follow up on Farha's question about the sales guidance for AdvancePierre because, specifically, the full year guidance for chicken was – I'm sorry, for Prepared Foods, was [ph] 1.35 (00:32:57) for the full 12 months. And now, it's [ph] 1.3 (00:33:00). And then, for Chicken, it was also lowered by about $20 million. So, I think the numbers are lower. Can you help us understand why?

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

A

Yes. The only thing that I can say is maybe there's some deflation in there that maybe kind of – we're going to – Rob, we're going to have to come back to you on that. John will take that with you after the call because we're not connecting the dots on the same thing as you are.

Robert Moskow
Analyst, Credit Suisse

Q

Okay. And on the Pork segment, I think you lowered your outlook for the hog supply quite a bit. Is that specifically in line with what the USDA is saying about fewer hog supplies coming to market? And can you give us a sense of what the drivers behind it and how it affects your operations just all through the pork complex?

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

A

Yes. Sure. So, we do see margin compression. We talked about that. We saw it coming. We knew it was going to come. We had our call last quarter. So, it's playing about – out about as we expected. New players enter the market. The pie gets cut up a bit differently. They try to find supply of hogs and margin is compressed in the short run. Now, how long that lasts, who knows? It sort of leveled out at some point.

I'll say that our – all of our assumptions are built into our annual outlook, which is 9%, which is above our normalized range. So, yes, it's not as stellar as it was last year. But certainly, 9% is a number that we're proud of.

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We're not having trouble with getting hogs. We're seeing more hogs coming. I think the hog supply will meet the harvest capacity. The same thing is always true. As new entrants come in, they take a while to assimilate. This is going back decades ago. It's something as it continues to build, it happens the same way. We're a great established processor, especially with the team that we have. We'll work our way through it. I'm not going to comment on anybody else's business but our own. But I'll say that we feel like we're in a good spot.

Robert Moskow
Analyst, Credit Suisse

Q

Just so I'm clear, though, I mean hog – you're saying hog farmers are only going to increase supply 1% to 2%. Before, it was 3%. So, is there something going on with what hog farmer intentions are for [ph] feral wings (00:35:29)?

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

A

Yes, that's a – I don't know. Look, that's not something that we feel that there's a – it's going to be continuing to increase. We feel like there's – as far as we're concerned, we're going to have the hogs that we need. But I can't parse the numbers that closely, Rob.

Stewart F. Glendinning
Incoming Chief Financial Officer, Tyson Foods, Inc.

A

Yes. Rob, I would just say, look, the driver in the marketplace here is less about the hog supply and more about the processing capability. There are new plants that have opened. And as those new plants have opened, that's changed some of the dynamic, at least, in the short run in the industry. So, happy for John to pick up in more detail on the hog supply, but I would say focus less on the supply and more on the processing capacity in the industry.

Robert Moskow
Analyst, Credit Suisse

Q

It just seems like if the capacity keeps going higher and the hog supply keeps going lower, it's a dangerous cocktail. But thank you.

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

A

We don't imagine that happening. I think the hog supply will be there for the capacity. Exports are continuing to be extraordinary strong. We're not at all worried about that, Rob.

Robert Moskow
Analyst, Credit Suisse

Q

Okay. Thank you.

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

A

Yes, no worries.

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

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Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

Yes. Thanks. Good morning, everyone. And let me just add on to Dennis your congratulations and best wishes. I want to go back to the Chicken business a little bit and thinking about the outlook and really trying to understand some of the margin drivers to get to the 11% for the year. Obviously, in the first fiscal quarter, we're starting below that. And year-over-year, the profit increase was fairly modest in the 11% guidance with an increased volume forecast actually points to a nice acceleration from the back half of the year. Can you help me think about that?

I mean, you talked in the Q of $30 million of freight, ground and purchased meat – outside meat purchase inflation, which matters, but it's not an enormous delta. I'm just trying to think about it. Is the expectation that you're going to get significant acceleration in pricing, much better mix, productivity on the cost side, layout of feed costs? Just help me think about kind of the drivers that point to a nice acceleration in profit growth in chicken over the balance of the year.

