

Tyson Foods

Fourth Quarter 2021 Earnings Call

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CORPORATE PARTICIPANTS

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Noelle O'Mara, Group President of Prepared Foods

David Bray, Group President of Poultry

Shane Miller, Group President of Fresh Meats

Operator

Good day and welcome to the Tyson Foods Fourth Quarter Earnings Conference Call. All participants will be in a listen-only mode. Should you need assistance please signal a conference specialist by pressing the star key followed by zero. After today's presentation there will be an opportunity to ask questions. To ask a question you may press star then one on your touchtone phone. And to withdraw your question please press star then two. Please note that this event is being recorded.

I would now like to turn the conference over to Megan Britt, Vice President of Investor Relations. Please go ahead ma'am.

Megan Britt

Hello, and welcome to the fourth quarter fiscal 2021 earnings conference call for Tyson Foods. Prepared remarks today will be provided by Donnie King, President and Chief Executive Officer, and Stewart Glendinning, EVP and Chief Financial Officer. Additionally David Bray, Group President, Poultry, Noelle O'Mara, Group President Prepared Foods, and Shane Miller, Group President Fresh Meats will join the live Q&A session.

We have prepared presentation slides to supplement our remarks and these are available on the Investor Relations section of the Tyson website and through the link to our webcast. During this call we'll make forward-looking statements regarding our expectations for the future. These statements are subject to risks, uncertainties and assumptions, which may cause actual results to differ materially from our current projections.

Please refer to our forward-looking statement disclaimers on slide two as well as our SEC filings for additional information concerning risk factors that could cause our actual results to differ materially from our projections. Please note that references to earnings per share, operating income and operating margin in our remarks are on an adjusted basis unless otherwise noted. For reconciliations on these non-GAAP measures to their corresponding GAAP measures please refer to our earnings press release.

I'll now turn the call over to Donnie.

Donnie King

Thank you, Megan. I'll start by saying that the safety of our team members continue to be our top priority and I'm very pleased that we now have a team in the U.S. that is fully vaccinated. As we focus on meeting the needs of our customers and consumers, vaccination is the best way that we can protect our team members from the impacts related to COVID-19 and ensure business continuity.

Earlier today we reported strong fourth quarter and fiscal year 2021 results. We delivered double digit sales and earnings growth in a challenging year. Our performance was supported by continued strength in consumer demand for protein. Our retail core business lines which include our iconic brands Tyson, Jimmy Dean, Hillshire Farm, and Ball Park have driven strong share growth in the retail channel delivering 13 quarters of consecutive growth. Continued recovery in the foodservice channel led by QSRs also supported our strong results.

Overall we saw our volume recovery in the second half from the pandemic lows to finish the fiscal year only slightly down. We are taking several deliberate actions by segment to improve our volumes including investing behind capacities, brands, and product innovation, and our team members. Our investments in team members include our successful vaccination mandate

as well as automation and technology initiatives that I'll discuss in a moment. The construction of the 12 new plants that we've mentioned previously are progressing well and once complete will enable Tyson to address capacity constraints and growing global demand for protein. These new capacities include nine chicken plants, two case ready beef and pork plants, and one new bacon plant.

In parallel to our actions to improve volume we have also work to recover inflation through pricing, achieving a 13% price improvement for the fiscal year and a 24% increase for the fourth quarter. In this dynamic environment we will be aggressive in monitoring inflation and driving price recovery activities. And the diversity of our portfolio showed its value again this quarter as demonstrated by earnings. Performance in our beef segment supported the delivery of a strong fiscal year earnings results. Our performance has allowed us to build financial strength. Our balance sheet is strong, resilient and provides Tyson the optionality needed to pursue strategic growth priorities. And to that point, our investment in future growth across our portfolio continued. We demonstrated resilience in fiscal year 2021 and we are entering fiscal 2022 with tremendous momentum. Our results demonstrate the dedication of our global team, the importance of our diverse portfolio strategy, and our ability to meet consumer demand across proteins, channels, and meal occasions.

Now turning to financial results, let me give you some highlights overall. I was pleased with both a strong quarter and full year. Sales improved 20% in the fourth quarter and 11% during the full year. Our sales gains were largely driven by higher average sales price. Average sales price trends reflect successful pricing strategies during the ongoing inflationary environment, but we still have opportunities specifically in prepared foods where we delivered softer results than anticipated. Like many other companies we were faced with a range of higher levels of inflation notably higher grains, labor, meat, and transportation cost.

