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# Tyson Foods, Inc. (TSN)

Q2 2020 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning and welcome to the Tyson Foods Second Quarter 2020 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions]

I would now like to turn the conference over to 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 earnings conference call for the second quarter of fiscal 2020. On today's call are Noel White, Chief Executive Officer; Dean Banks, President; and Stewart Glendinning, our 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](http://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](http://ir.tyson.com).

Our remarks today include forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements reflect current views with respect to future events, such as Tyson's outlook for future performance on sales, margin, earnings growth, and various other aspects of its business. These statements are subject to risks and uncertainties that could cause actual results to differ materially from our expectations and projections. I encourage you to read the release issued earlier this morning and our filings with the SEC for a discussion of the risks that can affect our business, including those listed in our 10-Q filed this morning, our most recent annual report on Form 10-K, and our current report on Form 8-K filed March 13, 2020.

I would like to remind everyone that this call is being recorded on Monday, May 4, at 9:00 AM Eastern Time. A replay of today's call will be available on our website in 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

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

Thank you, Jon, and good morning, everyone. We've a lot to cover today, but I want to start by saying how proud I am of our team members and the work they're doing to help feed America during this difficult time. I'll then touch briefly on our operations and results. Dean will go into further detail about our current operations, and Stewart will handle the financial update from this quarter.

Day in and day out in the midst of the challenges so many families are facing during this pandemic, our team members are going above and beyond to help us maintain a healthy and stable food supply to our nation and the

world. From the bottom of my heart, I want to say thank you to all of them. They're truly central to everything we're doing right now. Our number one priority is ensuring their health and safety.

The only way we can operate this business is for our team members to feel safe, protected, and not fearful of coming to work. It's why we've put in place a host of safeguards and guidelines at all of our facilities to protect our teams. And as we've shown in the recent days, we will not hesitate to idle any plant for deep cleaning when the need arises. Simply put, we will not send anyone into our plants to work unless we are confident that it is safe and to do that, we have transformed how we operate.

Today, if you visit our facilities, you'll see state-of-the-art health checkpoints at the entrance, and inside you'll see team members wearing proper personal protective equipment, including face masks. You'll also see tools to help with social distancing. We've installed partitions on production lines and in breakrooms, and we've stepped-up our efforts to clean and sterilize everything we can.

Education is an important part of this effort and we're doing our best to ensure our team members understand how they can stay safe at work and at home. Soon, team members will have on-site access to COVID-19 testing and other medical care through our new partnership with Matrix Medical Network, a leading provider of mobile health clinics.

We also continue to work closely with federal, state, and local health and safety authorities. Last week, as you know, the US government recognized the essential work our team members do by reaffirming meat and poultry processors as a critical part of America's infrastructure. The President's Executive Order under the Defense Production Act establishes clear lines of authority and consistent standards that will help us continue to provide American families with reliable supply of beef, pork, and poultry.

I'd now like to briefly talk about the state of our operations. Over the last several weeks, we've had to idle several facilities temporarily for deep cleaning and others are not operating at full capacity due to worker shortages. Despite our slower lines and lower volumes resulting from this pandemic, we believe our core business and financial strength position us well to deliver market share and earnings growth over the long term. And while COVID-19 has been disruptive, we do not believe it changes the outlook for a strong future for Tyson Foods.

Now a quick summary of the quarterly results. Second quarter sales increased to a record \$10.9 billion. That's an increase of more than 4% over last year. This growth was driven by volume increases of 2.6% and price increases of 1.6%.

Our adjusted earnings of \$0.77 per share were driven by typical seasonality, soft chicken pricing, and the impacts of COVID-19. In addition, we experienced \$115 million in negative derivative mark-to-market adjustments that Dean will discuss in further detail. Important to note that we expect to benefit from the physical offsets associated with these transactions in future periods.

From a global perspective, exports to many parts of the world performed well throughout the period. During the second quarter, we saw particular strength in exports to Japan and Mexico with double-digit increases in our market share. Recent data indicates China is reopening its economy, which is encouraging signal of domestic protein disappearance. Lower levels of supply caused by African swine fever continue to present opportunities to fulfill international demand.

Now let's talk about the current operating environment. The COVID-19 pandemic in the United States has had a significant impact on our channel mix, with increased retail and plummeting foodservice demand. From a supply

chain perspective, where possible, our facilities have adapted to new product mixes, which has enabled us to ship millions of pounds per week between channels and has set us apart from many of our competitors.

Foodservice customers have also reacted with high levels of innovation and adaptation focusing on takeout and delivery. In fact, some have only seen minimal volume loss. Supermarkets and club stores have been trying to meet heavy demand and we've been able to convert a number of production lines from foodservice to retail to help meet those consumer needs.

The direct impacts of the virus have created operational challenges, including absenteeism, reduced production speeds, and selected idling of plants. The scope of our operations continue to provide us with flexibility and redundancy. This is a clear benefit to our company's scale.

COVID-19-related pressure has affected parts of the industry's supply chain, especially pork. However, our diversity of protein provides our customers with options. In addition, our geographic diversity provided important lessons from China, where we first encountered COVID-19-related issues. This includes ways to maintain health and safety of our people, opportunities to pivot to retail, and potential pathways for recovery.

We expect current conditions to continue during our third quarter with a gradual recovery beginning in the fourth quarter. However, all this depends on the extent to which businesses and schools are able to reopen. We're well-positioned to operate during this period and to take advantage of increasing demand during the recovery.

Our balance sheet is sound and our liquidity position was strong going into the crisis. It's been further bolstered by the term loan we closed at the end of Q2 and by focusing on continuing operations and managing costs. Stewart will give you more details.

We committed \$13 million to support critical needs in our local communities. This includes \$2 million in community grants, and more than \$11 million worth of food and meals donated by the company since March 11. Over the coming days, we'll make product donations equal to an additional 100 million meals.

Despite the immediate challenges from COVID-19 and its associated impacts, we're maintaining a clear focus on the long term. This includes our strategy to grow, deliver, and sustain. Global population and income growth will continue to drive an increased need for protein; and our size, diversity of portfolio, and broad geographic presence will give us an advantage.

In addition, there are changes which will undoubtedly remain with us after the crisis. For example, we expect continued higher levels of e-commerce for both grocery and foodservice. Our early investments in this space have allowed us to capitalize on the growth and we expect to benefit further in the future.