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

A

Yes. Sure. So, FY 2017 came in $1.1 billion thereabout, and we have consistently been working on improving our cost structures. That's maybe an element that may be discounted in your model, I'm not sure. But that overall improved cost structure will deliver about $150 million as we roll out the Tyson productivity system throughout the entire business. It's been extraordinarily successful. This is something that we've talked about a bit, maybe not in as much detail. APF adds, in terms of Chicken margins, it's a bit smaller. But there are other financial fitness objectives that we have beyond just the TPS that are procurement-related and so forth that are not small, probably $70 million, $75 million. And then, as you call out, the volume mix is going to contribute. So, we – for all those reasons, we're confident about that 11% margin.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

Okay. And I just want to kind of follow up. On the quarter, I think, Tom, in your prepared remarks, you said – you made an allusion to small bird pricing being challenging. Maybe expand on that. And just the volume mix in the quarter was quite healthy and you didn't see the leverage in the fiscal first quarter. Just trying to understand why.

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

A

Yes. So, similar dynamic to what we've seen in the past. Small bird margins can be challenged. A lot of small bird production that's come on. We feel like we're in a good spot to create value, but we also see that those rotisserie, that rotisserie bird business – the deli business – is a challenging pricing dynamic, as that becomes, adds more supply against it. So, yes, it's been a bit of an issue for us. But as I said, nothing that we're going to – it's going to cause us not to overcome that with other areas. And I would add – to point you back to my comments on the value-added business, both the retail and food service, which was predominately the big bird side of it, our experience has been extraordinary.

So, the Green Forest plant that we spent on last year, $135 million, came up running well. And I would say that we will be fully taking advantage of that and be prepared to build new capacity because we need to support the growth there. But, yes, we're going to have from time to time parts of our business that are going to be difficult. There's no question about it. But over time what you should see is our margin variability is not something that you should be concerned about. It should be overall sort of moving in the right direction. But there will be some areas that will be tough from time to time.

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Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

Okay. I appreciate the color. I'll pass it on. Thanks.

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

Michael Leith Piken
Analyst, Cleveland Research Co. LLC

Q

Yes. Good morning, and congratulations, Dennis. Just wanted to touch a little bit here on beef. The margins have come down. And obviously, there's some seasonality to that. But in terms of your outlook, it sounds like you took your guidance up for the year. And if you could just sort of talk about kind of the cadence, maybe even looking further out in terms of how you see the cattle supply evolving. And is there any chance that some of the previously idle capacity might come back online?

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

A

Yes. So, I can't talk about the previously idle capacity. What I can say, Michael, is that we have, like I said earlier, good visibility into the cattle that's out there. We see the number of animals, so that's certainly good for us. The Cattle on Feed report looks good. And they have to come to market, so that's what causes us to be in the space we are as it relates to our margin profile, which is 6%, is good on that business, as you know.

Now, as it relates to the quarter-to-quarter cadence, I can't get into that because it's just something that you can't predict with that level of certainty. What I'd take you back to is how we've been describing our business overall. I mean, we're a powerful engine for growth as the largest U.S. food company continuing to grow past the industry in almost any area. You need to look at what our business is in the first half and in the second half because we will have movement quarter-to-quarter. But the cattle cycle, we feel like we're in a good spot. And it's going to be a choppy Q2, as always. But we feel great about the balance of the year.

Michael Leith Piken
Analyst, Cleveland Research Co. LLC

Q

Okay. Great. And as a follow-up, maybe if you could talk a little bit about your expectations for export demand, really, for all [ph] three proteins (00:42:31) over the remainder of the year and any concerns maybe over NAFTA. Thanks.

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

A

Export demands, we don't have concern. But for – I will talk about NAFTA but we feel really strong about all of our exports continuing to be double digits. We're very excited about, not only let's say, just the overall export environment but, in particular, how Tyson performs in that environment because our customers enjoy our product, enjoy our service. And our team has built tremendous capability there.

As it relates to NAFTA, we need – there's no secret, we want it to be sort of left as is. And certainly the areas that need to be modernized as it relates to elements of the agreement, absolutely, and we fully support that. However, Canada is a large trading partner for us, maybe fourth or fifth largest. Mexico is large as well. And so we want that to continue, and we're hopeful that we'll get to a place that is win-win for everybody.

