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Tyson Foods, Inc. (TSN)

Q2 2018 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

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

OTHER PARTICIPANTS

Kenneth B. Goldman

Analyst, JPMorgan Securities LLC

Adam Samuelson

Analyst, Goldman Sachs & Co. LLC

Farha Aslam

Analyst, Stephens, Inc.

Heather Jones

Analyst, Vertical Group

Robert Moskow

Analyst, Credit Suisse Securities (USA) LLC

Michael Leith Piken

Analyst, Cleveland Research Co. LLC

Benjamin M. Theurer

Analyst, Barclays Capital Casa de Bolsa SA de CV

Akshay Jagdale

Analyst, Jefferies LLC

Michael S. Lavery

Analyst, Piper Jaffray & Co.

Eric J. Larson

Analyst, The Buckingham Research Group, Inc.

Jeremy Scott

Analyst, Mizuho Securities USA LLC

Ken Zaslow

Analyst, BMO Capital Markets (United States)

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Tyson Foods Second 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 second quarter earnings conference call of the 2018 fiscal year. On today's call are Tom Hayes, President and Chief Executive Officer, and Stewart Glendinning, Chief Financial Officer.

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 could affect our business. I would like to remind everyone that this call is being recorded on Monday, May 7 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 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.

Okay. Thanks, Jon, and good morning, everybody. Thanks for joining us today. At Tyson Foods, we continue to grow our business through differentiated capabilities and deliver Financial Fitness through continuous improvement as we seek to feed the world with the fast-growing protein brands.

Overall, we're pleased with the progress we've made in the second quarter and the first half of the fiscal year. As we shared on our Q1 call, we knew we were facing challenging conditions and despite these challenges and additional headwinds, we delivered solid second quarter results in all four segments. Based on the hard work of our resilient team, we're in a good position in the second half of the fiscal year and we expect to reach our annual adjusted earnings guidance of between \$6.55 and \$6.70 a share.

As international demand for protein continues to increase, we're positioned to meet it with well-established network of global offices. We have billion-dollar brands and rapid growth brands and we continue to build capabilities across each of our supply chains that serve our segments.

Whether at home or away from home, we serve consumers wherever they eat. With breadth and depth that give us unmatched insights into consumer behavior, we are partnering now more than ever with our customers to drive growth together. We're innovating across every part of Tyson Foods from state-of-the-art technology in robotics and automation to transforming our information systems from analog to digital. We're investing in new disruptive technologies through Tyson Ventures and delivering best-in-class new products in the fastest-growing categories in food.

We're making agility contagious in each of our segments as we gain momentum against our Financial Fitness Program. Across the business, we achieved \$65 million in savings for the quarter and \$102 million for the first half of fiscal year. We're on track to deliver at least \$200 million in fiscal 2018 and we're building momentum for fiscal 2019.

In Q1, I spoke of transportation cost challenges. Increased freight costs affected all four segments and had a net impact of about \$0.14 per share for the quarter. Also, as I mentioned on our last call, we took early action in the form of pricing to mitigate the impact to our margins. While we were climbing the hill, the grade steepened. And now, we're estimating the full-year impact to be roughly \$250 million.

We'll be working to recover the increase for the remainder of the year through pricing and additional cost-reduction programs such as improving truck weights, lead time and continuous improvement projects. We're expecting the cost impact in Q3 to decline. And in Q4, we should be close to full recovery. However, the gap on cost recovery for the fiscal year is estimated to be \$155 million or about \$0.31 in EPS.

Our guidance includes these variances and assumes no additional cost increases. Going forward, product prices must reflect the true cost, because we cannot subsidize the increased freight. In addition to freight, we're seeing increased labor costs as we invest in our team members to increase productivity, efficiency and yield. We've already had positive results from our programs to reduce team member turnover and improve both safety and productivity.

These types of initiatives are an added cost now, but we expect a return on our investment over time in addition to simply being the right thing to do for our team members.

So, as I move into my commentary on each segment, please note that references to operating income and operating margin will be on an adjusted basis. In the Beef segment in Q2, we generated operating income of \$120 million with a 3.3% operating margin. Volume was up 1.8% and that's a good outcome, especially considering the poor weather conditions which prevented us from running some of our plants during the quarter.

Revenue increased 5.6% as domestic and international demand for U.S. Beef remained strong. Our Beef exports were up 22% versus the same quarter last year and despite all the conversation about trade and tariffs, we haven't seen a significant impact on our Beef business. That said, trade flow is incredibly important to Tyson Foods and we continue to urge our political leaders to support efforts to provide certainty to the markets.

As we look for more ways to add value in our Beef products in domestic markets, our premium programs continued to do very well. Our Open Prairie Natural line of Angus Beef grew more than 26% compared to second quarter last year. Barring any disruptions, we anticipate the favorable operating environment in Beef to continue

into 2020. The U.S. cattle herd expansion is slowing, but there's still ample supply of livestock and demand for U.S. Beef continues to be robust.

Given supply forecasts with regions in which we operate and our continued focus on productivity, we expect this segment's operating margin to be above 6% for the fiscal year.

In the Pork segment, we generated second quarter operating income of \$79 million with a 6.2% margin. Revenue was down 2.8% as livestock prices fell. We slightly reduced volume to balance our production with customer demand. Winter weather was a challenge in our Pork segment as well, creating staffing difficulties and, at times, also preventing us from running some of our plants.

We're innovating within the Pork segment to grow our margins and we're seeing success in our branded and premium Pork programs. In Q2, our Chairman's Reserve brand grew volume by 12%, which includes our new Chairman's Reserve Prime brand extension and our Open Prairie Natural line grew volume nearly 75% versus Q2 last year.

Customer demand for our case-ready products overall has continued to grow and market dynamics support an expansion of our case-ready capacity. For the year, we believe our Pork segment will continue to execute well. Hog supply is expected to be up 2% to 3%. However, there's a significant amount of new production capacity that has pressured margins. We're projecting that our operating margin for the year should be around 8% and we expect more hogs will be available in the fall, which should be supportive of the strong operating environment in Pork heading into our fiscal year 2019.

The Chicken segment operating income of \$288 million generated in the Q2 with a 9.7% operating margin. The volume was up 2% on strong demand and incremental volume from AdvancePierre, while revenue increased nearly 6%. This segment benefited from \$23 million in Financial Fitness savings.