Our teams have worked together with our customers to pass along that inflation through price increases. On volume we saw improvement in the second half relative to the same period last year. Volumes were up three percent for the second half, or nearly 350 million pounds. Although we're working diligently to achieve optimal throughput across our segments labor challenges are still impacting our volumes and ability to achieve optimal mix across our processing footprint. Having said that, we're taking aggressive active actions as a team to address the labor constraints and we're seeing improvements. We delivered solid operating income performance, up 26% during the fourth quarter and 42% for the full year. This performance was largely due to strength in our beef segment where continued strong consumer demand and ample cattle supply have driven higher earnings. Overall our operating income performance translated to earnings per share of \$2.30 for the fourth quarter, up 35% and \$8.28 for the full year, up 53%.

Looking at our results on volume, we are taking aggressive actions to optimize our existing footprint, add new capacity, adjust our product mix by plant, and match our portfolio more closely with customer and consumer needs. For the fiscal year our volume was down slightly. Customer demand during the fiscal 21 outpaced our ability to supply products, but we're working aggressively to fill that void. We recognize how important service levels are to our customers and we're committed to improving our fill rates and reliability of supply.

With respect to supply, we have focused on ensuring our ability to maintain business continuity and our team has been resilient in the face of numerous supply chain challenges. As we look toward fiscal 22, improving volumes will be key to delivering against our commitments. We expect to grow our total company volumes by two to three percent next year, outpacing overall protein consumption growth. A large percentage of that growth will come from the chicken

segment. And across our business we're working to optimize our product portfolio, remove complexities, enhance capacities, and pursue operational improvement initiatives to deliver against these volume growth objectives.

Moving now to slide six, we acknowledge the challenging and competitive labor environment and it's no secret that we want to be the most sought after place to work. We fully understand that this starts with an unrelenting focus on safety, every minute, every shift, every day. The health, safety, and wellness of our team members has been and will continue to be our top priority. So I'd like to take a minute to stop and commend our team members and our leadership team for doing their part to keep themselves, their colleagues, their families, and their communities safe which has helped us reach our vaccination goals. But vaccines and investments in COVID-19 protection measures are certainly not the only actions that we've taken to become the most sought after place to work.

To ensure that every Tyson team member feels as though they can bring their true and complete self to work each day, we've invested behind diversity, equity, and inclusion efforts and we also understand the importance of a strong compensation offering and we believe that we hold a leadership position in this space. We have raised wages and across our business today we pay an average of \$24 per hour, which includes full medical, vision, dental, and other benefits like access to retirement plan and sick pay. And we will continue to explore other innovative benefit offerings that remove barriers and make our team members' lives easier.

We're also accelerating investments in automation and advanced technologies to make existing rolls safer and easier while reducing costs. We're confident that our actions will increase Tyson's staffing levels and position us for volume growth. Relating to operational excellence and market competitiveness, today we are announcing the launch of the new productivity program designed to drive a better, faster, and more agile organization that is supported by culture of continuous improvement and faster decision making.

The program is targeted to deliver one billion in recurring productivity savings by the end of fiscal 24 relative to fiscal 21 cost baseline. These savings are included in the guidance expectations that Stewart will share in a moment. Execution of the effort will be supported by our program management office that will ensure delivery of key project milestones and report on savings achievements connected to three imperatives.

The first is operational and functional excellence and is targeted to deliver greater than 300 million in recurring savings. This includes functional efficiency efforts in finance, HR, and procurement that are focused on applying best practices to reduce cost. The second is digital solutions, which is targeted to deliver more than 250 million in recurring savings. We'll achieve this goal by leveraging new digital solutions like artificial intelligence and predictive analytics to drive efficiency and operations, supply chain, planning, logistics, and warehousing. For example, we're using technology to ensure that our shipments are optimally loaded to save freight cost and enhance customer service levels. In many ways the pandemic has already accelerated our push to more digital footing and our commitment in this space will continue that focus.

The third is automation. We will leverage automation and robotics technologies to automate difficult and higher turnover positions. For example, we have substantial opportunity to automate the debone process within our poultry harvest facilities using the combination of both third party and proprietary technologies.