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And certainly as it relates to agriculture, do no harm. That's a message that we've been talking about no matter where we are. I've been around the world talking about it, we have been with team members that I've talked to as many as people as we can get a hold of to – it's got to support agriculture through making NAFTA, keeping where we are.

Operator: The next question will be from David Palmer of RBC. Please go ahead.

Kevin Lehmann
Analyst, RBC Capital Markets LLC

Q

Hi. Good morning. Kevin Lehmann in for Dave. I just want to say, Dennis, congratulations and good luck, and, Stewart, welcome. Welcome aboard.

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

A

Thank you, Kevin.

Kevin Lehmann
Analyst, RBC Capital Markets LLC

Q

I want to ask about the core branded retail business which, excluding an SD there, the data is going to be showing around down 2% in the quarter, I think that's because of some noise in the numbers lately, particularly from the frozen trade backside. So can you help us understand better the true run rate for U.S. retail now maybe without stealing any thunder from CAGNY, consider maybe introducing a pipeline and maybe some early winds from already launched innovation at resale? Thanks.

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

A

Yes, so you just hit the nail on the head. The CAGNY presentation, if you happened to attend, probably most of the analysts on this call will, but we're really excited about talking to you at CAGNY. We've got a lot of good stuff, not just innovation, by the way.

But in the IRI Nielsen data last month, there was a coding error in our data set. A large customer has changed UPC codes and data providers just hadn't picked it up. So it was sort of a, say, a one-time glitch. It affected our prepackaged ground beef business. So the volume for the year and the volume was in last year did not pick up there year, volume runs at a rate of about 10% of our total retail sales volume, without the error relatively flat.

Got a few losses occurring in some categories. I told you about last quarter, we took some pricing. So importantly, we're now lapping sort of huge comps from a year ago, but as we took the pricing that's going to have an effect. Our data providers expect all this to be cleaned up next month by March. But Core 9 Tyson volumes were not affected. And as we've talked – looked through all the data on the Core 9, the areas where we took price and we were going to see some share, we did, and areas where we wanted to continue to be on the same track, and we've actually met or exceeded the growth we have. Again, going back to the year-over-year comps were tough.

And I've got to point to Jimmy Dean. If you continue to look at Jimmy Dean frozen protein breakfast, unbelievable. The growth there has been best in class for helping drive the total frozen category. And to finish with CAGNY as I started, you'll see some new things there that hopefully you'll be as excited as we are, because that business is on fire.

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Kevin Lehmann
Analyst, RBC Capital Markets LLC

Q

Great. Thank you.

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

A

You're welcome.

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

Akshay Jagdale
Analyst, Jefferies LLC

Q

Good morning. Thanks for the question and, Dennis, congratulations, and thanks for everything you've done. My first question is on Chicken. Can you help us understand what's embedded in your outlook as it relates to the demand and supply in the industry? Just trying to get a high level view of are you expecting to operate in an equally tough environment that you saw in this quarter because it was a tough environment, and you outperformed the industry very nicely. So just wanted to get a sense of, does your plan assume the industry gets better, or it stays the same?

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

A

Yes. Thanks, Akshay. The USDA estimates about 2% growth. It's in line with consumer demand growth. Our demand has been, like we said, extraordinarily strong this year. Because of demand strength, we're building the new plant in Tennessee, but that will not be in the short run, that's certainly for the long run. What I'd say is, we're more focused on what is our supply versus our demand. We love where we're positioned. Our demand is very good. If production rises, it will help with the economics and buy versus grow program, which you know. You called out how we performed in the industry. We are extraordinarily excited about it. The breeder flock seems to be less of a leading indicator than it used to be for – I think some people have probably looked at that, but for us, the environment looks good and relatively [ph] balanced (48:40).

Akshay Jagdale
Analyst, Jefferies LLC

Q

Okay. Great. And then just one on the increased CapEx spend as it relates to the tax. The lower tax rate, it's more of a longer-term question. So can you give us a sense of where you're spending this capital? I mean, not necessarily the incremental $100 million but you mentioned technology a couple of times here in your press release and your remarks. Can you give us a sense of what you're seeing out there in terms of technology enablers and how meaningful they might be in unlocking even more savings than what you've announced? Thanks.

