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Tyson Foods, Inc. (TSN)

Q4 2018 Earnings Call

CORPORATE PARTICIPANTS

Jon Kathol*Vice President-Investor Relations, Tyson Foods, Inc.***Noel W. White***President & Chief Executive Officer, Tyson Foods, Inc.***Stewart F. Glendinning***Executive Vice President & Chief Financial Officer, Tyson Foods, Inc.*

OTHER PARTICIPANTS

Benjamin M. Theurer*Analyst, Barclays Capital Casa de Bolsa SA de CV***Heather Jones***Analyst, The Vertical Trading Group LLC***Michael Leith Piken***Analyst, Cleveland Research Co. LLC***Adam Samuelson***Analyst, Goldman Sachs & Co. LLC***Jacob Nivasch***Analyst, Credit Suisse***Lubi Kutua***Analyst, Jefferies LLC***Ken Zaslow***Analyst, BMO Capital Markets (United States)***Jeremy Scott***Analyst, Mizuho Securities USA LLC*

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Tyson Foods, Incorporated Fourth Quarter Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Mr. Jon Kathol, Vice President of Investor Relations. Please go ahead.

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

Good morning and welcome to the Tyson Foods, Incorporated Fourth Quarter and Fiscal Year 2018 Earnings Conference Call. On today's call are Noel White, President and Chief Executive Officer; and Stewart Glendinning, Chief Financial Officer. Slides accompanying today's prepared remarks are available as a supplemental report in the resource center of the Tyson investor 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 risk 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 Tuesday, November 13, at 9:00am Eastern Time. A replay of today's call will be available on our website approximately one hour after the conclusion of this call. This broadcast is the property of Tyson Foods and any redistribution, retransmission or rebroadcast of this call in any form without the express written consent of Tyson Foods is strictly prohibited.

Please note that our references to earnings per share, operating income, and operating margin in today's remarks are on an adjusted basis unless otherwise noted. For reconciliations to our GAAP results, please refer to this morning's press release.

I'll now turn the call over to Noel White.

Noel W. White*President & Chief Executive Officer, Tyson Foods, Inc.*

Thanks, Jon. Good morning. It's my pleasure to join you today on my first earnings call as CEO of Tyson Foods. I'm honored to be in this role and I'm energized by the many opportunities ahead for this great company. I'd like to begin by acknowledging Tom Hayes. We wish him well and thank him for his leadership and refining our strategy and putting it into action. I'm committed to Tyson Foods' strategy to sustainably feed the world with the fastest-growing protein brands. As a member of the leadership team that developed this strategy, I know it's our foundation for continued growth. After 35 years with Tyson, I've been a part of the evolution from a commodity protein producer to a global food company, and we will continue on this trajectory.

I have a track record of delivering results in multiple segments of our company and my focus is to grow our Prepared Foods, our value-added Chicken, and international businesses to help stabilize volatility and grow earnings. We have a great team both at the executive level and throughout the company. This team is empowered to accelerate growth and deliver results while maintaining our commitment to sustainability.

Our algorithm for growth continues to be 3% value-added sales growth and high single-digit EPS growth annually over time. Our 2018 value-added growth of 4.2% exceeded our goal. EPS was \$6.16, an increase of 16% over last year including \$0.78 from tax reform. We exceeded our revised guidance due to the strong finish in the fourth quarter in the Beef and Pork segments. We faced several hurdles in fiscal 2018 including freight costs, trade disputes, market volatility, pricing pressures, and demand shifts. It's worth noting that despite trade disruptions U.S. Beef and Pork volumes were up 12% and 7% respectively versus last year as global demand for U.S. protein remains strong.

In 2018 Tyson's overall return on sales was 8.2% as we drove results with our strong team, differentiated portfolio, and diversified business model. Our Beef and Prepared Foods segments performed very well both on an operating income and return on sales metrics. We integrated AdvancePierre Foods while acquiring Original Philly, Tecumseh Poultry and its Smart Chicken brand, American Proteins which is a rendering and blending business, and – pending regulatory approval – Keystone Foods. With protein at the center of our strategy, we divested several non-protein businesses including Sara Lee Bakery (sic) [Sara Lee Frozen Bakery] (05:09), Kettle, Van's, and TNT Crust.

Safety is one of our key metrics and we reduced OSHA recordable incidents by 20% this year. We see a direct link between safety and our low turnover rates, and given the tight labor markets we're in it's important to be the employer of choice in our plant communities as we focus on continuous improvement in safety and productivity.

We achieved \$253 million in Financial Fitness savings in 2018 versus a goal of \$200 million. Going forward, Financial Fitness savings will be included in our base earnings and return on sales guidance rather than reported separately. We'll continue to track savings internally but we've decided to eliminate the expense and considerable staff time required to report audited figures. This decision aligns with our commitment to control cost while allowing us to focus on delivering growth.