Our industry is heavily dependent on people, but our company is investing aggressively in automating the most difficult jobs in our processing plants. Our balance sheet, liquidity, and scale, as well as our diverse product portfolio of products and distribution channels, position Tyson to benefit from long-term industry dynamics.

Now, I'd like Dean to give us a recap of our business segments.

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## Samuel Dean Banks

*President & Director, Tyson Foods, Inc.*

Thanks, Noel, and good morning, everyone. I'd like to start by discussing our response to the pandemic, but I'll spend the majority of my time discussing channel dynamics, current operating environment, and the long-term outlook for each segment.

As Noel discussed, we've experienced multiple challenges during our second quarter related to COVID-19. The response by our team members has been nothing short of heroic and it makes me incredibly proud to be part of this great company.

I personally visited many of our impacted facilities and witnessed firsthand the steps we're taking to protect our team. Local health departments and the CDC have also toured our facilities, and have been extremely complementary of the measures we've put in place to protect our team members and community.

The health and safety of our team members remains our top priority. We took early decisive action to provide workspace distancing, PPE, and other protective measures. We've had no layoffs or furloughs, and have extended \$120 million of bonuses and improved benefits to our frontline team members. This will also allow us to quickly recover once we move past the effects of COVID-19.

Now, let's discuss some channel dynamics we've observed in the wake of COVID-19. Each of our businesses has witnessed a profound shift from foodservice to retail. Our retail business remained strong and our core retail lines posted gains of more than 20% in the last 13 weeks, outpacing total food and beverage, as well as the top 10 food manufacturers.

While panic buying has subsided from extreme levels, we continue to see 15% to 40% volume increases versus last year depending on the category. As a result of these trends, we've successfully increased volume, margin, and share within retail.

Historically, approximately 45% of our total company sales were to retail, 40% foodservice, and 15% international. During early Q3, we saw our retail sales move to approximately two-thirds of our total company sale. While we were successful in shifting some of our production from foodservice to retail, not all of our facilities are able to do so. The volume increases in retail have not been sufficient to offset the losses in foodservice and as a result, we expect negative year-over-year volumes in the second half of fiscal 2020.

Operationally, we have faced two meaningful challenges: slowdown resulting from team member shortages or choices we made to ensure operational safety, and temporary closures related to COVID-19 infections. We've continued to pay team members during these slowdowns and closures, since maintaining health and continued employment of our team members is important for our longer-term success. As a result, we've experienced lower levels of productivity and higher cost of production. This will likely continue in the short-term until local infection rates begin to decrease.

Within the e-commerce channel, we've witnessed significant sales growth, including a more than 140% month-to-month growth rate in our core business lines sold to a major e-commerce customer. We expect this trend to continue. Going forward, we expect sustained retail sales growth and a slow recovery in our foodservice channel.

Now, let's take a look at our segments. During the second quarter, our Prepared Foods segment produced an operating margin of 9.2%. Top line growth continued with the seventh straight quarter of volume and dollar share growth. Sales were up 2.6% for the quarter and pricing was up 2.7%.

Within the last 13 weeks, total volume, sales, household penetration, and share increased across the core business lines. Historically, 60% of our Prepared Foods sales have been to the retail channel and 40% to foodservice. During Q3, we've seen greater than 20% growth in our retail sales. This channel, driven by our strong brands and innovation capabilities, provides our highest growth potential and margin opportunity across our portfolio.

In the current environment, our retail-centric products continue to show strength, although the current reduction in raw material availability may cause short-term outages. Our ability to flex our production footprint between the foodservice and retail channels is limited. Consequently, we currently believe the full effect of these new consumption patterns will result in a net reduction in volume.

Looking forward, our market insight, channel flexibility, access to raw materials, and growing demand give us long-term optimism. We're responding to the changes in consumer demand by pivoting our brand investments and innovation to more value-oriented offerings, and to formats and sizes relevant for rapidly evolving channel dynamics, such as e-commerce acceleration. Our retail businesses and brands are well-positioned to deliver sustained growth, even if we enter into a recessionary environment.

Our Beef segment produced an operating margin of 2.7% in the second quarter. Commodity volatility during the quarter resulted in a negative impact of \$55 million in derivative mark-to-market adjustments. As Noel mentioned, it's important to note this amount does not include physical offsets, which may be recognized in future periods.

Our Beef business has done an excellent job of pivoting from foodservice to retail and continuing to drive innovation. We found new retail applications for products that have traditionally supplied the foodservice channel, which we believe could generate continued demand even in the post-COVID-19 environment.

Beef exports remained strong, posting double-digit increases compared to the same quarter last year, which have exceeded industry growth rates. Export markets are an important outlet for us now and in the future.

In the current environment, we see strong demand and ample supply of cattle, but reduced industry processing capacity due to COVID-19 has pressured the supply chain and has reduced overall profitability. Temporary plant closing dramatically increased operating costs and weakened what would otherwise be a strong margin environment.

As a result of the shutdowns, cattle producers are met with much lower processing demand for their fed cattle. We recognize how this impacts our producer community and are anxious to safely resume operations at our facilities to provide them with an outlet for their cattle.

Looking forward, we expect plentiful supplies of cattle, coupled with strong demand for beef, both domestically and via export. Our relationships with producers, industry-leading production capabilities, and customer-centric solutions gives us confidence in the long-term outlook for this business.

Moving to our Pork segment. Strong demand, solid operational execution, and ample hog supplies led to a 7.3% operating margin in Q2. As we've transitioned to a ractopamine-hog supply, our ability to sell pork to the global markets has expanded. This new capability has been met with increasing global demand, as African swine fever continues to reduce pork supplies in Asia. Year-over-year increases of pork to China were up significantly for the quarter and we expect strong demand to continue as China recovers from this COVID-19 lockdown.

In the current environment, we see strong demand and ample supply of hogs, but reduced industry processing capacity of nearly 50% due to COVID-19 has pressured the supply chain and dramatically reduced overall profitability. As pork plants across the country have continued to shut down, hog producers are met with much lower processor demand for their market-ready hogs. We recognize how this impacts our producer community and are anxious to safely resume operations at our facilities to provide them with an outlet for their hogs.