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

A

Sure. I'm going to ask Stewart to answer that. I'm going to come back to your first question just a bit, too. Remember, Q2 is choppy and Q2 on all of our businesses, we've had tough weather and certainly that doesn't help with our people are trying to get to plants and they have production that is not what it needs to be. So Q2 is certainly a challenge, just to make a footnote there. And then, Stewart, do you want to take the capital question?

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Stewart F. Glendinning
Incoming Chief Financial Officer, Tyson Foods, Inc.

A

Yes. Look, Akshay, we – first of all, let's step back. This company has very, very strong cash flows and has the benefit of being able to pull a wide range of levers as it relates to capital allocation and tax reform. By adding another $300-plus million, it's going to do nothing but help that scenario. When you look at where we're deploying the cash this year, yes. You point to the $100 million of one-time bonuses. The additional money that we expect to spend that we've talked about is around what we call high-return capital projects. Some of those involve technology, and you're right. Technology makes a big difference in this business; whether that's our automation in plants or whether that's systems in the back of the house that allow for greater back-house efficiency, both of those are included in our project. But what I've been really excited about as I've come into this company is to see that the long backlog of very powerful, strong ROIC capital returns, and this extra cash is just allowing us to drive that a little bit harder and faster.

Operator: The next question will come from Matthew Grainger of Morgan Stanley. Please go ahead.

John Colantuoni
Analyst, Morgan Stanley & Co. LLC

Q

Hi. This is John Colantuoni for Morgan Stanley. Thanks for the question. My question is on guidance. Guidance went up in line with the benefit of lower taxes, but it sounds like you're expecting to sell the two remaining non-protein businesses later than originally expected, and at the same time, guidance doesn't include the $100 million in cash bonuses planned for the second quarter. Can you just explain how you're thinking about all the dynamics of guidance? I'm just trying to understand whether you're being conservative here.

Stewart F. Glendinning
Incoming Chief Financial Officer, Tyson Foods, Inc.

A

John. Okay. Well, let's take the $100 million first. The $100 million will be part of our adjustments as we give you adjusted earnings. Why do we do that? Because we've got a set of rules that we've used around adjusted earnings that we're following consistently. As I answered earlier in the call, you'll have the benefit of the full transparency around the $100 million. So you know that it's there. It is not included in the adjusted guidance, so first point.

Second point, your second part of your question was what happens with Frozen Foods, such as the Sarah Lee business. Yes, that will be in our numbers for longer. But when you look at the moving parts around that transaction costs – holding cost. Actually, the number's not really material to the total guidance range. And for that reason, it's embedded in our outlook.

John Colantuoni
Analyst, Morgan Stanley & Co. LLC

Q

Okay. So just to confirm, the sales from those two businesses were included in the reported sales for this quarter? And there will be a portion of them included in sales for the upcoming quarters as well, is that right?

Stewart F. Glendinning
Incoming Chief Financial Officer, Tyson Foods, Inc.

A

What I'm saying is, yes. We don't expect to see any dramatic influence on our guidance around EPS related to the holding of these businesses.

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John Colantuoni
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Great. And then I just had a quick question on hog prices. We observed hog prices that are up, were up about 20% year-on-year since September. And even despite this increase, they remain significantly below the 5 and 10-year averages. Can you discuss your expectation for hog prices as the year progresses and whether the price movements thus far this year are consistent with your initial expectations?

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

A

No, let me just say that what we can talk about is the spread. As prices move, we are in a spread business and we continue to like how that plays out for us. And I'm just going to repeat, we're not having trouble getting hogs. We're seeing more hogs coming. So when you're in a spread business and you have good supply equals good results for us.

John Colantuoni
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thank you for the questions.

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

A

Yeah.

Stewart F. Glendinning
Incoming Chief Financial Officer, Tyson Foods, Inc.

A

I would just add by saying that I mean that's why we give the guidance and our expectations are currently embedded in that.

Operator: The next question will be from Brett Wong of Piper Jaffray. Please go ahead.

Brett W. S. Wong
Analyst, Piper Jaffray & Co.