2018 was a challenging but productive year as we executed our strategy and built on the solid foundation of our diversified model and growth strategy, and now I'll give you some details about our execution at the segment level. The Beef segment generated record operating income of \$348 million with an 8.9% operating margin in the fourth quarter. Compared to Q4 of last year, sales volumes increased 3.4% while average price decreased less than 1%. For the fiscal year, Beef produced just over \$1 billion in operating income, also a record, with a 6.7% margin. Volume was up 3.1% while average price was up 1.2% for the year. Beef results were stronger than expected driven by good cattle supplies, strong domestic demand, and increased global demand. In addition, we have improved our performance relative to USDA benchmarks. Our goal is to grow value-added Beef through case-ready and premium programs to help decommoditize more of our business and reduce some of the volatility. With cattle supplies looking good next year and into 2021, we expect the Beef segment to produce an operating margin above 6% again in fiscal 2019.

In the Pork segment, for the fourth quarter we generated operating income of \$76 million with a 6.7% margin. Revenue was down due to a 2.7% decline in volume and a 14.5% lower average sales price. For the year, operating income was \$374 million with a 7.7% margin. Revenue was down as volumes declined 2.1% with price down 4.8%. The supply/demand imbalance of hogs that we spoke of last quarter continued in the first several weeks of our fourth quarter but improved with the seasonal increase in hog supplies. And according to publicly available data, we're clearly outperforming the industry on a revenue per head basis. As with Beef, we're working to grow our value-added Pork business through case-ready and premium programs. We'll continue moving more of our Pork into Prepared Foods to reduce volatility which is a key advantage of our diversified business model. As we look to fiscal 2019, we expect the operating [ph] margin improvement (08:39) for the Pork segment to be around 6%.

The Chicken segment generated operating income of \$182 million in the fourth quarter and a 5.8% operating margin. Sales volume was up 10.4% driven by acquisitions while average price decreased 7% resulting from the changing product mix from acquisitions, increased domestic protein supplies, and lower export prices. For the year, the Chicken segment's operating income was \$947 million with a 7.9% margin. Volume was up nearly 5%, again mostly due to acquisitions, while the average price was roughly flat for the year. With a product mix that's diversified across sales channels and bird sizes and more value-added than our competitive set, our Chicken business is well-positioned for the difficult pricing environment that has continued into fiscal 2019. We'll continue working to improve our mix and our cost structure which are the focus of many of our capital projects. In fiscal 2019, as we integrate several businesses we expect an operating margin near 8% in the Chicken segment. Our outlook doesn't include the Keystone acquisition which should close sooner than originally expected.

Our Prepared Foods segment continues to perform well and in the fourth quarter produced a record \$235 million in operating income with an 11.2% margin. Average sales price was relatively flat while revenue and volume decreased following the sale of non-core businesses. For the year, operating income was \$979 million with an 11.3% margin. Volume was up 4.1% due to acquisitions net of divestitures with average price up 6.1%. We're excited about the performance of our Prepared Foods business as innovation continues to deliver sales growth. Jimmy Dean Simple Scrambles, for example, is maintaining its strong performance in its second year with consumer repeat purchases that are best-in-class. Hillshire Snacking delivered a 32% increase in sales dollars. We have a very strong pipeline of Prepared Foods innovation planned for 2019, and I encourage you to take a

look at our slide presentation to see some of those new products. As we continue to grow volume through our base business in addition to innovation, we expect Prepared Foods operating margin to exceed 11% again in fiscal 2019.

I'll now ask Stewart to take us through the financials.

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

Thanks, Noel, and good morning everyone. Fourth quarter EPS of \$1.58 which includes a \$0.20 tax reform benefit was up 10% compared to Q4 last year. Revenues in the quarter were down slightly to just under \$10 billion as average price was impacted by trade disputes and increased protein supplies. Sales volumes were up 2.7% driven by acquisitions; and operating income was \$831 million, down about 8% versus Q4 last year. And total company return on sales was 8.3% for the quarter.

For the fiscal year, earnings were \$6.16, up 16% including \$0.78 from tax reform. Sales were \$40 billion with volumes up 2.5% and price up 2.1%, while operating income was approximately \$3.3 billion with an operating margin of 8.2%. Operating cash flows for the year were just under \$3 billion, up approximately 14% over last year. Capital expenditures were \$1.2 billion as we invested in growth and efficiency projects, with expected returns greater than our cost of capital. Depreciation and amortization were \$943 million in fiscal 2018.

We repurchased approximately 5.9 million shares for \$427 million in 2018. Our adjusted effective tax rate for the fourth quarter was 23.5% and 23.6% for the year. Net debt to adjusted EBITDA was 2.3 times. Including cash of \$270 million, net debt was \$9.6 billion and total liquidity was \$1.4 billion as of year end. Net interest expense was \$86 million in the fourth quarter and \$343 million for the full year. We received around \$275 million of incremental cash flow in fiscal 2018 as a result of tax reform.

Now, turning to fiscal 2019. Our capital allocation priorities will continue to focus on driving shareholder value and growing the business. We are committed to our investment grade credit rating and we'll work to pay down debt as we deploy cash to grow our business organically and through acquisitions. We'll continue to return cash to shareholders through share buybacks and dividend growth. In fact, the board of directors has increased the quarterly dividend payable on December 14 to \$0.375 per share on our Class A common stock. We anticipate the annual dividend rate in fiscal 2019 will be \$1.50 for Class A shareholders, a 25% increase over 2018.