Looking ahead, we see large supplies of livestock and strong demand driven by a global shortage of pork. We continue to believe the impact of African swine fever in Asia could generate significant future margin potential.

For Chicken segment, produced an operating margin of 2.9% in the second quarter. Operating income was negatively affected by a \$40 million increase in net feed ingredient costs and negative derivative mark-to-market adjustments. This, along with weaker pricing from increased domestic availability of chicken, has offset the benefits of our operational improvement initiatives. Weaker pricing dynamics have persisted into the third quarter.

Our Chicken segment has higher foodservice exposure than Beef, Pork, and Prepared Foods. We responded to demand shifts caused by COVID-19 by adjusting parts of our production capacity from foodservice to retail, but higher retail volumes have not entirely offset the lost volumes from foodservice. Additionally, this channel shift has resulted in lower-margin realization, as volumes have moved to lower-margin products. Also, worker shortages have reduced overall plant efficiency resulting in higher production costs.

Due to large domestic supplies, coupled with reduced foodservice consumption, we believe our chicken operations are likely to incur losses in the back half of the year. Profit trends will improve as foodservice activity recovers.

Turning to our international business, our China operations were impacted by COVID-19 more than any other region during the second quarter. Despite this, our China team produced record sales and operating income, as production was shifted to meet rising retail demand. While China is recovering, other geographies where we produce or sell are being impacted negatively by COVID-19, especially since our international business has historically had a high-level of exposure to the foodservice channel. We expect to see a slow recovery across each of our geographies as demand patterns normalize. The profitability will be impacted negatively in the short-term.

In closing, our businesses across the enterprise are adapting to the dramatic changes brought about by COVID-19, and the response of our team has provided consumers continued access to a safe and affordable food supply. Short-term challenges do not diminish our belief in the company's long-term outlook. Our unique business model, diverse portfolio, and industry-leading scale will make us stronger and more resilient.

Before I hand over to Stewart to take us through the financials, I'd like to thank our 141,000 team members who continue to support our mission of feeding the world. Their health and safety are critical to that mission.

Over to you, Stewart.

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## Stewart F. Glendinning

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

Thanks, Dean, and good morning, everyone. I hope you and your families are all staying healthy and safe. I'll start my remarks this morning by calling out a few highlights from our performance for the quarter.



As Noel mentioned, our second quarter results included earnings of \$0.77 per share and operating income of \$501 million. Our adjusted results excluded \$110 million nonoperating gain, or \$0.23 per share, as we executed the termination of two frozen pension plans by purchasing annuities for the participants.

Due to the assets held in the plans, this did not result in a significant cash outflow. We have now exited four pension plans in the last two years as we continue to monetize volatility and cash flow risks associated with pension plans.

Sales in Q2 were up over 4% to nearly \$10.9 billion with a 4.6% return on sales. Average sales price for the quarter was up 1.6%. Year-to-date operating cash flows were \$1.3 billion. As Noel mentioned earlier, our balance sheet is sound and our liquidity position was strong going into the crisis.

On March 27, we successfully entered a term loan agreement of \$1.5 billion and we borrowed these funds in the first week of our third quarter. This loan ensures financial flexibility and enables us to navigate potential uncertainties in the capital markets, while alleviating our reliance on the commercial paper market that typically serves as our primary means of short-term liquidity.

Our liquidity on March 28, including the undrawn term loan, was \$2.5 billion and was higher still as of the end of April. During the quarter, we continued to experience some operational effects from our recent ERP system implementation, which impacted margins by roughly \$30 million in the quarter. About half of this was discounted sales, with the remainder related to inventory write-downs and donations. We believe that we have turned the corner on this issue and expect the incremental costs to ramp-down throughout Q3, before returning to historical run rates in Q4.

Because of the shift from foodservice to retail, we are closely managing our foodservice-related inventories to minimize any losses and, of course, we are working to ensure that our outstanding accounts receivables are collected in this higher-risk environment.

Including cash of \$437 million, net debt was \$11.7 billion and net-debt-to-adjusted EBITDA was 2.9 times for the 12 months ending March 28. Net interest expense was \$116 million for the quarter and capital expenditures were \$312 million. We continue to target an overall CapEx return of approximately twice our cost of capital.

In the second quarter, we repurchased 700,000 shares for \$64 million. Weighted average shares outstanding were approximately 365 million in the quarter. Our effective tax rate was 25.8% in the second quarter. Depreciation and amortization was \$293 million.

Dean has articulated the qualitative aspects of our outlook, which should give you some indication of how we expect our businesses to perform for the balance of the fiscal year. Due to the uncertainty of the COVID-19 impacts, the degree of absenteeism, and the temporary closure of some of our facilities, we are currently unable to provide segment operating margin guidance.

Now I'd like to provide some additional commentary on our outlook. Keep in mind that fiscal 2020 is a 53-week year. However, we have adjusted our outlook to be comparable to 52 weeks. Net interest expense should approximate \$470 million. We project CapEx spending of approximately \$1.2 billion for the fiscal year as we progress with building additional processing capacity for case-ready fresh chicken, beef, and pork. This is a reduction of more than \$100 million from our previous guidance.

We may elect to slow down parts of our CapEx spending where appropriate to ensure adequate liquidity. Having said that, we expect liquidity in the back half of the year to remain well-above our minimum liquidity target of \$1 billion, especially after the issuance of the \$1.5 billion term loan.

Our capital allocation will continue to prioritize debt reduction. This includes approximately \$1 billion of senior note maturities during Q3 and Q4. We do not expect to repurchase shares in the back half of the year, except for minor repurchases related to an employee stock ownership plan. We currently expect our adjusted effective tax rate to be around 23%. We expect to deliver profit in the back half of the year, assuming that we can continue to operate and supply our plants.

Q3 has begun with higher levels of volatility. Early in the quarter we saw huge volume pulls in our retail channel. This demand partially offset declines in our foodservice channel. In recent weeks, we've seen a leveling off followed by another surge in retail demand.

But, as Dean has said, the volume shift from foodservice to retail is likely to be a net negative. The major challenge facing us currently is the degree to which our plants are able to operate. All plants are experiencing varying levels of crewing. We will continue to operate our plants with team member health and safety as a top priority.