Chicken remains the top priority for me personally and for our company. We continue to execute against our roadmap to bring operating income margin to at least the five to seven percent range on a run rate basis by mid fiscal 22. Our goal has not changed and we remain committed to restoring top tier performance. The first imperative is to be the most sought after place to work. I've outlined the investments we're making to enhance our team member experience in my earlier comments. This will ensure that we have the right levels of staffing to fulfill our customer orders on time and in full.

The second imperative is to improve operational performance. Critical to improving operational performance is maximizing our fixed cost leverage, which means having enough birds in our internal networks to run our plants full. By reconfiguring and optimizing our existing footprint we can increase our harvest capacity by more than 10% without building another plant. In addition, we have clear initiatives to remove complexity from our plants, reduce transportation and handling, and minimize waste.

Our operational improvements will unlock significant unused capacity in our network and take advantage of the fixed cost leverage. Each of these initiatives will support leading operational performance from our chicken business in the future. Hatch rates have impacted our ability to do this and we've shared the initiatives underway to correct this. Our new male rollout is progressing as planned and we believe we've hit the inflection point that will lead to sequential improvements through the entirety of fiscal 2022.

The new male rollout at our poulet(PH) farms is nearly complete and we continue to observe improved hatch rates associated with these new males. We've also mentioned how strengthened spot prices for commodity chicken products throughout the fiscal year has put our buy versus grow program at a relative disadvantage versus history. From Q3 to Q4 we again reduced our rate of outside purchases this time by nearly 30%.

The final imperative is to service our customers on time and in full. Tyson's branded value-added product offerings have continue to gain share during both the fourth quarter in the latest 52 weeks and new capacity expansions will help us maintain momentum. Inflation has clearly had an impact on the business. Our commercial teams have successfully pursued inflation justified pricing delivering top line growth for the business to offset the cost increases. As rates of inflation continue so will our pricing actions with an equivalent level of emphasis on disciplined operational execution and volume throughput. We will staff our plants, service our customers, grow volumes, and be the best chicken business. The plan we have in place is still the right plan and our level of confidence, conviction, and excitement as a team continue to grow.

Looking forward to fiscal year 2022 I feel confident in our ability to drive value creation. We have strong consumer demand, a powerful and diverse portfolio across geographies and channels, and the team that is positioned to take advantage of the opportunities in front of us. Our priorities are clear: winning with customers and consumers, winning with team members, and winning with excellence in execution. With these priorities as our guide we are taking aggressive actions to accelerate our growth relative to the overall market, improve operating margins, and drive stronger returns on invested capital. We are committed to our team members with a focus on ensuring their health, safety, and well-being, as well as ensuring an inclusive and equitable work environment, every shift, every day, every location, with no exceptions. We have shown that we are willing to take bold actions in support of this commitment.

Second, we are working to enhance our portfolio and capacity to better serve demand. This includes increasing the contribution of branded and value added sales by focusing on our product portfolio and by adding capacity to meet demand. We expect our volume to outpace the market in the intermediate term.

Third, we are aggressively restoring competitiveness in our chicken segment. This starts by returning our operating margin to the five to seven percent level by the middle of fiscal 2022.

Fourth, we are driving operational and functional excellence and investing in digital and automation initiatives. This is at the heart of our new productivity program. We are working diligently to drive out waste, minimize bureaucracy, and enhance decision making speed across the organization.

Finally, to address expected demand growth over the next decade we're using our financial strength to invest in our business through both organic investments and strategic M&A. On capital loan we expect to invest 2 billion in fiscal year 22 with a disproportionate share focused on new capacity and automation objectives. Tyson has the right portfolio, the consumer-driven insights, and the scale and the capabilities to win in the marketplace across proteins, channels, and meal occasions. We also have the financial strength to invest behind our business to accelerate growth and to maintain our momentum.

I look forward to sharing with you our progress as we work through the year and I'll be sharing more details with you at our Investor Day in a few weeks. I'll now turn the call over to Stewart to walk us through our financial results in detail.

Stewart Glendinning

Thank you, Donnie. Let me turn first to a summary of our total company financial results. We're pleased to report a strong overall finish to the year. Sales were up approximately 20% in the fourth quarter, largely a function of our successful pricing initiatives that were pursued to offset inflationary pressures. Volumes were down four percent during the fourth quarter primarily due to labor challenges hampering our efforts to fully benefit from strong retail demand and recovery in foodservice. Fourth quarter operating income of nearly \$1.2 billion was up 26% due to continued strong performance in our beef business. For the full year, operating income improved to nearly \$4.3 billion, up 42%. Driven by the strength in operating income, fourth quarter EPS grew 35% to \$2.30 with the full year up 53% to \$8.28.