In fiscal 2019 we expect top line sales of approximately \$41 billion, an increase of about \$1 billion over 2018. Cash generation should remain very strong. We're planning approximately \$1.5 billion of capital expenditures in fiscal 2019 with spending focused on growing our business. We expect these investments to deliver substantially more than the cost of capital. Net interest expense should approximate \$350 million in fiscal 2019 before any impacts from financing the Keystone acquisition. As Noel mentioned, closing of the Keystone acquisition is likely to be sooner than previously expected. We're confident in our ability to finance the transaction and we'll be ready to focus on integrating the business.

We expect liquidity to remain above our minimum target of \$1 billion in 2019. Our effective tax rate is expected to be around 23.5% in fiscal 2019. Based on our average share price in Q4, we expect our average diluted shares to be around 367 million before any share repurchases. As Noel said in the news release this morning, based on current assumptions we believe fiscal 29 (sic) [fiscal 2019] (15:35) adjusted earnings will be \$5.75 to \$6.10 per share. That's comparable to fiscal 2018 results if you exclude the \$0.13 in earnings per share generated by the businesses divested in 2018.

Now, some of the assumptions we're making in our guidance are that there's no further movement in the grain markets, that chicken price deterioration ends, that we're able to continue recovering increased freight cost through pricing, and that there are no extraordinary labor pressures. [indiscernible] While fully-known (16:08), in our current outlook we also expect the Keystone acquisition will have financing and integration costs in 2019 as well as recognition of intangible assets, and therefore we anticipate Keystone's accretion on an adjusted EPS basis to begin in fiscal 2021. However, we expect Keystone, as with our other recent acquisitions, to be immediately accretive on a cash basis.

2019 is going to be another great year focused on driving growth as we integrate businesses, carry out CapEx projects, drive cost savings, and generate cash to create shareholder value. That concludes my remarks. Now, back to Noel.

Noel W. White*President & Chief Executive Officer, Tyson Foods, Inc.*

Thank you, Stewart. 2018 was challenging but it was a good year. Looking at publicly available data, we're outperforming the competition in all segments. We made three acquisitions and completed four divestitures to better position us for long-term growth. We're actively integrating the new businesses and we're ready to hit the ground running with Keystone. We're excited about the platform for global growth that Keystone will provide in addition to its strong domestic operations. Based on current assumptions, our outlook for fiscal 2019 is comparable to 2018. We expect another good year, but not without challenges. However, we remain confident in our ability to execute and deliver growth over time because of our diversified business model, our broad product portfolio, our strong innovation pipeline, our differentiated capabilities, our tremendous financial position, and the expertise and experience of our team members. These are advantages in how we will generate growth both organically and through acquisition, both domestically and internationally.

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

QUESTION AND ANSWER SECTION

Operator: Okay. We will now begin the question-and-answer session. [Operator Instructions] Okay, the first question comes from Ben Theurer with Barclays. Please go ahead.

Benjamin M. Theurer

Analyst, Barclays Capital Casa de Bolsa SA de CV



Hey. Good morning, Noel and Stewart, and, well, congratulations on the strong EPS number. Now, one of the questions I was having in looking at your guidance 2019, would you describe the outlook as somewhat conservative because it's basically, I mean, midpoint, adjusting for the one-timers and so on; it's like kind of calling for zero growth on earnings. So just to understand why you came up with somewhat a conservative guidance here, and then I have a follow-up.

Noel W. White

President & Chief Executive Officer, Tyson Foods, Inc.



Yes, Ben. This is Noel, I'll take the question. The outlook is as we see it today, Ben, so there's a lot of variables are in place and it's really consistent with the past approach that we've taken based on everything as it stands today. If, however, that changes our outlook could change, and at this point it looks like some of the headwinds and tailwinds that we face are in relative balance. Again, profitability, profitable growth is a key focus for this team as we look into 2019.

Stewart F. Glendinning

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



The only thing I would add, Ben, is just to say if you looked at last year, of course the first half of the year was much better for Pork than the second half of the year. We're going to have to overcome that comparison as we enter the first part of the year. Aside, say, underscoring what Noel has emphasized here this is the best estimate we have for the moment, okay?

Benjamin M. Theurer

Analyst, Barclays Capital Casa de Bolsa SA de CV



Okay. And as you said actually, Stewart, on Pork would be my follow-up question. So late July, early August when you updated your guidance for 2018, the implications [ph] posed (20:11) and what we saw in Q3 was basically for a much worse environment on the Pork side. I mean, implicitly it was basically guiding to a 0% margin in the fourth quarter. Now, you actually reported an almost 7%. Could you elaborate a little bit on what has changed actually through the quarter than what you were expecting late July, early August which triggered some sort of a meaningful reduction on that specific segment? So what has been better and how is this going to evolve into 2019 fiscal for you?

Noel W. White

President & Chief Executive Officer, Tyson Foods, Inc.