Our Chicken segment also faced challenges in Q2. Consistent with USDA reports, egg production and hatch were down pressuring supplies. However, demand for our Chicken was so strong that it created supply inefficiencies. Nevertheless, we're committed to getting customers and consumers the Chicken they want, which in some cases meant adding staff, moving product and running plants on weekends, but most importantly, we were successful in meeting and, in some cases, exceeding our customers' expectations.

Also within the quarter to optimize returns on Tyson Any'tizers wings, we reduced the package weight, knowing it would result in a temporary volume decline, which is evident in the IRI and Nielsen data. It also resulted in a temporary decline in share that's beginning to rebound. This was a right move to get an appropriate margin for a branded product with strong consumer demand.

Despite the challenges, our Chicken segment operating income was up nearly 15% year-to-date versus last year, giving us confidence in our expectation of an operating margin of around 10% for the year and carrying momentum into fiscal 2019.

Moving to Prepared Foods, this segment produced \$222 million in operating income with a margin of 10.3%. Nearly 11% volume increase for the quarter is primarily attributed to the incremental volume from AdvancePierre, which also contributed to the revenue increase of nearly 23% in Q2. This segment benefited from \$38 million of Financial Fitness savings.

Of importance to the Prepared Foods segment is a significant milestone we achieved two weeks ago. We successfully completed the integration of the AdvancePierre and Original Philly businesses' order-to-cash process into our systems, allowing us to pursue synergy capture on schedule in addition to providing customers the ability to combine Prepared Foods orders.

An inherited advantage in our Prepared Foods business is access to protein from our Beef, Pork and Chicken segments. We're building on that strong foundation to upgrade our product mix to more value-added proteins and deliver long-term sustainable growth. In doing so, we incurred several one-time costs in Q2 related to certain purchasing contracts, exiting non-protein businesses and expanding capacity in the plant.

Even with those events, the Prepared Foods segment delivered strong results and is on track to deliver an operating margin of around 11% for the year.

Let's move from our segment results to our sales channels. Tyson retail continues to outperform total food and beverage in all but two of the top 10 CPG retail food manufactures in both sales dollars and volume over the last 52 weeks.

Of note, the two confectionary companies ahead of us benefited disproportionately from two Easters in the 52-week period. Tyson's Core 9 retail product lines continued to grow, albeit, at a slower pace as we lapped strong comps, but we're achieving our goal of outperforming category growth.

In particular, the Jimmy Dean brand continues to drive significant growth and Hillshire Snacking was named a top 10 IRI New Product Pacesetter for the year. It's also worth noting that we increased our customer brands' volume share within the Core 9 categories through strong customer partnerships that are focused on growth.

In foodservice, check size maintained the steady 2% increase we've seen for the past several quarters, which continues to drive growth in foodservice. Within broadline distribution, Tyson's Focus 6 product lines are up nearly 6% in volume over the prior year, which is more than three times the growth of the total distribution channel and five of the six are driving growth in their categories.

Innovation continues to fuel our growth engine and today, we're bringing innovation to our retail category that hasn't seen it in years, individually frozen chicken. Using consumer insights, our team identified an opportunity to disrupt this category by providing a meal solution.

In April, we launched Tyson dinner kits that consist of frozen raw chicken, pre-cut vegetables, a starch and a sauce and they're found in the case where raw frozen chicken is sold. We've also launched fully cooked dinner kits positioned in the freezer case alongside our fully cooked Tyson chicken products and snacks. These products are on trend and because they're frozen, the shelf life is extended substantially for both the retailer and the consumer.

We're adding to our snack line as well with Tyson Any'tizers Snackers. These are a twist on a loaded potato skin using crispy chicken instead of potatoes. With this product, we're beginning a transition to new packaging as we refresh the Tyson brand. We're carrying the mindset of innovation across the business and becoming more agile.

We're transforming to a model where we launch, learn, then pivot quickly and that starts with our Innovation Lab where we're developing new products that solve for sustainability challenges. At the same time, we're working with two business incubators that directly connect us to the start-up communities in Silicon Valley and Chicago. In short, we're giving people reasons to think differently about Tyson Foods.

Looking ahead, we see significant opportunity to continue to grow our business. We're building on a strong foundation and we'll keep challenging the status quo to drive growth across our iconic brands and our customers' brands. Our team is excited and motivated to deliver a great fiscal year in 2018 that'll set us up for an even better 2019.

So, now, Stewart will take us through the financials. Stewart?

Stewart F. Glendinning

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

Thanks, Tom, and good morning, everyone. We delivered record adjusted operating income and adjusted EPS for the first half of fiscal 2018 despite the challenges that Tom discussed. Each of our segments performed well as our diversified portfolio of protein brands and ongoing investments continued to provide strong stable growth.

Revenues for the first half of fiscal 2018 were up nearly 10% compared to prior year and were up over 7% in our second quarter to \$9.8 billion as total company volume grew 1.9%. Adjusted operating income for the first half of fiscal 2018 was a record \$1.6 billion, up 2% over a strong comparable period last year. Adjusted operating income for Q2 was \$694 million, up 11% over last year. Total company adjusted return on sales was 8.2% for the first half of the year and 7.1% in Q2.

Our record adjusted EPS for the first half of fiscal 2018 was \$3.08, which includes a \$0.38 benefit due to tax reform and results in an 18% increase versus a strong comparable period last year. Our operating cash flow through the first two quarters was over \$1.1 billion and we spent \$559 million on capital expenditures. This outpaced our depreciation by \$206 million as we continue to invest in projects with a focus on delivering returns well in excess of our cost of capital.

During the first half of the year, we repurchased 2.3 million shares for \$180 million. Our adjusted effective tax rate in the first half of the year was 22.8% and, for the second quarter, was 23.8%. Net debt to adjusted EBITDA was 2.3 times on a pro forma basis, including AdvancePierre's results for a full 12 months. We expect to resume share repurchases once our leverage nears our target of two times, which we expect to occur during fiscal 2018.

Including cash of \$198 million, net debt was \$9.8 billion and total liquidity was just shy of \$1 billion. Net interest expense was \$170 million during the first six months. We expect approximately \$300 million of incremental cash flow in fiscal 2018 as a result of tax reform. And in the second quarter, we invested \$109 million of our tax savings in one-time bonuses for our frontline team members. This investment was adjusted out for EPS purposes. Please see the reconciliation in our earnings release for the impact by segment.

As we have demonstrated, our capital allocation priorities are focused on driving shareholder value and growing the business. We will remain disciplined in our long-term focus as we deploy cash to reduce debt and grow our business organically through sustainable operational efficiency and capital expansion projects, along with investing in innovation and brand-building. We also have the flexibility and the investment grade credit ratings to acquire businesses that support our strategic objectives. And, of course, we'll continue to return cash to shareholders through stock buybacks and dividend growth.