As you can imagine, the slowdowns and temporary closures related to the pandemic drive higher production costs, and we expect to see those until we resume under more normal conditions. Also, our COVID-19 risk mitigation activities have added costs on the broad range of safety measures we have implemented and continued to support. Despite this, we've continued to focus on financial fitness and that has partially offset some of these impacts. We will continue to seek out opportunities to remove unnecessary costs from our business.

Sum it up, our long-term outlook remains positive. Our diversified business model allows us to react to changes created by major events like COVID-19 and African swine fever. Our balance sheet, liquidity, scale, and diversified portfolio of businesses remain strong and should provide some level of protection as we move through the year. We will continue to drive the long-term growth in all parts of our business as we execute against our strategic plan, with a constant focus on maximizing long-term value for shareholders.

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

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] And our first question comes from Ken Zaslow of Bank of Montreal. Please go ahead.

**Kenneth B. Zaslow**

*Analyst, BMO Capital Markets Corp.*

Hey, good morning, everyone. I hope you...

Q

**Noel W. White**

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

Good morning, Ken.

A

**Kenneth B. Zaslow**

*Analyst, BMO Capital Markets Corp.*

...and your families are staying safe.

Q

**Samuel Dean Banks**

*President & Director, Tyson Foods, Inc.*

Thank you, Ken.

A

**Kenneth B. Zaslow**

*Analyst, BMO Capital Markets Corp.*

So let me just ask one question, and then I have a follow-up. One is, can you frame the status of Tyson's operations in each division and the associated costs? So, which divisions are operating at what levels and how are you complying with getting people back to work, absenteeism? Can you give us a lot of color on that? That's kind of one of the pressing questions.

Q

**Samuel Dean Banks**

*President & Director, Tyson Foods, Inc.*

Sure, Ken. First thing I want to say, and I'm sure you know this, team member safety remains our top priority, and we're sparing no expense to keep them safe. We are fully complying and been interacting with the government authorities, including the USDA, the CDC, OSHA, and even county and local governments. And we've had intermittent outages from time-to-time as its been necessary to make sure that our team members are kept absolutely safe.

A

The expenses related to these closures, I'll start with PPE. We've invested substantially in our protective equipment for our team members, and including things like chartering planes to supply masks even before they were mandated by the CDC. We've bought some quite expensive thermal scanners to make sure that we can check temperatures for our team members coming in and out of our plants. Another expense is the inefficiency of the plants driven by the slowing or idling of the plants while they're being checked and while our team members are being tested.

Another priority of ours is to keep food on the table of our consumers, and so that includes running and recovering plants at slower capacities for the time being, but also running them with overtime and additional costs to make sure that whenever we can run them in control, we can put food on the American tables. One expense I can quantify for you is the \$120 million in thank you bonuses we provided to our team members during this time for the hard work. And again, team member safety being our top priority, it is hard to predict the extent of these costs over time.

**Kenneth B. Zaslou**

*Analyst, BMO Capital Markets Corp.*

Q

But can you talk about the utilization rate? What plants are coming back online, which plants are off? What percentage of your plants are off? Kind of giving us kind of a status of the progression of where you are on your operations on that side.

**Noel W. White**

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

A

Yes, Ken, this is Noel. It's very dynamic. I would say that on the pork side of our business, we did take down our Logansport pork plant, we took down our Waterloo plant, Perry was closed for a short period of time, and each one of those plants are in the process of either coming back up or finishing the testing of all of our team members.

On the beef side of our business, we took down Dakota City, which is a large facility for us, this past weekend. We're working with local county, state, and federal officials to bring it back up. We took down our Pasco, Washington plant two weeks ago to go through the entire testing protocol. Those test results we're receiving back through the weekend. So there's been various impacts, Ken. We will take the plant down for a period of time and the period of time has varied, anywhere from a few days to a couple of weeks. Does that give you a sense?

**Kenneth B. Zaslou**

*Analyst, BMO Capital Markets Corp.*

Q

Yeah, it does. And then my follow-up question is, you guys wrote in the press release that you think chicken prices will not go up. Let me just frame this and help me understand where I'm wrong. We have less chicken production, we have less beef production, we have less pork production, we potentially will have less hogs, we potentially might have less cattle, and we do still have a shortage of protein globally. How do you expect chicken prices to not go up in that scenario, what am I missing? And I get the demand shift, but I think that's more fluid.

**Noel W. White**

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

A

Ken, it really depends on the assumptions, and our assumptions is that the plants will come back up as we go through Q3 and Q4. And it's really the impact of each one of those, the poultry plant, pork plants, beef plants. Total animals available, as you know, it's up year-over-year, 4-plus percent. So we're assuming that these plants, not only ours, but others, will in fact go down for a period of time, and then reopen. So we are actually looking at an increase in total protein available as we go through the balance of Q3, Q4.

**Samuel Dean Banks**

*President & Director, Tyson Foods, Inc.*

A

Yeah. And, Ken, I would just add that mix plays a really strong role in this. As you probably know, a substantial portion of our business has been in foodservice, which is down, and our retail business is up. But as we mentioned in the call, those do not perfectly counterbalance, and so that will also have an impact on our long-term blended sales price.

**Kenneth B. Zaslou**

*Analyst, BMO Capital Markets Corp.*

Great. Thank you very much.

Q

**Noel W. White**

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

Thank you, Ken.

A

**Samuel Dean Banks**

*President & Director, Tyson Foods, Inc.*

Thanks.

A

**Operator:** Our next question comes from Ben Theurer of Barclays. Please go ahead.

**Benjamin M. Theurer**

*Analyst, Barclays Capital Casa de Bolsa SA de CV*

Yeah, good morning, everyone, and from my side, I hope you're all safe and sound. So, I'd like to actually follow-up on the chicken situation. So, in the past we've always seen in your case a little less volatility just because of the way you price through. And I understand that foodservice is substantially under pressure and you can't offset that through retail. But could you walk us a little through your relationship with the different customers, be it in retail and foodservice, what you're seeing on the featuring side and how you think of pricing those products towards the back half of your fiscal year?

Q

**Samuel Dean Banks**

*President & Director, Tyson Foods, Inc.*

Sure. Our retail customers have been phenomenally supportive and we continue to work with them, as we always would, and we're not planning to take price increase there. As it relates to foodservice specifically, we have seen some of our customers really get decimated due to the COVID crisis and closure of restaurants, limited supply in delis, and that sort of thing. We have seen some of our customers, specifically QSRs, recover very well. Their model of having takeout food and drive-throughs have really allowed them to be resilient and continue to thrive in the market.