Q

Hey, gentlemen. Thank you for taking my question here. As you spoke about, obviously, we're seeing higher cost impact margins right now. But as you look longer-term, I just wanted to get your thoughts around what you think normal margins will look like and it seems there needs to be some aspect of a reset here, specifically for Beef and Pork. And then just on top of that, when do you think we can get to the 12% to 14% Prepared Foods margins that you've talked about and what will drive that? Thanks.

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

A

Sure. So, Brett, I would say the margins that we guided to is what we expect for 2018 and we had talked about last quarter after the close of Q2, we'll come back and probably share what we think the margin ranges should be longer-term given where we see those businesses. And we're happy with where we are, certainly on Beef and Pork. As it relates to Prepared Foods margins, I expect it's going to continue to go north. So that business needs to be continued, we're fueling it with capital and the innovation that Sally Grimes and the team are driving is spectacular.

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So I'd say that to be in the 12% to 14% range feels right. When that is, I can't commit if this is going to happen exactly this quarter or this fiscal year. But our innovation efforts are really kicking in and paying back, which we're extraordinarily excited about. Being in the right categories, in the right part of the store, we're competing in the fresh perimeter, integrating assets like AdvancePierre and Original Philly. Certainly, we have done extraordinarily well integrating those assets, looking for more to bolt on should be in your thought process.

Now, on the synergy capture and financial fitness mindset that we have in continuous improvement, certainly plays out in all of our businesses but in Prepared Foods, that's no small matter. The team has does extraordinary work. George Chappelle and the group in the operations team has continued to make our operations even better and we're well diversified. We've got a great consumer business, great food service business, customer brands and private label. So like, we said, 2018 will be around 11%. The longer-term, you should be thinking of that business in the 12% to 14% range.

Brett W. S. Wong
Analyst, Piper Jaffray & Co.

Q

That's very helpful. Thank you. I just want a quick follow-up on that. You talked about kind of some of the synergies as you've integrated AdvancePierre, and I know you're not really going to break this stuff out kind of going forward as much, but I'm just wondering kind of what revenue synergies you're going to be seeing as you're integrating that? Obviously, you've talked about the cost synergies in the past.

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

A

Yes. So I would say there are some retailers that we have been working with that we weren't in some private label categories, which we are now in. We didn't have the capacity. We didn't have maybe the products. And so that's point number one. Point number two is, on the food service business we are extraordinarily excited about now the breadth of offering that we play. We're a valuable, certainly, supplier before as Tyson Foods – collective Tyson Foods, and now even more valuable. Philly steak is a huge product. It's got tremendous tailwinds. People are eating it, they like the protein value, they like the taste, which, oh, by the way, always matters.

And so the revenue synergies we're starting to see come in the form of food service and food service convenience. I would say retail, customer brands and also the perimeter of the retail store. So what's nice about it is it hits almost every single channel that we do business in, which we are and that breadth really helps our portfolio. It allows us to continue with the earnings power that we have.

Brett W. S. Wong
Analyst, Piper Jaffray & Co.

Q

Great. Thanks so much.

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

A

Welcome.

Operator: The next question will be from David Carlson of KeyBanc Capital Markets. Please go ahead.

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David Carlson
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey. Thank you for taking my question. Hey, Tom, the Beef segment operating results were substantially better than we were anticipating during the fiscal first. And then also the guidance, you nudged a little higher for the full-year. You mentioned overall beef exports, I believe, up 10%, but can you give us a sense of the export volume growth for Tyson during the quarter and are you seeing exports accounting for a higher mix of sales and profits in the Beef segment? And then any commentary you might have related to China which, I guess, in all reality, is still a relatively early stage. Thank you.

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

A

Yeah, so I will start with China. China is still small. We're hoping for something bigger, but certainly exports are up and it's part of that overall revenue stream. I think I mentioned this, but maybe I didn't. It's up 10% year-over-year for the industry, so we don't necessarily give specific guidance as it relates to our import growth.

But let me go back to another thing I said. As you were happy with the margins, so are we. There is so much work going on in attributes, so Open Prairie, and the team has focused on how do we take attributes, move them into the marketplace, hit a higher margin, continue to brand the beef products that we sell either to retailers or food service customers, and that's really helpful. And what I would continue to have you point on or look at is quarter-to-quarter, our progress in that area – we'll probably be more specific about what those growth rates look like in our branded beef business and our specialty cuts. Certainly, on an export basis, give us a great position to continue to take advantage of that strong export volume.