Now, here are some additional thoughts on fiscal 2018. We expect top line sales of between \$40 billion to \$41 billion, which is growth of around 6%. The expected increase is attributed to base business volume growth as well as incremental AdvancePierre sales of approximately \$1.1 billion.

Net interest expense should approximate \$340 million. Our adjusted effective tax rate is expected to be around 24%. CapEx is expected to approximate \$1.3 billion, as we focus on capacity expansion and operational improvements that create long-term shareholder value. We have a great pipeline of capital projects, but due to a slower rate of spending than originally planned, we have reduced our projected CapEx this year by \$100 million.

Based on our average share price in Q2, we expect our average diluted shares to be around \$370 million before share repurchases. Last fall, we mentioned we would evaluate our existing normalized ranges for our segments and I want to provide you an update on our conclusion.

As we transform into a modern food company, we believe our historical normalized ranges are no longer reflective of our long-term growth opportunities as we continue to reshape our business with a prudent capital allocation strategy and execute strategic acquisitions. As a result, going forward, we will provide an annual outlook for each segment focused on our margin expectations rather than be indexed to a historical range.

We are reaffirming our adjusted EPS guidance of \$6.55 to \$6.70, even with the challenging conditions we experienced in the first half of the year. Note, many of these will continue to be headwinds in the back half as well. We will continue to pull all the levers to mitigate these costs and pursue recovery through pricing.

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

QUESTION AND ANSWER SECTION

Operator: Thank you, Mr. Glendinning. We will now begin the question-and-answer session. [Operator Instructions] And your first question will be from Ken Goldman of JPMorgan. Please go ahead.

Kenneth B. Goldman
Analyst, JPMorgan Securities LLC

Q

Hi. Good morning, everybody.

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

A

Hey. Good morning, Ken.

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

A

Good morning.

Kenneth B. Goldman
Analyst, JPMorgan Securities LLC

Q

Tom, I'm not going to congratulate you on the Celtics till the series is over. So, we'll have to wait on that.

[indiscernible] (20:40)

Kenneth B. Goldman
Analyst, JPMorgan Securities LLC

Q

I just wanted to make sure I understood you right. I think, last quarter, you expected \$200 million in higher freight costs and you said the majority of which is going to be recovered through pricing. I don't think you mentioned a specific gap. Now, you're talking about \$250 million and higher costs. You call that \$155 million gap. I'm just trying to get a sense of what the gap was you were expecting last quarter and maybe where you're making this up in your P&L, because it sounds like pricing, just doing this quick math here, is not going to be quite the offset you expected, but it sounds like your EPS guidance is being – well it is – your EPS guidance is being maintained. So, I guess I'm trying to figure out where the other offsets are or maybe I'm just not reading this right.

Thomas P. Hayes

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

A

No, I think you're right, Ken. We said last quarter that it was going to be about \$200 million and as I said in my prepared remarks, it's up to \$250 million. And so, there's – what was a difficult situation, as it relates to transportation as we saw it emerging, actually played out and then it got a bit worse. We knew it was going to be a drag in this quarter. I don't know how much more clear I could have been on that at CAGNY, even in the Q1 call. And we say that for this quarter, about \$0.14 in EPS, nobody likes taking the cost increases and we go to answer your question about how we get it back, it's through pricing.

And our brand strength matters. Also how we partner with our customers is important and really is something that we are focused on getting predominantly through pricing, but then also we have to continue to take costs out. As I mentioned, again, in my prepared remarks, truck weights and lead times and smoothing out the supply chain, there are other continuous improvement projects we're pursuing. So, we're simultaneously pulling the lever of pricing as well as all the cost reduction levers.

There's quite a bit of focus on this, as you can well imagine, inside the company. Yes, we are maintaining our guidance. I do believe that we'll be sort of on that low-end of the range given what we've seen. The costs coming in on freight, that is all baked into the forecast, but it is causing us to stay closer to the lower end of the range.

The other thing that I'd like to just make sure that everybody takes away is that Q4 will be much stronger than Q3. So, as we get a lot of these pricing moves in place, as the [indiscernible] (23:11) very strong Q4, much stronger than Q3 and, like I said, maintaining that full-year projection, but certainly at the lower-end of it.

Kenneth B. Goldman

Analyst, JPMorgan Securities LLC

Q

Okay. And thank you for that. It's very helpful. And my follow-up would be on AdvancePierre. You tweaked your guidance down a little for AdvancePierre sales. I think you did that last quarter as well. I also recall, last quarter, you really weren't concerned I think the reduction had to do with costs and pricing, not really a lack of demand. Can you just update us if that's the same dynamic this quarter?

Stewart F. Glendinning

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

A

Yeah. I'll pick that up. I mean, certainly, same dynamic this quarter. I think if you go and look at the volume, we're up over 1% and if you looked at dollar volume, we're up more than twice that. So, we feel good about AdvancePierre.

Kenneth B. Goldman

Analyst, JPMorgan Securities LLC

Q

Thank you.

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

Adam Samuelson

Analyst, Goldman Sachs & Co. LLC

Q

Yes. Thank you. Good morning, everyone. I guess my first question, maybe continuing on sort of like Ken's questions and really just want to drill down and understand what has changed in the outlook versus prior. I guess, specifically, in Chicken, you took – the volume guidance in Chicken came down marginally. The margin guidance came down about 100 basis points for the full year. Can you help kind of just bridge kind of how those expectations have changed between freight, feed, the volume mix, et cetera?

Thomas P. Hayes

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

A

Yeah. So, hey, Adam. What I'd say is we feel really good about our delivery in Chicken so far this year and feel great about the full year. We meet our expectations, which is to be around 10%. It's going to be a fantastic year for Chicken, because we're also growing volumes. So, EBIT year-over-year should improve.

The thing that is, obviously, a challenge for us, as I called out in the prepared remarks, certainly, we have hatchability, that's been an issue for us, and we expect that we're going to continue to make progress on that. And the challenge that we do see for sure is that overcoming this first half where we had some weekends where we just weren't working, the weather, I don't like to use that as an excuse, but it actually had an impact on us, those were things that we're just swallowing. So, the back half looks much stronger.

The higher feed cost environment at this point, everything sort of were based on the forward curve, but certainly it's included in our estimates. We do have higher feed costs. We need to overcome that with pricing. As we've said on previous calls, previous years, takes us a bit of time to overcome that, a quarter or two before the pricing goes in the market, but certainly we want to get that back. And then, I would say in terms of the volume growth, I couldn't be happier with how the team is progressing. They're doing an excellent job. And certainly, we've had a tough second quarter, but that just makes the team that much more excited and engaged to kill it in the back half.