A

**Benjamin M. Theurer**

*Analyst, Barclays Capital Casa de Bolsa SA de CV*

Okay. And then my follow-up is more of a medium/long-term question. So clearly – and you've mentioned it in your prepared remarks – there's currently a significant decrease in demand from a processing point of view on pork and beef, which, obviously, causes all the farmers to basically stick with the animals. What is your expectation in terms of cattle/hog supply looking out couple of years from now and in terms of potential reaction from farmers on the loss-making?

Q

And how are you actually paying your suppliers, the farmer when you buy off? Do you really get the benefit of the low live cattle and live hog prices right now or do you not see that much of a benefit coming through because you'd rather look long-term and want to support the farmers in the short-term to basically secure supply in the medium/long-term?

**Noel W. White**

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

A

Yes, Ben, let me say, first of all, we believe it's critically important that our livestock suppliers thrive and continue to be profitable, so we're doing everything possible to process as many animals as possible to make sure that there is a market for those animals. Longer-term outlook, Ben, is truly dependent on the closures of plants over the course of the next 60 to 90 days. There has been a backlog of inventory that's developed with both hogs and cattle, and that will continue, if plant closures continue at the pace that we're at right now.

Longer-term, I would say that on pork, it really depends on the degree of liquidation that we see over the course of the next 90 days. So if, as an example, the weened or baby pigs are, in fact, euthanized, that'll have an impact sometime later this calendar year. If the sows, if the mothers are liquidated, then that has longer-term implications that goes out over the course of the next 12 to 24 months. We're not seeing the same thing happen with cattle yet. A lot of the cattle are still in pasture or been on feed for a number of days. The weight is increasing, but it's not at the critical point that pork is at this point.

**Benjamin M. Theurer**

*Analyst, Barclays Capital Casa de Bolsa SA de CV*

Q

Okay, perfect. Understood. Thank you very much.

**Operator:** Our next question comes from Peter Galbo of Bank of America. Please go ahead.

**Peter T. Galbo**

*Analyst, Bank of America*

Q

Hey, guys. Good morning. Thanks for taking the question. Just wanted to follow-up actually on Ken's initial question just around the cost. Obviously, it's helpful to have the detail on the \$120 million in bonuses and, Dean, you outlined a number of other costs in terms of medical equipment or PPE masks. Is there any way, at least at this point, to quantify that? And, to the extent that you're willing to say, on a go-forward basis some of these costs are going to be recurring. Is it fair to assume that there's now just structurally higher costs in the business and we've kind of changed from a paradigm standpoint in terms of the equipment we need in plants for employees?

**Samuel Dean Banks**

*President & Director, Tyson Foods, Inc.*

A

So I'll just mention a few things here is that as this disease has progressed, as we've learned more, anything that we can find or discover that can improve safety in our facilities, we are doing. And when it comes to the long-term structural cost of the business, there are some things that we're installing now. For example, these thermal scanners that we will leave installed, and they'll provide even benefit whenever we move into the next flu season to just help our team members better understand if they're starting to develop sickness early and that sort of thing. But, no, it's not possible to really quantify or put a number on what those costs are going to look like related to COVID-19.

**Peter T. Galbo**

*Analyst, Bank of America*

Q

Got it. Okay. And one of the other things you guys spoke about was automation, moving to put as much automation into plants as much as you can, as quickly as you can. Can you maybe just rank order for us among the four kind of top segments from top to bottom most automated to least automated? And to that extent, is it 25% of the operations are automated, 50% of the operations are automated? Any color there would be helpful.

**Samuel Dean Banks**

*President & Director, Tyson Foods, Inc.*

A

I think it's difficult to describe in lot of ways, because some of our plants have expensive scaled equipment for things like producing ground beef and sausage and that sort of thing. We do have some robotic automation in things like palettizing and that sort of thing. The thing that I would stress is that automation provides really a lot of things, but one of the things that I would stress is flexibility. Where we had installed some MULTIVAC vacuum packaging systems for products like beef and pork, what we've seen is that those businesses' ability to very quickly shift those products from foodservice to retail, which has been really beneficial to those businesses. But it's difficult to really put a percentage on automation across each of the business units.

**Operator:** Our next question comes from Adam Samuelson of Goldman Sachs. Please go ahead.

**Adam Samuelson**

*Analyst, Goldman Sachs & Co. LLC*

Q

Yes, thanks. Good morning, everyone. So I guess my first question goes again in the prepared remarks, I believe the comment was the expectation of the chicken business would be operating at losses for the balance of the fiscal year, and I'm just trying to maybe break that apart a little bit and it ties into kind of Ken's questioning. Just can you help think about that from a kind of commodity/price outlook versus volume, versus mix, versus operating costs? Just help us think about how we're going from where we've been on margins to losses and just think about the drivers so that we can watch the market evolve and assess your performance against that.

**Noel W. White**

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

A

Sure. You're accurate that it was in the prepared remarks. Based on what we see right now in the marketplace, as I mentioned on a earlier question, that we are, in fact, expecting an increase in protein supplies through the balance of this at least fiscal year, like the calendar year. And with that, there will likely be, as there has been the last few months, an oversupply of poultry in the market.

Total number of animals available has not changed at this point. So whether it's beef, pork, or chicken, we're looking at increased supply. So most recently in the market over the course of the last couple weeks there have been some shortages in some specific categories; however, in total, as we go into Q4, we expect supplies to be increasing and therefore, not any pricing recovery.

**Adam Samuelson**

*Analyst, Goldman Sachs & Co. LLC*

Q

Okay. And then, I guess, my follow-up is it's more broad across the business. In the face of some pretty unprecedented kind of volume and throughput issues that you're facing around labor availability, can you just help frame in the businesses kind of the percent of costs that are fixed? In this period, I presume labor is going to be the single biggest fixed cost. Just to help us think about the volume decrementals that you'd be experiencing in the face of the throughput challenges that you have.