Yeah, Ben. This is Noel, I'll take the question. In July and August there's a large number of variables that were in the market. We had a number of trade disputes that were taking place, we had some planned expansion in production capacities that didn't happen as quick as what we anticipated; and frankly our exports continue to be very strong, very robust in light of all the trade disputes that you're reading about. So that's frankly continued not

only through Q4 but into Q1 as well. October was a little bit lighter than what we expected and November has been a solid month for us.

Benjamin M. Theurer

Analyst, Barclays Capital Casa de Bolsa SA de CV



Okay. So basically actual was just – it never got as bad as you initially expected? Is that a fair summary?

Stewart F. Glendinning

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



When you look at the stats, Ben, you see – into Noel's point – June and July the margin was really, really compressed. We had all of the trade noise and it just wasn't clear to us what was going to happen. And if you look with the data after that, the spread got much, much wider and we wanted to make sure we were in a place where we gave a range that we felt was a good estimate at the time.

Benjamin M. Theurer

Analyst, Barclays Capital Casa de Bolsa SA de CV



Okay, perfect. Well, Noel, Stewart, thank you very much. I'll leave it here.

Noel W. White

President & Chief Executive Officer, Tyson Foods, Inc.



Thank you.

Operator: Okay. The next question comes from Heather Jones with The Vertical Group. Please go ahead.

Heather Jones

Analyst, The Vertical Trading Group LLC



Good morning. And, Noel, congratulations on the CEO role.

Noel W. White

President & Chief Executive Officer, Tyson Foods, Inc.



Thank you, Heather.

Heather Jones

Analyst, The Vertical Trading Group LLC



So my first question is on Chicken. You guys mentioned that one of your key assumptions is that Chicken price deterioration ends. So I don't know if the answer is linked to that, but just wondering given where your margin came in for Q4, sub-6%, wondering what gives you confidence that you can get close to 8% in fiscal 2019.

Noel W. White

President & Chief Executive Officer, Tyson Foods, Inc.



Yeah, Heather. This is Noel, I'll take the question. A couple of things, Heather. As we came through 2018 there was a number of somewhat extraordinary events that we encountered. The freight increase that we talked about last quarter, at that point in time we had not fully recovered the freight. We're still working on doing that. We recovered a large portion of it. That's work-in-process. We had some live production issues I think that we spoke about as well as the rest of the industry. We had a fire in one of our large complexes that we had to overcome.

And frankly, we had some production-related issues that we had to address as well. We feel good about where we're at right now as we look into 2019. There are some headwinds; you mentioned one of those being pricing. Grain is better than what it was when we put our plan together. It's still higher than it was a year ago. But based on what we have for visibility right now, Heather, it looks like we should be some place close to that 8% number.

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

Yeah. And the only other thing to add, Heather, we'll have the benefit of course of a full year of API this year and of course, to a lesser extent, Tecumseh. But that's where we are from an estimate standpoint.

Heather Jones*Analyst, The Vertical Trading Group LLC***Q**

And for my follow-up, I was just wondering if you could share with us your view on African swine fever. Just wondering if you could give us a sense on what your view is right now of the severity of the break in China and the potential implications for the entire business at Tyson.

Noel W. White*President & Chief Executive Officer, Tyson Foods, Inc.***A**

Yes, Heather. This is Noel again. I'd say the effects at this point is unknown but it has the potential to be a significant event. As you're well aware, African swine fever has existed in parts of Eastern Europe for a number of years. The fact that it's now in China and appears to be fairly widespread has the potential to make a significant impact. We've not seen that at this point, so unless it would become much wider spread than what it is today or if it would move into other global markets then it could have a significant impact.

Heather Jones*Analyst, The Vertical Trading Group LLC***Q**

Okay. Thank you so much.

Noel W. White*President & Chief Executive Officer, Tyson Foods, Inc.***A**

You're welcome.

Operator: Okay. The next question comes from Michael Piken with Cleveland Research. Please go ahead.

Michael Leith Piken*Analyst, Cleveland Research Co. LLC***Q**

Yeah, good morning. Just wanted to touch a little bit on the Beef side, and you guys obviously had an extraordinary quarter; and just getting your outlook, normally the first half of the year is seasonally weaker. But how sustainable are some of the improvement in margins? As then as a follow-up, how do you see the 2019 features playing out between Beef and Chicken? Seems like Beef got a lot last year. How does 2019 seem to be shaping up?

Noel W. White*President & Chief Executive Officer, Tyson Foods, Inc.***A**

Yeah, Mike. This is Noel, I'll take the question. As we look at 2019, 2020, even to 2021, frankly we don't see a lot of change. The supply appears to be relatively stable, we have a good sense of what that looks like just due to the

calf crop that gives us good visibility for at least a couple of years. We're not seeing liquidation at this point of the cow herd which is an early indicator of what can affect us three to four years from now; it looks like it's plateaued or at least stable. Beef demand through 2018 was strong both domestically and in the export markets. U.S. industry exports were up 12% year-over-year; ours exceeded the 12%, so global demand for Beef continues to be very strong. So it is unusual the fact that volumes go up and pricing go up at the same time; we don't see anything at this point that is going to be any different in 2019.

Operator: Okay. The next question comes from Adam Samuelson with Goldman Sachs. Please go ahead.