Adam Samuelson

Analyst, Goldman Sachs & Co. LLC

Q

Okay. And maybe just – maybe thinking about that in a slightly different light, it seems like more of the pressure is on the fresh and the live side. I mean, can you talk about – in any way characterize the profitability of the prepared, further-processed poultry is in the Chicken segment versus the live operations and how those two might be working differently? I think there's a lot of concern in the market related to weaker kind of commodity poultry prices and the impact that would have on someone like yourselves, but you do have this large further-processed business that does have that offset and how those two are moving in tandem or in opposite directions at this point?

Thomas P. Hayes

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

A

Yes. So, for competitive reasons, I'm not going to go into too much detail, Adam, as you can well imagine, we want to make sure that we maintain that for our investors, but certainly, we are focused on matching our supply with our demand. So, as we have great further-processed business, cooked and par-fried, we are seeing massive growth there.

We have a new plant that came up and that is [ph] Fall (27:13). However, we like where we are positioned as it relates to total demand. There's no question that different parts of the business earn different amounts depending upon the year. And so, that is not something that is new to us, but we feel like we are demonstrating as in this – regardless of that, we continue to deliver strong margins.

So, we deliver a 10% margin. The rates that we have been continually driving are – they fluctuate a bit, but we'd say are stable. And so, it's that mix that we really focus on. And I know it's maybe a little bit unsatisfactory to you to not have the breakout of the individual pieces, but I like where we sit.

Stewart, did you...?

Stewart F. Glendinning

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

A

Yeah, I mean the only thing, look, I would say is you look at the performance of the business, the business had some challenges in the first quarter. Tom called those out – sorry, in the second quarter, had some challenges, but I think when you look at where the business is positioned for the back part of the year, it's going to be serving both parts of the market. What's great about our business and the reason why the margin is so strong is exactly the piece you've called out. It's that further-processed part of our Chicken business and that part of the business is strong.

Adam Samuelson

Analyst, Goldman Sachs & Co. LLC

Q

Okay. It's helpful color. I'll pass it on. Thanks.

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 & Director, Tyson Foods, Inc.

A

Hi.

Farha Aslam

Analyst, Stephens, Inc.

Q

Could you share with us some color on your Beef business? It looks like you anticipate a very strong back half in order to hit your 6% plus margins. What are the current dynamics that you're seeing that gives you confidence on that number?

Thomas P. Hayes

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

A

Yes. Farha, it's definitely the Cattle on Feed, so we know that there's going to be – in our regions. So, Cattle on Feed, overall, but certainly in our regions, we feel like we're well set up. As expected, Q2 was tough, like it was really choppy and 3.3%, even though it's above sort of historical rates, not what we were planning for. To be

about 6% for 2018, it's really on the back of those Cattle on Feed reports and knowing that the supplies in our regions are exceptionally good.

Farha Aslam

Analyst, Stephens, Inc.

Q

That's helpful. And then, a bigger picture question, going into next year. Currently, Tyson stock is trading at about five-year lows, largely because there's questions about your ability to grow earnings for next year. You've moved away from giving kind of segment-level margin outlook. Could you give us just some bigger-picture color on where you expect to drive growth into next year, without, of course, giving particular guidance for the year?

Thomas P. Hayes

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

A

Yeah. So, Farha, when we have talked about this historically, there's been almost like we're bound in these ranges and that's something that you do when you're a very commoditized company and I understand the purpose that they served in the past. But we want to continue to have the best margins while we're continuing to grow the business, so we can deliver year-over-year improved EBIT.

As it relates to 2019, clearly too early to totally quantify, but we see some really strong themes developing across the portfolio. Certainly, the value-added businesses are expected to continue on their growth trajectory. We're in great categories. We have great businesses. Both Prepared Foods and Chicken will benefit from a higher-value added mix for sure.

Strong demand is supported by the continuous improvement in our Financial Fitness Program that we have. The more volume that we drive, the stronger the cost reduction is going to be and we continue to go faster in the categories we play in.

As I said in the prepared remarks, getting the businesses on one IT platform is enormous, because it not only allows customers to place one order, but then also with the distribution centers, everything just starts to kick in. So, another tailwind for us would be accelerating cost improvement into 2019. We expect a strong back half, which will certainly give us some momentum, as I called out before, Q4 better than Q3, not for nothing. Any M&A benefit will be incremental to that. So, certainly, we have a strong balance sheet and Stewart can talk about capital allocation, but we feel great about where we're positioned as it relates to taking advantage of M&A.

And the last thing I'll say is that commodity businesses, Beef, Pork and parts of maybe that Chicken business will benefit from increased supply, counterbalanced certainly with global and domestic demand increases. We've got a lot of noise as it relates to tariffs and so forth, but all of the things that we're seeing in terms of themes developing for fiscal 2019 are all very positive and we're excited.

Farha Aslam

Analyst, Stephens, Inc.

Q

And in terms of capital allocation, your share repurchase program, do you anticipate starting that in the third quarter or fourth quarter?

Stewart F. Glendinning

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

A

Yeah. So, let's be clear on that. Of course, we've always had a couple of aspects to share repurchase. It's been ongoing in respect of offsets to our long-term incentive programs and nothing has changed in that. So, we will have share repurchase ongoing there.

Relative to a more discretionary share repurchase, we're not saying specifically when, we're saying we'd like to see our leverage come down. We expect that to acceptable levels and we expect that to happen in the second half. I don't want to make myself prisoner to say it's going to happen in Q3 or Q4. I'd like to have the flexibility to make that choice.

Farha Aslam

Analyst, Stephens, Inc.

Q

Appreciate that. Thank you.

Operator: The next question will be 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

Good morning. A quick question, I was wondering, you mentioned earlier in the Chicken segment, you talked about egg production and hatch. I was wondering if you could give us a sense of the magnitude of headwind that's been, because I would think that that's something that would abate potentially into 2019 and just wondering if we could get a sense of how much that's been a headwind for you guys?

Thomas P. Hayes

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

A

It definitely has been a headwind and our intention is that it will abate by 2019. We haven't put a lot of emphasis on that, because it's still a bit of an issue. Like, we're still working through it and that's – the best I can say is we're managing through it. It's not solved yet, but it is getting better.