Slide 11 bridges our total company sales for fiscal year 21. Sales dollars were up across all segments. As you can see the most substantial sales dollars benefit came from the beef segment which saw market conditions that led to a wider than historical cut out margin. At the same time we sought price increases across the business to offset the high levels of inflation we faced. Looking at our channel results, sales of retail drove over one billion dollars of top line improvement versus last year even after exceptionally strong volumes in the comparable period.

Improvements in sales through the foodservice channel drove an increase of \$1.6 billion and our fiscal year export sales were nearly one billion dollars stronger than the prior year as we leveraged our global scale to grow our business.

Slide 12 bridges year to date operating income, which was about \$1.3 billion higher than fiscal 2020. As I mentioned previously, volumes were down slightly during the year, primarily a result of a challenging labor environment. Our pricing actions and strength in the beef segment led to approximately \$5.6 billion of sales price mix benefit, which more than offset the higher COGS

price mix of \$4.6 billion. We saw inflation across the business. Notable areas were in wages, grain cost, live animal costs, and pork, meat costs, and prepared foods, and freight costs across the enterprise.

Incremental direct COVID-19 costs were favorable by approximately \$200 million during the year although our total spending at \$335 million was still substantial. The decrease was driven primarily by cycling one-time bonuses that were paid last year and a large portion of that was reinvested in permanent wage increases for our team members this year. Lower one-time bonus costs were partially offset by higher testing and vaccination cost incurred during fiscal 2021. While these costs are expected to reduce in fiscal 22, we will continue to spend against initiatives to keep our team members safe.

And finally, SG&A was over \$100 million favorable to prior year, which was largely a result of the net benefit associated with the beef supplier fraud.

Now moving to the beef segment. Segment sales were over five billion dollars for the quarter, up 26% versus the same period last year. Key sales drivers included strong domestic and export demand for beef products. Offsetting higher sales prices were higher cattle costs, up more than 20% during the fourth quarter. We had ample livestock available in the quarter driven by strong front end supplies and we have good visibility into cattle availability through fiscal 22 and currently believe it will also be sufficient to support our customer needs. Sales volume for the quarter was up year over year due to continued strong demand in contrast to a soft comparable period a year ago driven by lower production volumes.

We delivered segment operating income of \$1.1 billion or 22.9% for the fourth quarter. This improvement was driven by strong global demand for beef products and a higher cut out which were partially offset by higher operating costs. While our beef segment experienced strong results during the quarter and fiscal year, we are still not at optimal levels of capacity throughput due to labor challenges, which we expect to normalize over the course of fiscal 22.

Now let's move on to the pork segment on slide 14. Segment sales were over \$1.6 billion for the quarter, up 30% versus the same period last year. Key sales drivers for the segment included higher average sales price due to strong demand and increased hog costs, partially offset by a challenging labor environment. Average sales price increased more than 40%. Our volumes were down relative to the same period last year. Segment operating income was \$78 million for the quarter, down 52% versus the comparable period. Overall operating margins for the segment declined to 4.7% for the quarter. The operating income decline was driven by higher hog costs and increased labor and freight costs.

Moving now to prepared foods. Sales were \$2.3 billion for the quarter, up seven percent relative to the same period last year. Total volume was down 5.7% in the quarter with strength in the retail channel and continued recovery in food service more than offset by labor challenges. Sales growth outpaced volume growth driven by inflation justified pricing and better sales mix.

During the fourth quarter, retail core business lines experienced their 13th straight quarter of volume share growth driven by consumer demand for our brands and continued strong brand execution by our team. Operating margins for the segment were 1.7% or \$39 million for the fourth quarter. A slowdown in segment operating margins versus the same quarter last year was driven by significant increases in raw material input costs that we were not able to fully recover through price during the quarter.

For the full year, operating income margin was 7.6%, or \$672 million. As we mentioned last quarter the ongoing inflationary environment created a meaningful headwind for prepared foods during the fourth quarter. Raw material costs, logistics, ingredients, packaging, and labor have increased our cost of production. We've executed pricing, revenue management, and commercial spend optimization initiatives while ensuring the continued development of brand equity through marketing and trade support. We expect to take continued pricing actions to ensure that any inflationary cost increases that our business incurs are passed along. Our pricing has lagged inflation, but we expect to recover those cost increases during fiscal 22.