Adam Samuelson

Analyst, Goldman Sachs & Co. LLC

Yes, thanks. Good morning everyone. Maybe continuing on Chicken and going back to the pricing comment, can you talk a little bit about your actual exposures to pricing changes from here in the business? I mean, you participate in so many different segments. You have the prepared or the processed chicken and the buy versus gross. Sometimes we struggle to – can you talk about the commodity price sensitivity in the Chicken segment and how you see it lining out through the next 12 months?

Noel W. White

President & Chief Executive Officer, Tyson Foods, Inc.

Yeah. Adam, it's difficult to give you a specific answer because we do have a great number of pricing scenarios with many different types of customers, and the pricing pressure that I spoke about is not necessarily across the board on all products. So as an example, in some of the different channels that we participate in, we don't see the pricing pressure. Same thing would be true in our value-added products; we're not seeing that type of pressure. However, in some segments of our business there is pressure. I think others have spoken about that; we're seeing the same thing. And it doesn't happen all at once. Our pricing agreements are varied throughout the year, so we have some agreements that are coming due now and we have others in the spring and others in the summer. So when I talk about pricing pressure, that's not necessarily for our full fiscal 2019 and it's not in all segments.

Stewart F. Glendinning

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

Yeah. Adam, I think Noel's absolutely right on this one. It's one of the reasons why we give guidance just so that we can help to try to sort through the impacts for you.

Adam Samuelson

Analyst, Goldman Sachs & Co. LLC

Okay, that's helpful.

Stewart F. Glendinning

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

I would say the best you could do probably is to look back at pricing over time and then model that against our top line. That's going to give you some sense of the sensitivity.

Adam Samuelson

Analyst, Goldman Sachs & Co. LLC

Okay, so maybe I'll take this in a different way and it's, again, a continuation to sort of Heather's question in a little bit different light. In the second half of this fiscal year your Chicken margins were a little bit over 6%, you're expecting them to get to around 8% in fiscal 2019, and then the first half/second half breakup of the comps are very different. How much of it is simply the absence of some of the negative one-timers that you had in the last couple quarters versus fundamental improvement in your net margin or net price realization underlying productivity, kind of net cost recovery from some of the inflationary pressures you've had? Just help give us some of the pieces that get us from where you were in the second half of this year to where you expect to be for the full year 2019.

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

Yeah, got it, okay. Well, Adam, I'm a little reluctant to sort of break out our P&L for next year but I'll just point to some of the bigger items. When I think if you just looked at the impact to us last year from a freight perspective – that's one of the largest impacts on our Chicken business – you think about the live costs that Noel talked about. Those are probably the two biggest areas that we don't expect to repeat for this year outside of the impact of price, and that's probably the easiest way to look at the business.

Adam Samuelson*Analyst, Goldman Sachs & Co. LLC***Q**

Okay, that's helpful. I'll pass it on. Thanks.

Operator: Okay. The next question comes from...

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

I'm sorry, I'm just going to go back. I just want to make sure. Adam, I know you've sort of come out of the queue. But specifically, remember that as we took the big freight increases last year, it took us until the back part of the year until we had pricing in place to start to overcome the increases in freight. We are expecting to see some amelioration of that freight increase in this year. You've seen fuel prices coming down, but our run rate now looks a lot better than it looked in the first half of last year.

Adam Samuelson*Analyst, Goldman Sachs & Co. LLC***Q**

Okay. Thank you.

Operator: Okay. The next question comes from Rob Moskow with Credit Suisse. Please go ahead.

Jacob Nivasch*Analyst, Credit Suisse***Q**

Hey. How are you? This is actually Jake Nivasch on for Rob. One of my questions was actually kind of answered regarding freight, but I just have one quick one. Last call you guys mentioned that you were guiding to \$42 billion in sales for 2019 and now we're looking at \$41 billion. So I'm just – if you guys can just provide any color as to why the specific guide down there. I mean, I know you guys kind of worked hard, you covered some of the headwinds. But just any additional information would be great. Thank you.

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

I'd probably just say that the biggest impact is going to be meat pricing and what really matters for us of course is the margin. You're going to see those meat prices sort of bearing. But we're very focused on making sure that managing the margin is where we're focused. So I'd look to the margin line, not to the top line.

Jacob Nivasch*Analyst, Credit Suisse***Q**

Great. Thank you.

Operator: Okay. The next question comes from Akshay Jagdale with Jefferies. Please go ahead.

Lubi Kutua*Analyst, Jefferies LLC***Q**

Hi. Good morning. This is Lubi filling in for Akshay. Just a quick follow-up on Chicken. So I know your guidance assumes no further price deterioration and you're also cycling some of those extraordinary items that you mentioned which gives you the confidence of reaching that 8% margin target. But are you concerned at all about a possible acceleration in domestic supply growth which could further upset the balance between supply and demand? I mean, from our perspective it seems like there are quite a few factors like new capacity, sort of a growing breeder flock, and potential improvements in bird productivity that could potentially lead to [ph] faster (33:57) supply growth. So just curious to get your thoughts on that.