We expected some decline in [ph] egg (33:54) productivity with a bit of this, the trade-off in the breast meat yield going to a different breed, but the decline in hatchability has been a bit more than expected. If we just point to the USDA reports, it sounds like the whole industry has seen the same thing. But we feel really good about what Tyson is doing, the progress that we're starting to see, which gives us confidence about 2019, but it is something we continue to work.

Heather Jones

Analyst, Vertical Group

Q

Okay. Perfect. Thank you. My second question is on the Pork business. So, this was the lowest margin both per head and percent since Q2 of 2013 and when I look at the cut-out and hog cost during the quarter, that wouldn't

suggest the kind of year-on-year decline you guys had. And I know labor is up and freight costs are up, but I just – the magnitude was very surprising. So, I was just wondering, has there been some change in how you price that product into Prepared Foods or has there been some change in your longer-term hog contracts that aren't priced off the spot market? Just trying to get a sense so we can know – because it was a very big year-on-year change and so I'm just trying to understand that better.

Thomas P. Hayes

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

A

Yeah. So, remember, last year was incredibly high on Pork and so it was just an exceptional year. And so, we wish those margins would continue with us. They will not. Our assumptions that are built into our annual outlook of around 8% are strong margins. So, certainly, there's nothing that's changed, Heather. We haven't modified our approach or anything like that. What you're seeing is the market equilibrating to what will be sort of the new normal.

So, it continues to play out about as we expected as the new players enter the market. We're not having trouble getting hogs. We're seeing more hogs coming. That's also something that gives us a lot of confidence for 2019. The hog supply will meet the harvest capacity. This is something we just have to work through the turbulence, but heading into 2019, we feel really good about the supplies that we anticipate coming into the market in the fall.

Heather Jones

Analyst, Vertical Group

Q

Okay. Thanks so much.

Thomas P. Hayes

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

A

Yeah.

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

Robert Moskow

Analyst, Credit Suisse Securities (USA) LLC

Q

Hi. I had a couple questions. The first, just getting back to freight and pricing assumptions. Tom, as you get into fiscal 2019, I think you said that you and the industry will need to keep taking pricing in order to offset these costs going forward. Is it your assumption that freight cost inflation could happen again in fiscal 2019 or do you think it'll be kind of flat? And are you also saying that, hey, everyone needs to take some more pricing in fiscal 2019, because as it stands today, you've taken some pricing, but you've had to offset a lot of it just through your own kind of productivity? Is that really the message?

Thomas P. Hayes

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

A

The message for 2019 I'd ask you to take away is that we're going to have the pricing that we need, based on what we see today, to have us net to zero if nothing else changed in fiscal 2019. So, do I think there's going to be more costs coming out? Because it doesn't feel that way as it relates to the drivers. I think we're doing everything we can do to get on top of that. That feels good. What I don't know is fuel. Like what's going to be the fuel situation and that, to the extent that it goes up, we'll look to price for that as well.

As it relates to pricing overall, as you well imagine, I can only speak to what we're facing at Tyson versus the industry. This is an input cost. It's an input cost that needs to be recognized by the customers and ultimately the consumer. And we want to continue to provide value and we don't want this to hurt our earnings. We can't continue to do the investments that we would to drive growth that we've been driving. So, we're going to play to have it net to zero by the end of Q4 and if costs stayed the same, Rob, you should expect it would be overcome. I don't know about what happens with oil and so forth into 2019.

Robert Moskow

Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. And a quick follow-up. This is a more esoteric question, but there are some byproducts that get exported to China in the Pork complex, things that would not get absorbed here domestically. I had heard that the value might be \$3 a head. Have you seen those types of exports get cut off? And has that influenced your Pork margins at all or is anyone talking about that internally?

Thomas P. Hayes

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

A

I think it's a good insight. It hasn't affected us, Rob. If you think about our total business we sell, we Tyson sell less than 0.5% in total sales to China on Pork. So, it's about \$150-million-ish, I think, in 2017. So, the tariff and everything that's going on has created some issues and certainly demand would be backed up into the – or the supply would be backed up into the U.S.

As it relates to byproducts, not a big factor, given the small base that it already is that we rely on. Now, the big thing with tariffs is what happens to other companies and then, therefore, the cost of the supply in the U.S. goes down. That's not so much byproducts, but I think that's a good question.

Robert Moskow

Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Thank you.

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

Michael Leith Piken

Analyst, Cleveland Research Co. LLC

Q

Yeah. Hi. Just wanted to touch base a little bit more on the red meat side, in particular as we look to the outer years. How much of a big deal is the labor and being able – potentially for people to add workers to add second shifts and the ramp-up of some of their capacity and we've been able to maintain your shifts as high as you want in terms of labor from a labor perspective?

Thomas P. Hayes

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

A

We've been taking our labor costs up or I should say we should be taking wages up, so our labor cost is going up. The other things that we're doing, we are definitely putting more and more emphasis on safety and also something we call Upward Academy, which is bringing skills and training into the plants to train our folks on English as a second language. It could be basic financial skills, things that are allowing us to retain team members more.

So, as it relates to whether it's second shifts, to the extent we want them to do it or just overall sort of labor challenges, I think we're well-positioned to make sure those don't affect us.

The other thing I'd say on this, Michael, is that we have been spending quite a bit of money on automation and robotics. I'd say probably less focused on Beef, more on probably Chicken and Prepared Foods, but we also have been spending it on Beef for safety reasons and for otherwise. So, feeling – the net is feeling that we're in a good position such that we needed to add incremental labor or incremental shifts. I don't think that's anything that I feel nervous about.

Michael Leith Piken

Analyst, Cleveland Research Co. LLC

Q

Okay. Great. And do you expect like those investments in robotics, is that being done primarily for safety or is that also margin accretive over time?

Thomas P. Hayes

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

A

Both. Yeah, it's margin accretive over time. And yes, as we reduce the turnover and frankly, we're not necessarily seeing the massive reduction in head count, because what we're doing is as we grow, as we're putting those automation projects in place, those people are transferring to other parts of the plant and just the natural turnover goes down and that's – we like that. That's a good outcome for us.

Michael Leith Piken

Analyst, Cleveland Research Co. LLC

Q

Okay. Great. And then last question is just any updates on the pepperoni plant, any type of accretion you might expect in 2019? Thanks.

Thomas P. Hayes

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

A

On track. Yeah, on track in the pepperoni project and it'll be nice when we – we don't have to talk about it anymore, but I'm happy to talk about it. We have everything in place that we wanted to have in place. Let's say probably on track with a little more optimism as I hear the team talk about what they're going after in terms of bringing new customers or customers that we had back on. The operations, they're going really well. So, I feel like that is going to be a non-issue after 2019 where we maintain this is – they're going to be solved in 2019, but touch wood, things are going really well there.