Moving into the chicken segment's results. Sales of \$3.9 billion for the fourth quarter, up 21%. Volumes improved 1.3% in the quarter as strong consumer demand offset both labor challenges and the detrimental impact of a fire at our Hanceville rendering facility. Our teams have been focused on streamlining our plants to deliver higher volumes and we expect to deliver substantial volume improvements in fiscal '22 as the hatch rate recovers and we operate our plants more efficiently.

Average sales price improved over 20% in the fourth quarter and 11.4% for the fiscal year, compared to the same periods last year. This increase is due to favorable product mix and price recovery to offset cost inflation. Our pricing has admittedly lagged our realization of cost inflation, but we made tremendous progress in the last few months to close that gap and are now seeing those benefits. We have restructured our pricing strategies given our experience in fiscal 21 to ensure that we have the flexibility to better respond to market and inflationary conditions.

Chicken experienced an operating loss of \$113 million in the fourth quarter. The segment earned \$24 million representing an operating margin of 0.2% for the fiscal year 2021. Operating income was negatively impacted by \$945 million of higher feed ingredient costs, grow out expenses, and outside meat purchases. For the fourth quarter, feed ingredients were \$325 million higher than the same period last year. Segment performance also reflects net derivative losses of \$75 million during the fourth quarter, which was \$120 million worse than the same period last year.

Turning to slide 17. In pursuit of our priority to build financial strength and flexibility, we have substantially de-levered our business over the past 12 months, reducing leverage to 1.2 times net debt to adjusted EBITDA as we paid down two billion dollars of debt while growing our earnings and cash flow. Investing organically in our business will continue to be an important priority and will help Tyson increase production capacity and market capability. Each of these levers will support strong return generation for our shareholders. We will also continue to explore paths to optimize our portfolio through M&A, through the lenses of value creation and shareholder return.

Finally, as our track record has demonstrated we are committed to returning cash to shareholders through both dividends and share buybacks. We're pleased to announce that last week our Board approved \$0.06 increase to our annual dividend payment now totaling \$1.84 per Class A share.

Let's now discuss the fiscal 22 financial outlook. We currently anticipate total company sales between \$49 billion and \$51 billion which translates to sales growth of between five and seven percent. We expect two to three percent volume growth on a year over year basis as we work to optimize our existing footprint and run our plants full. Our new productivity initiative is expected to deliver 300 to \$400 million of savings during fiscal 22 driven by operational and functional

excellence initiatives. The rollout of digital solutions across the enterprise and extensive automation projects that are currently underway.

Now as we look at the organic growth opportunities ahead for our business we expect a meaningful increase in CapEx spending to pursue a healthy pipeline of projects with strong return profiles. We currently anticipate CapEx spending of approximately two billion dollars during fiscal 22, an increase of roughly \$800 million. This investment will support our initiatives to meet global protein demand growth into the future, allow us to gain share, and will deliver strong financial returns for our shareholders. Excluding the impact of changes from potential tax legislation, we currently expect our adjusted tax rate to be around 23%. We anticipate net interest expense of approximately \$380 million because of intentional deleveraging during fiscal 21.

Liquidity is expected to significantly exceed our target, while net leverage is expected to remain well below two times net debt to adjusted EBITDA. It is important to note though that over the last two years working capital has been a source of cash. We don't expect this to be the case in fiscal 22. Moving forward our business growth will require increased working capital, which combined with deferred tax payments under the CARES Act, taxes on the gain of the pet treats divestiture, litigation settlements, and other discrete items will lead to a substantial use of cash during fiscal 2022.

Now let's look at how each of our segments will contribute to that total Company performance. Prepared Foods is expected to deliver margins during fiscal 22 of between seven and nine percent. We will remain disciplined and agile in our pricing initiatives to ensure that any additional inflationary pressures are passed along to customers while also working diligently to deliver productivity savings to reduce costs. We expect the beef segment to continue to show strength due to prolonged industry dynamics leading to segment margins of between nine and 11%. We expect the front half of the year to be meaningfully stronger than the back half as industry and labor conditions are expected to normalize part way through the year.