Noel W. White*President & Chief Executive Officer, Tyson Foods, Inc.***A**

Yeah, Lubi. This is Noel. Yeah, we agree that we are in fact expecting an increase in production over the course of the next couple of years. Our projected domestic disappearance is in the 1% to 2% range, right, and that's fairly consistent with the demand growth that we've seen in the United States over the course of the last 20 years. So, yes, production is increasing. It does depend on the timing of when the plants open, when they come online. But over the course of the next two or three years, which is kind of the timeframe that these facilities are being built and coming online, we're projecting demand to grow at about the same pace as production increases.

Lubi Kutua*Analyst, Jefferies LLC***Q**

Got it, that's helpful. If I could ask another question on M&A. So there have been a few news articles recently, and I know you can't comment on those, that have suggested that Tyson is placing an increased focus or emphasis on international growth. Can you just comment on how you're thinking about international growth longer-term? I mean, it seems to us that most companies have had some challenges in international given the volatility in FX and geopolitical uncertainty and also your own challenges in international. So just any thoughts about how you're thinking about international growth longer-term. Thank you.

Noel W. White*President & Chief Executive Officer, Tyson Foods, Inc.***A**

Yeah, I can take the question. We're forecasting about 90% of the growth in global protein demand will take place outside the United States. We do plan to participate in that demand growth as we see economies grow and develop. I think you saw the first step which is Keystone which gives us a solid base to build from. My priority is no different than what Tom or my predecessors have been, is to grow our business in Prepared Foods, value-

added products, and in the international market, simultaneously working to provide stability with more of the commodity portions of our business being segments of our Chicken, Beef, and Pork business.

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

And the only thing I would say, two things. One, I mean, acquisition or expansion of any business comes with risk, and I don't think if you looked at any of the large CPG companies in the world that are global that you would advocate that they shrink away from less global markets. So we think we're going to pursue that growth and we're going to do it in a sensible financial way, and that's my second point. This is a company that's using a very return-focused lens as we look at opportunities to expand our business and it will be no different internationally than domestically.

Lubi Kutua*Analyst, Jefferies LLC*

Thank you. I'll pass it on.

Operator: Okay. The next question comes from Alexia Howard with Bernstein. Please go ahead.

Hi. This is actually [indiscernible] (37:34) on for Alexia. Just a quick question in terms of the [Technical Difficulty] (37:38) in terms of how the ongoing trade negotiations are kind of affecting your outlook on the industry. So overall, it seems like the North American trade disputes have been largely resolved by now but the U.S.-China negotiation is still going on. I know China is not a big market for you, but how do you expect the uncertainties to affect the overall supply/demand?

Noel W. White*President & Chief Executive Officer, Tyson Foods, Inc.*

[indiscernible] (38:03), you cut off on the first part of your question so I'm not sure I caught all of it. But if I understand correctly, the question is with NAFTA...

With NAFTA somewhat resolved, yeah.

Noel W. White*President & Chief Executive Officer, Tyson Foods, Inc.*

...seemingly resolved, how does the trade issues with China, how is that expected to impact us? Is that...?

Exactly, yeah.

Noel W. White*President & Chief Executive Officer, Tyson Foods, Inc.***A**

Okay. I'd say with China, there's nothing but upside at this point. We're not currently shipping product to China, beef, pork or poultry. So if there is any change I would say that would provide upside export potential for us.

Q

Got it. Just a quick follow-up on China. So understanding China is not a big market for you, but how does that affect the overall supply/demand? Is there still kind of an increased domestic protein supply because of the trade issue with China?

Noel W. White*President & Chief Executive Officer, Tyson Foods, Inc.***A**

Yes. To answer your question [indiscernible] (39:08) we think that as we look into fiscal 2019, in total domestic available protein is going to be up about 1.8%. On a per capita basis because of population growth, that's up a little over 1%. So, yes, some growth in per capita of protein available. However, I mentioned the export numbers I think specifically on Beef which was up right at 12%, on Pork it was up 7% as an industry. Again, our numbers exceeded both the industry benchmark. So despite all of the trade disputes, global protein demand, our exports continue to grow and increase. So part of the equation with domestic disappearance is exports. There is upside potential to the current forecast of what's plugged in for exports.

Q

Great. Thank you.

Operator: Okay. The next question comes from Ken Zaslow with BMO Capital Markets. Please go ahead.

Ken Zaslow*Analyst, BMO Capital Markets (United States)***Q**

Hey. Good morning everyone.

Noel W. White*President & Chief Executive Officer, Tyson Foods, Inc.***A**

Good morning, Ken.

Ken Zaslow*Analyst, BMO Capital Markets (United States)***Q**

Noel, first of all, congratulations and good luck in your new role. With that, what do you think your biggest contribution will be in 2019 and beyond?

Noel W. White*President & Chief Executive Officer, Tyson Foods, Inc.***A**

I'll take the question, Ken. So it's really the continuity of what Tom had put in place. It is in fact to profitably grow our value-added businesses. There's a question earlier on international expansion; that's certainly a component.