**Noel W. White**

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

A

Adam, each plant's a little different, so it's hard to give you a precise number. I can tell you, it's significant, in the millions of dollars per week in some of our larger facilities, such as some of our beef and pork operations. Poultry not to the same extent, but still expensive. And then we have a number of plants that we operate in our prepared

foods space that we've not seen a big impact, and we certainly hope that continues. So each plant is a little bit different, depending on which plant we needed to take down and how long.

**Adam Samuelson**

*Analyst, Goldman Sachs & Co. LLC*

Okay, I'll pass it on. Thank you.

Q

**Operator:** Our next question comes from Heather Jones of Heather Jones Research LLC. Please go ahead.

**Heather Jones**

*Analyst, Heather Jones Research, LLC*

Good morning. Thanks for taking the questions. I wanted to follow-up on the chicken pricing comment. So is that a Tyson-specific comment? And also, you mentioned mix, but is there also an element of you guys have cost plus-contracts and clearly feed costs are down, so is that a component for that comment as well?

Q

**Noel W. White**

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

Well, any time we make any comments, Heather, it is specific to Tyson. Obviously, we don't know what others in the industry are going to do. All we can do is look at industry data. So, yes, the outlook is specific to us and we can look at egg sets, we could – replacements, we can look at a lot of different numbers, and we have no sense what others are going to do. That's purely our outlook at this point in time.

A

**Heather Jones**

*Analyst, Heather Jones Research, LLC*

To my question, does that include some effect to cost-plus contracts given lower feed?

Q

**Noel W. White**

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

Cost-plus, lower – that would be passed through in the cost-plus contracts, yes. Alternatively, if costs go up, price goes up. Cost inputs go down, price goes down.

A

**Heather Jones**

*Analyst, Heather Jones Research, LLC*

Okay. And my follow-up question is on the production side – or volume side I should say. I realize on the beef and pork side, it's going to be a function of how soon you guys are able to get those up and fully running. But on the chicken side, how should we be thinking about volumes on that front for the back half?

Q

**Noel W. White**

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

Different plants have been impacted to a different extent, I would say, Heather, that so far we have had some disruption at a couple of our facilities that we've taken them down for a relatively short period of time, days or week. And we don't know, obviously, what the affect is going to be in the future. We are and will continue to work with all the local, county, state, and federal officials to make sure that our team members are safe. So at this point, we've not seen a tremendous impact on our poultry business and, obviously, we don't know what that's going to look like over the course of the next three to six months.

A



**Heather Jones**

*Analyst, Heather Jones Research, LLC*

Q

So you aren't able to ballpark what your chicken volumes will be, up or down year-on-year in the back half?

**Noel W. White**

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

A

It's just total production, we think, will be up, as I mentioned earlier.

**Heather Jones**

*Analyst, Heather Jones Research, LLC*

Q

Okay. Thank you.

**Operator:** Our next question comes from Alexia Howard of Bernstein. Please go ahead.

**Alexia Howard**

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Good morning, everyone.

**Noel W. White**

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

A

Good morning.

**Samuel Dean Banks**

*President & Director, Tyson Foods, Inc.*

A

Good morning.

**Alexia Howard**

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Okay. So I guess my question is, are you able to go segment-by-segment and tell us roughly what the mix is between foodservice and retail? And then give us an idea of how much the retail is down at the moment post the panic buying period – so I guess April – versus obviously foodservice how much you're back down and retail how much is back up across both Beef and Chicken and Prepared Foods as well. And then I have a follow-up.

**Noel W. White**

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

A

Okay. Alexia, I don't have the numbers at hand by specific poultry group; however, as Dean said in his remarks, retail is up. It's up sharply and it depends on the week, depends on the month, think in terms of 30% to 40% up. Foodservice is recovering, I would say, and each – within foodservice itself, each sector is down varying degrees. So down in rough numbers, 25% to 30% on foodservice in total, but it does vary substantially depending on the type of the foodservice establishment.

**Stewart F. Glendinning**

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

A

If you take a look at our segment data in the Q, you get some sense of what our historic numbers have looked like by channel. So that doesn't give it to you by segment, but it'll give you a good sense of what the various volumes

are and the exposure to foodservice. If you apply some of the percentages that Noel has suggested to that, I think it'll give you a sense that – bear in mind that when you look at that, one of those channels is industrial and part of that is going to be foodservice, so we sell on to somebody else that then processes for foodservice. But I think that's the best place to look.

**Alexia Howard**

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Great. That's very helpful. Thank you. And then the follow-up, obviously, you can't give guidance for the next quarter, but you're a third of the way into it and you mentioned that chicken profits are likely to be, I think, negative in the back half of the year. Can you give us any sort of idea of how things are looking so far in the first quarter? Thank you, and I'll pass it on.

**Noel W. White**

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

A

Alexia, I'd say it's too early for us to do that. And like I said, it is very fluid, so on a given day, given week, it can change substantially. So I'm not comfortable in making any comment today.

**Alexia Howard**

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Okay. Thank you very much. I'll pass it on.

**Noel W. White**

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

A

Thank you.

**Operator:** Our next question comes from Ken Goldman of JPMorgan. Please go ahead. Ken, your line is open on our end. Are you muted on your end?

**Ken Goldman**

*Analyst, JPMorgan Securities LLC*

Q

Yeah, I sure was muted, sorry about that. Let's try that again. I wanted to dig in on the comment that you expect chicken production to be up in the back half of your fiscal year. I think that's a critical point here, because we're already seeing egg sets way down. We're seeing chick placed the numbers down even more, so there's eggs being cracked. There are some at least rumors about some in the industry ordering fewer pullets and maybe killing off heavy hens at a faster rate.

If that's already happening, and I'm asking if it is as far as you can tell, and if the industry is margin-negative, why would the industry increase production in the back half of the year? I understand part of it is because plants are coming back online, I do get that. But I don't quite get why we would assume that given all that what's happening already, that industry production wouldn't be a little bit less than what we thought previously. Maybe I could just pause there and hear what you say about that. Thanks.

**Noel W. White**

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

A

Yes, Ken, that very well could be the case. We look at the public data just like you do. We're starting to see indications that there have been some cutbacks. We don't know what others are doing, but given the profit

structure right now, I'd say that that certainly could be the case. We don't know. But I think that, as you know, in poultry business, it can change much quicker than what it would be or would in both pork and beef. So I think that the premise that you're proposing could, in fact, play out that way.