In chicken, our operational turnaround is working and we still expect to achieve run rate profitability of five to seven percent by the middle of the year. We expect this will be achieved through sequential quarterly margin improvements during the first half of the year resulting in full year margins that fall between five to seven percent, although expected at the lower end of that range.

In pork, we expect similar performance during fiscal 22 to what we accomplished during fiscal 21, equating to a margin of between five and seven percent. In international and other, we expect margins of two to three percent as capacity expansions and strong global demand support volume growth and improved profitability. Our segments individually and in aggregate have clear and compelling role within Tyson's portfolio strategy. They deliver diverse counter cyclical performance that supports the company's long term earnings objectives and delivers strong value for shareholders.

We'll now turn the call back over to Megan for Q&A instructions. Megan.

Megan Britt

Thanks, Stewart. We'll now move to your questions. Please recall that our cautions on forward-looking statements and non-GAAP measures apply to both our prepared remarks and the following Q&A. Operator, please provide the Q&A instructions.

Operator

Will do. We will now begin the question and answer session. To ask a question you may press star then one on your telephone keypad. If you're using a speakerphone please pick up your handset before pressing the keys. And to withdraw your question please press star then two. And at this time we'll pause momentarily to assemble our roster.

And the first question will come from Ben Bienvenu with Stephens. Please go ahead.

Ben Bienvenu

Hey, thanks, good morning. Everybody.

Donnie King

Good morning.

Stewart Glendinning

Good morning.

Ben Bienvenu

I want to ask within the commentary on the guidance, the productivity savings of 300 to 400 million for this year and a billion by the end of 2024, could you talk about how much of that you expect to be realized on a net basis to the bottom line? And how much of it might be reinvested back into the business to drive growth?

Stewart Glendinning

So, Ben, good morning. Stewart here. Look, we're trying to drive for as much of it as possible for the bottom line. But keep in mind that our assumptions around what's going to drop to the bottom line are already embedded in the guidance that we've given you by segment. But that's the short story.

Ben Bienvenu

Okay, perfect. And then if I look at the balance sheet you're--even with a pretty substantial increase in capital expenditures for 2022 you're going to have a cash build potentially. Though I know Stewart you noted some commentary on the business, the working capital being a use of cash in 2022. Could you talk about what you expect that use of cash to look like so that we can get a sense of what the cash balance at year end looks like? And then along the same lines, you talked about reinvestment in M&A. What is your prioritization of that relative to potentially share repurchase given that you've upped the authorization there?

Stewart Glendinning

Okay. Right. Let me unpack that a little bit. So yes, look, we're super please with the way the year has worked out. This is really a diverse portfolio that's delivered a great result and that's driven the increase in cash. So sitting at 1.2 times leverage. We've got a billion dollars of debt that will come through this year. We're planning to pay that down. We also as you called out are going to have a much larger expenditure on CapEx, which is going to be great for our investors.

And as our business grows that's going to consume some more working capital, regular working capital. In addition to that we've got a number of one off payments that we expect to pay out this year which are pretty meaningful and to characterize that is around a billion dollars of deferred taxes related to the CARES Act, taxes that are owed on the sale of the pet business, as well as some payout of the litigation accruals that you've seen in our books.

Ben Bienvenu

Okay--

Stewart Glendinning

--On M&A, maybe, Ben, your--the last question on an M&A versus buyback. Look, in the normal course we don't comment on any specific M&A. But we've shared the levers in our business. We have successfully pulled all those levers over the last number of years and I think that's been to good effect. We don't imagine that we're going to change that this year.

Ben Bienvenu

Great. Okay, fair enough. Great, thanks. And look forward to catching up with you guys at the Investor Day.

Stewart F. Glendinning

Thank you.

Donnie King

Thank you.

Operator

The next question will come from Ben Theurer with Barclays. Please go ahead.

Benjamin Theurer

Good morning, Donnie, Stewart.

Donnie King

Good morning.

Benjamin Theurer

Thanks for taking my question. Congrats on the results now. Just to unfold one thing, and maybe you can help us a little bit on what you're planning into 2022. So clearly it feels like a lot of your growth in the quarter was impacted by lack of labor, be it in beef, be in pork. I mean you've pointed out in the segment commentaries that it was a lot around labor shortage. And we know you've been investing in people, but what do you have to do looking into 2022 to overcome these headwinds on the labor market just in order to get actually the volume out you want to get out? Because it seems like you have the assets but you don't have the people to process. Is that a fair assumption?