It's growing this business in a profitable, sensible way while containing some of the costs that have crept in as well. So we have an extraordinarily strong team, we have a really solid base, we have great cash flow. So all of the initiatives that have been started with sustainability, adding and growing our business, that's my focus, Ken.

Ken Zaslow

Analyst, BMO Capital Markets (United States)

Okay, and let me just ask you. So do you think that total promotional dollars across foodservice and retailer has changed? And if the promotional dollars were actually not shifted to Chicken – not shifted to Beef or Pork, do you think your overall profitability would've been any different? So just said differently, does it really matter where the promotional dollars are spent if it's spent on Beef, Chicken or Pork? Does it affect your overall Tyson profitability?

Noel W. White

President & Chief Executive Officer, Tyson Foods, Inc.

No, I really don't think it does, Ken, because some of the features that we saw in 2018 were seemingly beef was promoted more heavily at foodservice than poultry. If the promotions would've been on poultry rather than on beef we would've gained on the poultry side. And that's truly the advantage of the portfolio that we have between Beef, Pork, Poultry, and Prepared Foods, that we play in all sectors. So it really didn't make a difference to us if Beef was promoted more heavily than Chicken, and if that would happen to switch in 2019 we'll benefit on the Poultry side to the detriment of potentially on the Beef side.

Ken Zaslow

Analyst, BMO Capital Markets (United States)

Okay, and just my last follow-up is when you think about Beef for 2019, is there any reason why it shouldn't be at the same levels as 2018 particularly given that you had one quarter that was kind of particularly weak? And given that we've had, call it, two decades of a down cycle why would we not have at least two to three years of an upcycle? And I'll leave it there.

Noel W. White

President & Chief Executive Officer, Tyson Foods, Inc.

Yeah. Ken, as we look into 2019, no, our results are not expected to be much different than they were in 2018. The fundamentals are very similar looking into 2019 is what we just had. So, no, we're really not expecting any sizable changes. In the Beef business it can vary from month-to-month and quarter-to-quarter. Cattle can be pulled ahead; they can be pushed back. So what we may fall short in one quarter typically we'll make up in the next quarter or vice versa.

Ken Zaslow

Analyst, BMO Capital Markets (United States)

Great, I appreciate it. Thanks.

Operator: Okay. The next question comes from Jeremy Scott with Mizuho. Please go ahead.

Jeremy Scott

Analyst, Mizuho Securities USA LLC

Hi. Thank you. So you mentioned that you maintained the Financial Fitness commitment but you're no longer reporting the synergy targets separately. I guess how do we square that with the fact that your Prepared Foods margin outlook doesn't seem to be meaningfully different than fiscal 2018? I appreciate that's an open-ended

target, but given that you're removing that disclosure maybe you can elaborate on some of the headwinds and tailwinds there? And just will you be rethinking those targets post-Keystone? Should we be waiting for that to close? I guess I'm struggling why it's an arduous task to track cost savings versus your targets.

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

Yeah. So, Jeremy, let me handle that. The issue actually in reporting it is that every project needs to be audited and there's a huge administrative effort with a lot of paperwork that frankly isn't giving investors any return. Having said that, I mean, the savings programs are absolutely vital to our performance as a business and we remain fully committed to ensuring that we continue to save those dollars, and our teams are actively working on all of the same projects. One of the questions we get all the time is how much drops to the bottom line, and as you rightly point out there are a number of factors at play. So when you look at the Prepared Foods business for this coming year, we know for example that there will be a fairly good chunk of increased meat cost in that business. How do we pay for some of that? Well, obviously we'll look to get some pricing. How do we grow our bottom line is that we need to continue to drive cost savings. So easiest thing for us to do is to continue to drive hard at the cost savings and to bake that into the return on sales guidance that we gave to you.

Jeremy Scott*Analyst, Mizuho Securities USA LLC***Q**

Okay, and just maybe a follow-up on the M&A, open to more international opportunities as a way to diversify against some of the softness domestically. I guess first, are you saying that there is an oversupply of meat and meat products as a structural issue and not a cyclical one, and if so why the step-up in growth CapEx? And then second, given some of the stops and starts that may give investors pause what's different about your approach to driving returns in international and is Keystone the springboard here to a new demand-led strategy? And of course why is anything better than buying back your stock at 10 times the low end of your guidance?

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

Okay. Well, there's about eight questions in there but let me see if I can get at some of them, and if I leave any out you can come back to me. So, look, let's start with the buyback and say that we have as a company used an approach which has pulled all of the capital allocation levers, right? We've just announced a terrific increase in the dividend that is great for shareholders. We bought back almost \$500 million worth of stock last year. We've invested in M&A and we've invested in really strong CapEx projects, so we're going to continue to use all the levers and I think that that is a good approach for our business.

Relative to international, Noel's point is that when you look at growth in the world, where is the growth going to be in the world? 90% of the increase in protein consumption is going to come from outside the U.S. So if we want to participate as a global player – and remember, we sell almost \$5 billion worth of product overseas already; that's a big number – if we want to participate in their growth we are going to need to sort of broaden our platform. That doesn't mean that we will do that any way that we can. It means we'll bring a great deal of financial discipline to that expansion.