**Ken Goldman**

*Analyst, JPMorgan Securities LLC*

Q

Okay. And then my follow-up – thank you for that. My follow-up is on a little bit about the nature of the industry, whereby labor is such a big part of the cost basis. And when you think about other production facility, like if I walk around a Hershey plant or a Kellogg plant, there's nobody that you can see except a couple people making sure that the boxes aren't falling off the lines. If you walk around a chicken plant, it's wall-to-wall people. And I know you guys are doing everything you can to prevent this from being a problem in your plant.

But as we think about going forward, how do we potentially reduce the number of people in your plants? Is there a way? I know the industry has tried for years to get better at automation. Is it more of a priority now for you or for the industry to automate some of these production factors or is it just something that the nature of meat is that you can't do it, it's more specialized part-by-part? So I'm hoping that makes sense. I'm just curious for what are your thoughts there and what the opportunity is.

**Noel W. White**

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

A

Well, Ken, as I mentioned probably close to a year-ago that we started investing fairly heavy in technology, automation, and that hasn't changed. We continued to invest in that segment. I do think that over the course of time that the amount of automation will, in fact, continue to increase, particularly in some of the more difficult jobs and positions. I can tell you that we – as an example, we've invested a significant amount of money, I would say, in our attempt to minimize any foreign objects, we're using vision technologies to try and identify any – we're working in the debone area within poultry, we have a number of initiatives within beef and pork. So I believe not only us as a company, I think the industry will continue to look for solves through automation, so I think probably, it will likely accelerate from this point.

**Ken Goldman**

*Analyst, JPMorgan Securities LLC*

Q

Great. Thanks so much.

**Noel W. White**

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

A

Thank you.

**Operator:** Our next question comes from Michael Lavery of Piper Sandler. Please go ahead.

**Michael S. Lavery**

*Analyst, Piper Sandler & Co.*

Q

Thank you. Good morning.

**Noel W. White**

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

A

Good morning.

**Samuel Dean Banks**

*President & Director, Tyson Foods, Inc.*

Good morning.

A

**Michael S. Lavery**

*Analyst, Piper Sandler & Co.*

You do have good channel splits even by segment in your full year filings, and so just curious within foodservice, you mentioned that a range of performances of how those customers are doing. Can you give us a sense of who's faring the best and how you forecast given how they compare and just what some of that landscape looks like?

Q

**Samuel Dean Banks**

*President & Director, Tyson Foods, Inc.*

Hi. This is Dean. We're not going to be able to comment on a customer-by-customer basis. What we're hoping for is a relatively U-shaped curve, long U-shaped curve coming out of this crisis, which will be really beneficial to the small business owner, restaurants, and distributors. We'd love to see their business really start to recover in the coming quarters, especially as states start to open up.

A

As it relates to who is faring best, as I said before, our QSR customers are really those that are outperforming because of the flexibility of their model in both historical ability to either deliver through click-and-collect, takeout, drive-through, et cetera.

**Michael S. Lavery**

*Analyst, Piper Sandler & Co.*

Okay. That's helpful. And just as a follow-up back on chicken. Just curious maybe how much visibility you have, and specifically things like what amount of the pressure on margins is one-time, say, the worker bonuses, for example. And just should we expect losses in both quarters? I know you're talking about it in aggregate. Just any sense of maybe, given at least what you know now, how you think that plays out.

Q

**Stewart F. Glendinning**

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

Yeah, look, we're not going to give you quarter-by-quarter. We wanted to make sure that we highlighted the back half of the year. And I think, look, if you stand back and look at chicken for a second and just say, first of all, there's a negative in volume. Second, there's a margin impact as a result of switching from foodservice. And third, you've got some incremental costs which relate both to onetime worker costs and also more inefficiency in the plants as we try to run them in this environment. Those last two are big numbers, and I do not think that those are with us permanent.

A

**Michael S. Lavery**

*Analyst, Piper Sandler & Co.*

Okay, great. That's helpful. Thank you very much.

Q

**Operator:** Our next question comes from Michael Piken of Cleveland Research. Please go ahead.

**Michael Piken**

*Analyst, Cleveland Research Co. LLC*

Q

Yeah, hi. I just wanted to get your sense in terms of, I know you mentioned that some of the hogs are being backed up or whatever. But by the time, let's say, all the workers came back with all the social distancing and things needed to maintain worker safety, I mean, what do you think is either an industry or your capacity utilization rate that we could expect in pork and at the beef plants relative to maybe where it was pre-COVID-19? Can you get back to kind of those same daily kill rates that we saw three months ago?

**Noel W. White**

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

A

Assuming that the plants continue to operate, Michael?

**Michael Piken**

*Analyst, Cleveland Research Co. LLC*

Q

Yes. Assuming the plants are operating, let's say, the workers are willing to show up to do the safety, like could we get back to where – could we be doing 2.8 million hogs a week?

**Noel W. White**

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

A

The answer would be yes. Over the course of the last number of years, the pork industry has been growing between 2% and 4% per year. The industry infrastructure is set up to deal with that number of hogs. So, yes, we can certainly get back to those type of numbers.

**Michael Piken**

*Analyst, Cleveland Research Co. LLC*

Q

Okay. And then I know you mentioned in your prepared remarks that beef has a potential to be quite profitable in the back half of the year, but you didn't really comment too much on pork. Is it just because the operating rates are lower in pork that you were less confident on that side of the business or was I reading the remarks wrong or the lack of commentary?

**Noel W. White**

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

A

No, there was nothing intended by the lack of commentary, Michael. If the plants get back up and running, as we expect them to be, we would expect the margin structure within pork to continue at fairly healthy numbers. Year-to-date, we're just short of 11% return on sales, for Q2 it's a little over 7%, so I think that it's certainly possible that we'd be able to maintain those type of numbers as we look forward.

**Michael Piken**

*Analyst, Cleveland Research Co. LLC*

Q

Okay. Thanks.

**Operator:** Our next question comes from Rob Moskow of Credit Suisse. Please go ahead.

**Robert Moskow**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Hi. Thanks. A couple questions. I think, Noel, you just said that you think the industry could get back to 2.8 million pigs per week if attendance improves. But you're also implementing more social restrictions in the plants and more safety precautions, and I got to imagine that that slows down facilities as well. So, is it possible to break

down your incremental costs and your utilization rates based on what you're seeing in terms of attendance right now, and then also in terms of just the safety measures you need to put in place? Because I got to imagine the safety measures are going to be with us for a while.