Donnie King

Let me take that Stewart, and good morning. Labor has been very challenging throughout the year. But as we've mentioned in the script earlier we are seeing a light at the end of this tunnel. We're seeing our ability to get plants staffed. I think from a poultry perspective, for example, we're almost fully staffed since November first. We've made great progress across Prepared Foods and our beef and pork businesses. So we're gaining on that post the close of our vaccine mandate.

So we're very optimistic about 22. But in addition to having a labor shortfall, which has constrained capacity, we've also had just capacity shortfall in some key categories. For example, ready to eat products that would be for the more value added poultry and also for Prepared Foods. And again, we're just now bringing on two new case ready beef and pork plants to enable us to have more capacity and they're in a start-up mode.

So yes, the labor has been a challenge. We see--we're seeing progress. We're very excited about 22 from that perspective. We believe we've got the worst behind us. And we're looking forward to that, but we're also--we've got 12 new plants going or under construction to deliver more capacity and we have strong demand for that. And so we look forward to what that will deliver for us not only this year but also in the coming years.

Benjamin Theurer

Okay. And then within Prepared Foods, I mean clearly we're seeing the headwinds from the input cost most here and just you holding back a little bit on pushing through price with that operating income margin adjusted down to a little less than two percent. Now, the guidance for next year basically implied something flat. Does that mean on over the course of the year we should just think about still headwinds in the first half and as pricing comes through in the second half we're going to see that picking up a little bit, or how should we think about the cadence of margins into 2022 in the Prepared Foods business.

Stewart Glendinning

Ben, I'll make a couple of comments, and I'll pass that onto our to our expert, Noelle O'Mara, who leads our Prepared Foods businesses. And so it's--you characterized much of it. We're trying to absorb the rapid inflation predominantly in pork products and meat. And as we go with this branded portfolio that we have to the marketplace it's no different than any other CPG company has dealt with. You're trying to balance share and price and it takes--it takes a little bit of time, unlike the commodity portion of our business, like beef and pork, and it takes a lot more time to get that executed.

We're looking for ways--we're always looking for ways to try to expedite that process, but it takes a bit to be able to get customers aligned, to be able to get promotional and those activities aligned. But let me stop with that and I'll toss it over to Noelle to add some color as well.

Noelle O'Mara

Sure. Thanks, Donnie. Ben, as we mentioned demand continues to be incredibly strong across the portfolio. Our Q4 performance was impacted because of the inflationary environment accelerating faster than anticipated. Despite the unprecedented inflationary headwinds, the actions that we took in the second half of 21 and the beginning here of 22 I expect will allow us to offset the headwinds and drive sequential improvements in profitability.

Benjamin Theurer

Yeah. Perfect. Thank you very much.

Donnie King

Thank you.

Operator

The next question will come from Peter Galbo with Bank of America. Please go ahead.

Peter Galbo

Hi, everyone. Good morning. Thank you for taking the question.

Donnie King

Good morning. Thank you.

Peter Galbo

I guess Donnie and Noelle, I'd like to get your thoughts on this. Just as you're taking a lot more pricing in Prepared and I guess across the rest of the portfolio, just what are you seeing from a consumer perspective in terms of trade down. Is your elasticity still kind of holding or I should say holding as at an inelastic level or are you starting to see just some of that roll through and how do you think about then in the 22 as prices continue to go up.

Noelle O'Mara

Sure. Let me take that. So demand continues to be strong across the portfolio in both retail and foodservice. We're pleased with the market performance we're seeing despite the price increases. Elasticity has been less than historical models would have predicted. We're seeing penetration and buy rate increases versus pre-COVID levels across categories. As Donnie referenced we've had our 13th consecutive quarter of share growth. But we'll continue to learn and adapt as the landscape evolves.

Peter Galbo

That's helpful. Thank you. And then Donnie just in terms of the productivity plan and the CapEx, is there a way for us to think about it--you gave some helpful detail on the slides--but just to think about it by segment?

Donnie King

Well, it's--let me start, Peter, with saying it applies to all segments. And the first part of the program has to do with operational and functional excellence. And quite frankly that is--that is really doing better--our jobs better. Taking out waste, removing bureaucracy. And that's primarily targeted against our finance, human resources, and procurement groups. It's executing at a much higher level. There's another component that is digital solutions and that's about \$250 million in recurring savings. And that's more on the operational side of supply chain planning, logistics and warehousing. So you can think of that in that bucket. And that's across all businesses. In fact the first two are across all businesses.