Stewart F. Glendinning

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

A

Michael, the only thing to add is that your question relative to sort of how much, we're not breaking it out separately, but what I can say is that it's baked both into our EPS guidance for this year and, of course, will be baked into that guidance for next year.

Michael Leith Piken

Analyst, Cleveland Research Co. LLC

Q

Sure.

Stewart F. Glendinning

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

A

Thank you.

Operator: And 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

Hey. Good morning, Tom, Stewart. Thank you very much for the question. I just want to go back a little bit on trade and you mentioned that you're big on exports and volume growth is very strong. So, two things I wanted to check with you. So, obviously, you've mentioned China is not important for you, but clearly for some of your competitors and we know that the U.S. has always been a very significant export of Pork products to China.

So, could you quantify if you've seen a little bit of a headwind by just product that's not being able to [ph] ship (43:46) or just overloading the market to China? And is that, to a certain degree as well, affecting an oversupply situation in your domestic market where you basically struggle in? And then, I have a follow-up question on trade.

Thomas P. Hayes

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

A

Yeah. Sorry if this is going to sound a little bit repetitive, but because it is a relatively small part for us, I hate to talk a lot about total industry dynamics rather than just talking to what affects Tyson then. But certainly, the certainty will help us getting this behind us and not having to be in a situation where we're talking about this a lot. Question whether or not we'll actually be in a situation where this is an effect, when we had this whole situation emerge, where the trade war was looming and Pork was going to back up into the U.S. in terms of supplies, it was limit down that day, I think, on total hog costs. So, the hog costs came way down, certainly it backs up to the producer.

I'll just remind you, as you well know, that we are in the middle and we make our money on the spreads. So, if we have lots of supply, that's generally a good thing for us. And I guess I'll just finish with – I'm involved in this a lot. I talk about it a lot, but it seems like it just is hard to pin down where it's ultimately going to wind up and I guess being as a person cautiously optimistic, I feel like it's going to sort out fine.

Benjamin M. Theurer

Analyst, Barclays Capital Casa de Bolsa SA de CV

Q

Okay. Perfect. Thank you very much. And then, just on Chicken globally, as you know, maybe, well, some of your [ph] resilient (45:34) competitors on the international market are having some, well, restrictions in terms of trade currently to the European Union. So, is that something – I know you need special certifications in order to be able to export to the European Union, but is that something you would consider as an opportunity to further grow and also to basically endeavor into other markets and then to grab some share there? Just some thoughts on that high level would be much appreciated.

Thomas P. Hayes

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

A

We would love to. We would love to ship more Chicken to the EU for sure. Yeah, as I said it opened up, we'd be all about it. That's not something that is necessarily available to us today, but we do believe that it could be certainly very supportive for companies like ourself, for Tyson, we really take advantage of our worldwide offices

and we have been doing a great job under Noel White's leadership understanding what are the opportunities beyond where we currently sell. So, opening up new markets on all products – Prepared Foods, by the way, not just Chicken and Pork and so, yeah, if the EU opened up for Chicken and other products, of course, we'd be ringing the bell here. So, that's good.

Benjamin M. Theurer

Analyst, Barclays Capital Casa de Bolsa SA de CV

Q

Okay. Perfect. Thank you very much.

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

Akshay Jagdale

Analyst, Jefferies LLC

Q

Good morning.

Thomas P. Hayes

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

A

Good morning, Akshay.

Akshay Jagdale

Analyst, Jefferies LLC

Q

Can you hear me?

Thomas P. Hayes

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

A

Yes, we can.

Akshay Jagdale

Analyst, Jefferies LLC

Q

Perfect. Yeah, I wanted to – so wanted to talk about the value-added business, so Chicken and Prepared Foods, and just what I'm really try and understand is how much of your guidance change on those two businesses is really transitory versus something competitive or structural. It sounds to me like a lot of it is transitory related to commodity costs and some operational issues, right? So, that's what it sounds like, but I just wanted to run this by you.

So, it looks like your grain costs are higher by about \$100 million. Prepared Foods raw material costs are up by \$30 million relative to your previous guidance and then freight overall guidance is up by \$50 million, but let's say half of it is assigned to these two businesses. That's \$150 million-plus sort of headwind relative to your previous guidance and your expectation for EBIT on both those segments is it's not down as much, right? So, that's how I'm looking at it as a majority of the change in your guidance, primarily in Chicken is related to sort of timing issues as to when your costs are going up versus when the pricing is going through.

So – and there is some looks like issues in terms of operating perfectly that tend to happen, that's also included, but it doesn't sound to me like there's anything competitive that's changed dramatically that's causing the guidance to be slightly lower. So, am I understanding that correctly?

Thomas P. Hayes

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

A

Based on what you've laid out for me, it sounds like you're pretty well on the mark, Akshay, I would say that, as it relates to transitory, they are – some of them are more sort of immediate and acute than sort of it will last a little bit longer, right. So, as we look at the forward curve on grains, we know that's sort of where we are looking today. But to the extent that we just talk about tariffs, if soy backs up in the U.S., we could be in a situation – soybean meal, be in a situation where that is – the costs are very low.

But the overarching comments we made I would align with, I'd say that \$100 million, yeah, in terms of grain, that's about the right number, \$30 million up in raw materials for Prepared Foods, but I'd caution you on that one just that given where we're – based on our current projection, that's what we see. Going forward, there's, I think, probably a strong argument that those prices could go lower and so those input costs could be less for Prepared Foods, which is a good thing.

And then, freight, yeah, we just got to get on top of it. It's a battle. It's something that should be, once we get through it, will be fine. But they are, as you call out, sort of transitory issues.

Stewart F. Glendinning

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

A

Yeah. The only thing I would jump in on is to just say that if you looked at some of the challenges in Q2 and then look at the back half of the year, those things start to diminish. I know, for one thing, it's not going to snow this summer.

Thomas P. Hayes

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

A

No.

Stewart F. Glendinning

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

A

Not in this part of the world anyway and if you looked at the some of the production challenges we had with demand in Chicken in Q2, that we're going to be on top of for the back half of the year.

Think about freight, from a freight perspective, we told you about our approach to pricing there. So, those things all start to move with us. And if you add on top of that the sort of favorability we expect to see in Beef in the back part of the year, all of those things start flowing through certainly to Chicken business and to our Prepared business.