David Carlson
Analyst, KeyBanc Capital Markets, Inc.

Q

Thank you.

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

A

Welcome.

Operator: And the final question this morning will be from Ken Zaslow with BMO Capital Markets. Please go ahead.

Kenneth Zaslow
Analyst, BMO Capital Markets (United States)

Q

Hey. Good morning, everyone.

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

A

Hey, Ken.

Stewart F. Glendinning
Incoming Chief Financial Officer, Tyson Foods, Inc.

A

Good morning.

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Kenneth Zaslow
Analyst, BMO Capital Markets (United States)

Q

So you've gone through a lot of issues from the increased cost structure, from fuel and all that, but yet you're keeping your guidance largely in line with what you previous is, so [ph] what's (01:00:34) actually going better?

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

A

Well, what I'd say is everything is going well, but we have the areas of our business that just continue to accelerate based on what we put in place in the last 12 or 18 months. You've heard us talk consistently about innovation and brand building, right? And so, Ken, if I were to point to one thing, I'd say that. Those efforts are paying off and they're paying off not just with the volume of those products, but also how customers are interacting with us. They look to us for growth and we are partnering with them. And so, yes, if I were to point on one thing, it would be that.

And then coming back to the costs, those two things work in tandem. The ability for us to overcome cost that hit us, not just us but sort of industry-wide thing, it's easier for us to deal when we have those relationships with the customers. And good question, I'd point to innovation.

Kenneth Zaslow
Analyst, BMO Capital Markets (United States)

Q

And just my follow-on is can you give us some anecdotal changes that's happening because of AdvancePierre?

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

A

Anecdotal changes? I think you're talking about like just...

Kenneth Zaslow
Analyst, BMO Capital Markets (United States)

Q

How is your outlook changing? What is the addition of AdvancePierre, how is that affecting the – what are some – you talked about cost savings throughout, but what are anecdotes of like what is actually – how were the costs been coming out? What is changing? Are you changing how Jimmy Dean sandwiches are made? Are you changing – what's going on that's changing?

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

A

Okay. Yes.

Kenneth Zaslow
Analyst, BMO Capital Markets (United States)

Q

On a more realistic level that we can relate to?

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

A

Okay. Procurement. We have stronger contracts with our suppliers and so the procurement certainly has been a big area of focus for us. The sandwich-making, what it's allowed us to do is bringing what AdvancePierre did

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really well in sandwich-making, particularly on customer brands, and what we have done historically well with Jimmy Dean. There are some things that they were doing much better, and there are some things that we were doing much better. So, as a specific example, as we design the network going forward, we're taking the best of both and making sure that we're executing those.

You've heard us talk about the approach to operational excellence that AdvancePierre had. They call it the APF way. We have taken the APF way, embraced it, and the team and led by George Chappelle, is running the entire Prepared Foods business now with that in mind. The accountability, the focus on lean, and so making sure that we take out any non-value-added costs. I'd say that's number two.

And number three is the agility. So we haven't talked about this in a while, but the agility that the AdvancePierre team brings. They are constantly pushing us to make decisions faster, to be as customer-focused as we can be, and it's had an impact. Sally is running the business. They're doing things that are different and so I think being more agile for the customer, more focused on growth we already were, but I think that's making sure that customers' at the center of the table, that's a strong part of this.

Kenneth Zaslow
Analyst, BMO Capital Markets (United States)

Q

Great. Appreciate it. Thank you.

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

A

Hey, you're welcome.

Operator: And, ladies and gentlemen, this will conclude 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, Tyson Foods, Inc.

Okay. Well, thanks for the great questions. I appreciate your continued interest in Tyson and couldn't be happier with where we are. So thank you very much for that. I will say thank you to all of our team members that are listening around at the plants and also in our headquarters locations. We have had a fantastic start to the year. We've got work to do. I know we've got the best team to do it. Very excited and I will say we are off to a great start. Another record year. We're confident in our ability to sustainably feed the world with the fastest-growing protein brands. And as of that, have a great day.

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.

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