You're right. Keystone is a platform and Keystone is a powerful platform, a well-run organization that drives good margins with good customers in good geographies, and we certainly should expect to leverage that platform as we grow our international business. That said, we aren't going to ignore opportunities at home. There are lots of opportunities domestically and we'll bring the same kind of M&A lens that we've used historically to focus on opportunities that are here. So if I've left any of your questions out, let me know.

Jeremy Scott

Analyst, Mizuho Securities USA LLC

If I could squeeze in one more. It seems like you talked about the promotional activity picking up here and you mentioned you're starting to see it maybe in both the foodservice and retail space. Certainly tracking the QSR space, it seems like there's momentum all of a sudden, but can you clarify where that strength is emanating and wonder if Chicken pulls a little margin back from the Beef segment in the upcoming quarters?

Noel W. White

President & Chief Executive Officer, Tyson Foods, Inc.

No, I don't think it'd be appropriate to comment if it's coming in Beef or Chicken. We don't have the degree of visibility until, in many cases, the promotions have already been put in place, so I'm going to avoid the question.

Jeremy Scott

Analyst, Mizuho Securities USA LLC

Okay, thank you. I'll leave it there.

Operator: The next question...**Stewart F. Glendinning**

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

Yeah. Look, the only thing – sorry, I'll go back to that. We shouldn't forget, and I've been in this role now almost a year, but one of the questions I got pretty aggressively when I first joined the company was how did I see Beef and Beef was such a laggard. And actually, the point that has been made before I arrived and will continue being made is that this is a bit of a three-legged stool, and so things work together. And so in terms of the promotions, if you're not promoting Beef you're going to be promoting one of the others, and the good news is that since we're playing in all of the areas of protein we're going to be able to take advantage of the promotions that are in play.

Operator: Okay. The next question is a follow-up from Heather Jones with The Vertical Group. Please go ahead.**Heather Jones**

Analyst, The Vertical Trading Group LLC

Yeah. Thanks for taking the follow-up. So I wanted to follow-up on your answer to Ken's question. I'm a little confused because in my years of covering Tyson the Beef business has been characterized as more of you guys managing spread, and you've done a great job of managing spreads, and things can get squeezed there when liquidation is ongoing or whatever. Whereas the Chicken business is more of you valuing up and less of a spread business, and so when you get less feature activity at retail and thus less demand at retail and then that product has to be sold into more commodity-tight markets. So to me, the way I've always understood this company is that you have a better ability to manage the spreads in the Beef business but demand is much more critical to Chicken, and if you've got the demand there you're going to be able to extract higher margins from that demand than you would from Beef demand, so it would seem like to me you would prefer an environment where Chicken is getting the preponderance of the features. And so based upon your answer to Ken, I think I've like been misunderstanding this all these years, so I'm hoping to get some clarification.

Stewart F. Glendinning

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

So, I mean, historically of course you're right that Beef margins have not been as powerful as Chicken. And it's true; we would like to see Chicken performing well. The point that we were making is it is not disastrous when product shifts from one of the proteins to the other and it's the benefit of having a diversified portfolio. So I hope that answers your question, Heather. I don't think you're misinterpreting the business.

It is worth noting, and you will have seen in our slides this morning, that there's a great deal of focus in our Chicken business in our value-added products, and you will see that in terms of the kinds of new products that we are rolling out. All of that innovation is focused at the higher end of the margin. That doesn't leave Beef out. And in fact, in Noel's comments he purposefully pointed out that we were focusing very heavily on developing our case-ready business. We have previously commented in our earnings releases about attribute-based products that we are driving from a Beef perspective. So it's not only in Chicken that we're looking to value up; we're doing the same things in Beef, although coming from obviously that base of value-added is smaller as we grow it. Does that help?

Heather Jones*Analyst, The Vertical Trading Group LLC*

It does. And just a quick follow-up on Keystone. So you made the comments in your prepared comments that it would be accretive by 2021. Excluding deal-related cost but just looking at it on a GAAP EPS basis with incremental D&A, etcetera and financing costs, but excluding any non-recurring transaction cost what kind of impact are you anticipating for 2019 and 2020? Neutral, dilutive or how should we be thinking about that?

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

Yeah. I think we've made it clear that we expect it to be dilutive. The biggest driver there is increased D&A.

Heather Jones*Analyst, The Vertical Trading Group LLC*

Okay.

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

As we revalue the assets and pick up various amortizable intangibles, that will have an impact. The reason I pointed to the cash number is because we're very focused on what those cash returns are doing, and that will be immediately accretive as soon as the deal closes.

Heather Jones*Analyst, The Vertical Trading Group LLC*

That's very helpful.

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

And by the way – sorry, Heather, one other thing. Obviously, as that deal closes we will give you a better picture of the business when the deal closes.

Heather Jones*Analyst, The Vertical Trading Group LLC*



Okay, awesome. Thanks so much.

Operator: Okay. This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Noel White for any closing remarks.

Noel W. White

President & Chief Executive Officer, Tyson Foods, Inc.

First of all, thanks for joining us this morning and thanks for your interest in Tyson Foods. This concludes the conference call and we wish you a very happy holiday season.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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