Akshay Jagdale

Analyst, Jefferies LLC

Q

Perfect. And then, one follow-up, please, Stewart, on the comment you made on normalized earnings. So, we obviously appreciate all the guidance we can get. We're not that smart to start off with. So, that's great. But just trying to get a little more color on what you're saying and the expectations you're setting.

So, the way I'm interpreting what you said is we're going to give you guidance annually, but basically what you're saying is we're going to grow off of the base that we have, right? Is that sort of the [ph] hierarching (51:29)

message that we should take away is like you're not managing the business to some percentage number. It's just you're going to keep growing off of this base. Is that a fair way to interpret the normalized earnings comments?

Stewart F. Glendinning

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

A

Yeah. Let me just step back. I think normalized ranges are not a good reflection of our business, because they effectively pigeonhole us. This is a business that we're trying to margin up, that we're trying to grow, that we're trying to increasingly brand and all those things are not consistent with a static set of margins.

This is also a business, as you rightly point out, that gives a lot of guidance to the analyst community, help you peg where we're going to end up and in a desire to sort of help make that helpful to you. At the beginning of the year, we'll say this is what we see – this is how we see the margin for Chicken, for Prepared, et cetera, for the year and that will be normal for that year. And so, each year, you'll get to see what that looks like and, of course, our desire is to use that as the base to build on sequentially.

Akshay Jagdale

Analyst, Jefferies LLC

Q

Perfect. I'll pass it on. Thank you.

Operator: The next question will be from Michael Lavery of Piper Jaffray. Please go ahead.

Michael S. Lavery

Analyst, Piper Jaffray & Co.

Q

Good morning. Just following up on that. I know from CAGNY you gave the total picture company-level margin look of an 8.6% to 8.9% range. Sorry, if I missed this, but I didn't see that, segment detail is great, but when you add it all up, is that still what you would give as your view for the total company picture as well?

Stewart F. Glendinning

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

A

Well, we've given you the EPS guidance and we've given you the top line. So, you ought to be able to derive the numbers by using that math.

Michael S. Lavery

Analyst, Piper Jaffray & Co.

Q

I guess just in terms of within the range, are you expecting, if the sales – when you give the update, is it just that the EPS is at the lower-end and in part because the sales coming down or do you expect such a strong second-half margin outlook that you're putting that up towards the higher-end or would everything be set maybe a little towards the lower-end? Where is the right kind of way to think about in that range I suppose?

Stewart F. Glendinning

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

A

Well, I think what Tom called out relative to our range is that a number of the pressures that we felt in the first half of the year, like freight, principally, labor, these will be with us in the back half of the year and, of course, we're working to offset those. But with a kind of \$155 million that Tom called out, that will push us to the lower-end of the EPS guidance range. No question about that, but we have it all in the forecast and pulling the levers to get there.

Michael S. Lavery
Analyst, Piper Jaffray & Co.

Q

Okay. That's helpful. And just on the frozen meal kits, what sort of shelf space incrementality does that have? Is that swapping out for other items or are you getting new placements incremental to the portfolio already?

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

A

So, the new placements, some of it will be replacing some of the existing products we have, but it's just generally new placements. Now, the insight there is that consumers are not – I'm assuming you're talking about, in my prepared remarks, the frozen chicken.

Michael S. Lavery
Analyst, Piper Jaffray & Co.

Q

Right, exactly.

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

A

Yeah. So, the insight is that consumers want more convenience. The individually frozen chicken, as it exists historically, is not a particularly exciting product. So, we're trying to come up with what can we do to sort of reinvent and disrupt that category. So, to the extent that those facings, when those distribution points win over classic IF products, individually frozen products, that wouldn't surprise me. But our play is to be net incremental and to derive more velocity on those distribution points is the key thing as well as margin and brands.

Michael S. Lavery
Analyst, Piper Jaffray & Co.

Q

Okay. Thank you very much.

Operator: The next question will be from Eric Larson of Buckingham Research Group. Please go ahead.

Eric J. Larson
Analyst, The Buckingham Research Group, Inc.

Q

Yeah. Good morning, everyone. Thanks for squeezing me in here. Just to push a little harder on kind of the whole net pricing impact, and, Tom, this goes back to your Hillshire days in 2011 and 2012 when we had our last real bout of inflation and I think the industry was taking 5%, 6%, 7%, 8% pricing and that's when you have all the elasticity issues, et cetera. But when you kind of net it all out, it looks like a point, maybe a point and a half of pricing across your value-add portfolio is enough – is what's needed to kind of cover your cost increases here, which I know that it's got some near-term pain, but this is not an unmanageable problem. Would that be a fair way to frame this?

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

A

Well, yes, it is. However, I'd just go back to – it's not easy. As customers want to maintain their costs, certainly it's hard for us to go to them and say look, your cost is affecting everybody and push that through. So, nobody breaks out the party hats when we come in with a price increase on anything, but freight is – they're trying to make sure that they maintain their costs. So, we're trying to do all the things we can.

So, from a Tyson margin perspective, we are passing on the costs, but we are also making sure that we're doing everything we can to lean out our system, making sure that trucks are full. We don't have more stem miles in the system than is needed, that continuous improvement projects are accelerated. So, your opening question, is that reasonable to assume that we should be able to get that, absolutely, that's our job. But that doesn't come without a lot of hard work, it's, I guess, the point I want to make.

Eric J. Larson

Analyst, The Buckingham Research Group, Inc.

Q

Yeah. No, I know it's not easy to go to your customers for pricing, but I think everybody is or at least the majority of your competitors or across the packaged food group or across the consumer group, whether it be a CPG company or a food company, I think they're all attempting do something on that front. So, it's not like you're the lone ranger on that.

Thomas P. Hayes

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

A

I don't expect – I think you're absolutely right. Yeah.

Stewart F. Glendinning

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

A

And I would just say, dimensionally, you've framed it right. I mean it has the size to be managed, but to Tom's point, it comes with a bit of a difficulty factor.

Eric J. Larson

Analyst, The Buckingham Research Group, Inc.

Q

Yeah. Then, just the only follow-up. If that type of price increase that I've quoted out, maybe 1%, maybe as high as 2%, maybe it's not that high, does that lead to any significant negative elasticity or will your competitors follow do you think? I mean, how do you look at the sales impact on that?

Thomas P. Hayes

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

A

What I would say is the sales impact should be relatively flat. If we have more costs going in, the price goes up. That's certainly going to be effective. But as you're talking about maybe units or volume, it should be flat. It shouldn't stop us from growing. Our competitors, like I said, who knows what they're going to do? If they don't pass costs on, then their margins are going to take a hit.