**Noel W. White**

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

A

Yes, I think that's a fair assumption, Rob. I think that the slowdown in speeds and production throughput, Rob, we've done everything possible to protect all of our team members, all of our employees, including social distancing. And I'd say it's too soon to tell at this point if, in fact, that's a permanent structural change, where we would have to slow down all lines to have the social distancing that's needed. So, we can't quantify specifically what that might mean going forward. We're still working through with all the – both the state and federal officials as to what that might look like going forward.

**Robert Moskow**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Well, you're doing it right now, aren't you? You're saying that – you're taking all these precautions right now. It's, obviously, the right thing to do. Have you made any estimates as to the degree to which that slows down the facilities and reduces utilization?

**Noel W. White**

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

A

We know specifically what that means right now, Rob, but we're a company that continuously innovates and works on better processes, and that continues to be the case. So, I don't think it's accurate to think that what we're doing today necessarily has to be the case 6 or 12 months from now.

**Robert Moskow**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay. And then a follow-up, you said that chicken margins are likely to be negative in the back half. Is it possible there to kind of isolate the degree to which that has to do with just excess supplies on the market versus incremental operating costs at the plants or for safety and also the absenteeism?

**Stewart F. Glendinning**

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

A

Rob, Stewart here. So, first of all, we didn't say that margins will be negative. We said that chicken would likely be unprofitable in the back half of the year. And I think just a couple of questions ago, I sort of framed that. There's a combination of factors and the only one I didn't point to just because it's ongoing is weaker pricing. But if you go back and just look at those factors, the ongoing weaker pricing that we've seen, the negative impact of loss of volume, the mix shift between foodservice and retail, and then, of course, just the efficiency levels in the plant which have been impacted by worker availability, by some of the measures that we've taken, and then, of course, the bonuses, that sort of frames out the picture in chicken. I can't give you any more detail than that.

**Robert Moskow**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Stewart, can you help me understand what you meant by unprofitable then? If it's not negative margins, what does it mean?

**Stewart F. Glendinning**

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

A

Well, I assumed when you said margin that you were thinking about gross margin. But if you were thinking about operating margin, then that's true. I was saying it's going to be unprofitable at the operating income level.

**Robert Moskow**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

We're both in-line. That's what I meant. Okay.

**Stewart F. Glendinning**

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

A

Yeah, okay. We're lined up then.

**Operator:** Our next question will come from Ben Bienvenu of Stephens. Please go ahead.

**Ben Bienvenu**

*Analyst, Stephens, Inc.*

Q

Hey. Good morning, guys.

**Noel W. White**

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

A

Good morning.

**Samuel Dean Banks**

*President & Director, Tyson Foods, Inc.*

A

Good morning.

**Ben Bienvenu**

*Analyst, Stephens, Inc.*

Q

I want to ask about the Executive Order. I think it was helpful in standardizing the processes and procedures around which you guys would open across various states and counties and facilities across the industry. I'm wondering what else it does. I think there's been some reference to potentially defraying PPE costs and liabilities. If you could elaborate on kind of the benefits of what that Executive Order brings to you guys and the rest of the industry from a cost perspective, as well as clarifying the operating procedures.

**Samuel Dean Banks**

*President & Director, Tyson Foods, Inc.*

A

Hi. This is Dean. I'll stress, your first point is really cannot be understated, so – or cannot be overstated. The uniformity with which our plants are governed really being dictated by the experts, the CDC, the OSHA, the USDA, is critical for us to both maintain industry standards high. We've actually had few of our plants visited by folks like state government health officials and the CDC, and they've actually asked us to work with not only food industries coming back online, but also other industries to show them how we've taken care of our team members.

The second point about PPE, we moved very, very quickly early in the process to secure PPE for our team members, but those go quickly in our business. And so the other benefit of the executive order is really to make sure that we have long-term abundant supplies, depending upon how long this pandemic ultimately lasts, things like masks, hair nets, et cetera, we've gone so far in some instances gave out masks to team members so that they can operate in their community, where they know that there may be some latent disease. So that they can operate safely in the community and not bring that back into the plant. So those are really the two main benefits of the order.

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**Ben Bienvenu**

*Analyst, Stephens, Inc.*

Q

Okay. And you made some allusions to exports and how those have fared year-to-date and kind of your outlook a bit. But I'm curious, I know it varies by protein segment, but do we need to see higher crude oil prices and a weaker relative dollar and more stable global environment in the context of COVID to see exports improve or do you think that we can see significant improvement in exports exclusive of those factors?

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**Noel W. White**

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

A

I think we can see them exclusive of those factors, Ben, that exports year-to-date have been strong, interest continues to be strong, despite very low oil prices. So, the global fundamentals that we were looking at 6 to 12 months ago haven't changed. That global protein demand still continues to grow at about a 2% rate. The production volume is not increasing at the same level. United States, historically, has been a low-cost supplier of protein, beef, pork, and chicken, to global markets, so we don't see that changing. And the demand that we've seen over the course of the last 30 and 60 days I think just reinforces that, and that's why we're encouraged.

On a long-term basis of the outlook, that hasn't changed. We have the headwinds and challenges in front of us right now that we deal with. But as long as we make sure that our team members are safe in our plants, that's priority number one. Priority number two is making sure that this company's positioned for the long-term over the course of the next 10, 20, 50 years, we continue to be successful. We're not only dealing with the short-term, but we also are deeply – we're deeply – we view the long term on a – take it very, very seriously.

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**Ben Bienvenu**

*Analyst, Stephens, Inc.*

Q

Okay. Thanks. Be well and best of luck.

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**Noel W. White**

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

A

Thank you.

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

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**Noel W. White**

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

Thank you for your time today. One of the hallmarks at Tyson is turning insights into actions. The current environment presents significant opportunities for our company as we assess and react to changes in the



consumer landscape. We'll leverage our resources and infrastructure as we continue our role as a leader in food production.

Let me conclude by saying the responsibility of feeding our nation goes beyond any one business. Working together, we're confident we can mitigate the spread of COVID-19 in our communities, help keep it away from our plants, and help the food supply chain intact. Please stay safe, and we look forward to talking to you soon.

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

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