So, how elastic our categories are or not is dependent upon which category you're talking about, and is it branded or not branded or do we have an exceptionally strong partnership with customers that they understand these things are things that we have to get back, we have to make a proper margin as they partner to them.

So, there's a lot of factors at work. That's going back to the dialogue that we have with our customers. Certainly, where we have strong partnerships and strong brands, it's certainly easier than if we're in a commoditized non-strategic partner relationship, which we have fewer of today than we had yesterday, but that's – you're calling out all the right stuff, I think.

Eric J. Larson

Analyst, The Buckingham Research Group, Inc.

All right. Thanks for your comments.

Q

Thomas P. Hayes

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

Yeah. Sure.

A

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

Jeremy Scott

Analyst, Mizuho Securities USA LLC

Hey. Thanks. Good morning, guys. I just wanted to ask again on the Beef margin. I appreciate your comments that it was choppy in the quarter, but it seemed, at least on our numbers, that there were more up-chops than there were down-chops. So, I wanted just – and maybe give you the opportunity to specify whether or not there was – and how much of that weather impact if you can quantify that separately, if there was any hedging issues. And then, third, maybe you can quantify the freight impact specifically for that segment. And then, maybe the same three questions for the Pork segment as well.

Q

Thomas P. Hayes

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

So, let's just start with the freight. Jeremy, we're not going to break that out individually, because there's competitive aspects to that and we want to make sure that we are remaining as competitive as possible for our shareowners. What I will say is that I don't know how other people are affected in our regions. We had to stop production. We had to close plants several times in the quarter, not every plant, but several plants several times in the quarter. And that just – that hurts you. And so, as Stewart said, hopefully we're not going to get any winter – snow this summer. But I think that it definitely was maybe something versus, if you look at the larger set, that hit us disproportionately, but I don't know. I just know what happened to us.

A

Jeremy Scott

Analyst, Mizuho Securities USA LLC

Okay. Is there any way to quantify that for the quarter?

Q

Thomas P. Hayes

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

We won't quantify that. As you can understand, that's something that's just not something that we're willing to do based on our competitive approach, but appreciate the question.

A

Stewart F. Glendinning

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

Yeah. I mean look, Jeremy, I think you see the results for the quarter. So, certainly, based on public data, you can take some calculation what you think that looks like. I think, more importantly, we're giving you guidance for the back half of the year and we're telling you that we think the back half is going to look a lot stronger and that's a positive for our business.

A

Thomas P. Hayes

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

Yes.

A

Jeremy Scott

Analyst, Mizuho Securities USA LLC

Okay. Thank you.

Q

Operator: The next question will be from Ken Zaslow of Bank of Montreal. Please go ahead.

Ken Zaslow

Analyst, BMO Capital Markets (United States)

Hey. Good morning, guys.

Q

Thomas P. Hayes

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

Good morning, Ken.

A

Stewart F. Glendinning

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

Good morning, Ken.

A

Ken Zaslow

Analyst, BMO Capital Markets (United States)

So, I think I'm going to continue on that line of thinking, but I'm just trying to figure out a little bit bigger picture. How much of the issues in 2018 will not recur in 2019? If you want to call it labor issues, the hatchability issues, things like that, how do we frame that, that is non-recurring?

Q

Thomas P. Hayes

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

Yeah. It's a difficult question to answer entirely, but I would say that the headline should be that these were a lot of issues that are specific to 2018 now. I don't know if the same weather issues are going to be at play. There seems to be really increasingly difficult wild cards to predict. But as it relates to hatchability and some of the things that I spoke of, we believe we'll be past those, we believe we'll be past freight. So, barring any sort of crazy events, we feel like 2019 is setting up really well to be again another year of improved earnings and that's what we're most excited about.

A

Stewart F. Glendinning

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

Yeah. Ken, maybe just one other thing Tom called out in his prepared remarks, he referred to some inefficiencies as we ran our Chicken business really hard the second quarter. That's another example of something, I think, we'll be totally on top of in the back half of the year and certainly into 2019.

A

Thomas P. Hayes

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

A

Sure.

Ken Zaslou

Analyst, BMO Capital Markets (United States)

Q

That was exactly my point. So, I'm trying to figure out, call it, is it 100 basis points of reduction in the Chicken margins? And is it probably another 50 basis points to 60 basis points in Beef? I mean it's just so conceptual, because I think, as you're saying, most of it is just one-time in nature and I know everybody is trying to circle around that. I just didn't know if there was some sort of framework that we could, kind of, use for 2019 and 2020?

Thomas P. Hayes

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

A

Yeah. So, we don't have that for your rec, today, Ken, but let us take that onboard for future calls as we get closer to 2019 and we get more specific on the segment margins. We'll do our best to declare what was one-time in 2018 that wouldn't repeat in 2019 as we present our case.

Ken Zaslou

Analyst, BMO Capital Markets (United States)

Q

Great. And then, my last question is given where your stock is, why hold yourself to the 2 times leverage? That seems just an artificial number. Like why not 1.9 times, why not 2.3 times or why 2 times is such an important number? And if it's not an important number, why aren't you just buying back stock as is? And so, you know what, we're in good shape, because we have a good financial outlook. Our stock is probably undervalued. I'm assuming that's what you're thinking. Why not just buy back the stock and hold yourself not to the 2 times levered?

[Multiple Speaker] (01:04:50)?

Stewart F. Glendinning

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

A

Yeah. Thanks for that, Ken. First of all, the view from the rating agencies is important to us, because it allows us, of course, to drive financial funding for acquisitions, et cetera. That's where the 2 times comes from. I never said that it was sort of a hard line in the sand. In fact, I think if you recall in an earlier question I answered, I said that I specifically wanted to have the flexibility to decide Q3 or Q4 based on the way that we see our stock and our ability to drive a return for shareholders. So, it's not hard and fast for me.

Ken Zaslou

Analyst, BMO Capital Markets (United States)

Q

Well, great. I appreciate it. Thank you, guys.

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

Thomas P. Hayes

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

Okay. Thanks again for all the questions and thanks for bearing with us on a choppy quarter and thanks for owning our stock and analyzing our stock, because we are a great company to own well into the future, long-term big bet. Appreciate your interest. We're encouraged by the performance. Halfway through our fiscal year, we know we're setting up for a great 2019 as we talked about.

I do want to say to the team members that are listening to the call, at 1:00 PM Central Time, we'll be having our team talk live discussion. So, please tune into that whether it's on mobile or live in the auditorium and look forward to talking to you then. And, everybody, have a great day.

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

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