And then third, automation. Leveraging robotics and technology and we're spending significantly--a significant portion of the two billion in capital that we're spending or a disproportionate amount of that is going against capacity expansion in these 12 plants that we talked about over the next three years. But in addition to that it's to put automation and technology in to eliminate difficult higher turnover jobs.

Think for example, debone automation, whether beef or the white meat or dark meat. Think about it in terms of material handling. And you would see more of that from in our Prepared Foods Group. And then you've got, if we think about outside the United States then we just have a I'd say a plethora of automation and technology and a digital footprint as we build those plants up outside the U.S..

Operator

The next question will come from Anoori Naughton with J.P. Morgan. Please go ahead.

Anoori Naughton

Hi, good morning. We want to get some additional color on some of the chicken initiatives you discussed. You talked about optimization efforts increasing the harvest capacity by 10%. Over what timeframe are you thinking you'll be able to achieve that level of capacity expansion? And does the run rate EBIT margin of five to seven percent already contemplate that higher fixed cost leverage from these efforts?

Donnie King

Great question. Let me--I'll start out and then and give you some very top line stuff and I'll flip it over to David Bray who leads our Poultry Group. Think of this in terms of the five to seven percent being a waypoint. And we've communicated that we think by the middle part of 22 that that's where we will be. That's not the goal, that's the way point. And we backed into that. But if you think about those building blocks that are necessary to get there and beyond, it's really starting with volume. And we've talked a lot about the hatch issue that we've had and the male and--but--as we move into 22, we are already seeing great results. Remember this male that we put in is not new to the world. It's one we've used and delivered great results for years.

So we have a great deal of confidence in that. But it's also--efficiency is about running plants at capacity and not having to go to the outside and buy as much boneless skinless breast meat as we have in 21. And then labor. I mean, I mentioned earlier that we're back to near complete staffing and we're seeing some really, really good results from that. And our team is excited in terms of just the efficiency and improvement we've seen since completing our vaccine mandate on November 1st. But this comes down to an execution story and volume is absolutely critical to getting us to the way point of five to seven, but also in terms of taking us into the future. And with that let me flip it over to David, to--he may add a little more color to that.

David Bray

Yes, just a little bit of color Donnie. Thank you very much for the opportunity. And again, I think it is critical for us to state that volume is a critical pillar for that. But we also have a very structured success program that we've built across our organization where we're focused on being the most sought after place to work, where we're focused on servicing our customer, growing our optimal products and brands, and performing with the best. Hatch is a component of that and again we are seeing sequential week over week improvement and feel good about the plan that we have in place relative to hatch.

But we are also working on other imperatives within our business and a lot of this really began within the Q4 timeframe. We are increasing our investment in dark meat debone capacity. There was also significant price improvement that we realized within the quarter. And ultimately, we're optimizing our plant efficiency ahead of our increased harvest. Improvements are coming from price, mix, volume, spend, and labor. In short we are driving operational excellence across our poultry segment and we are aligned on that plan. I will tell you we have the right plan and we have the right people to make sure that we execute on the fundamentals of our business.

Operator

The next question will come from Alexia Howard with Bernstein. Please go ahead.

Alexia Howard

Good morning, everyone.

Donnie King

Good morning.

Alexia Howard

So can I ask first of all about the labor cost implications for the longer term. I mean you're obviously spending up, presumably raising wage rates and so on. How much do you expect the entire labor cost to be above pre-pandemic levels once all the dust has settled? And then I have a follow up.

Donnie King

Thank you for the question. I would tell you that as we stated, we have to win with team members. We have to be the most sought after place to work. And we've done a number of things already to try to do that. It's the recognition that the workforce today, they have many, many options and there--there are far few people chasing the number of jobs that are actually out there. And so as we've talked internally, we're not trying to solve the labor problem for America. We're trying to solve it for Tyson Foods. And we want to give people an option, we want to give them a better option.

And we think the key to staffing plants, but more importantly, being able to service customers and execute at a high level, absolutely starts with people. So the \$24 an hour, it includes a number of things but it is the benefits that go with that. We've had to enhanced a number of those things, do things like scheduling different suits, meaning multiple shifts or being very creative in each location. Childcare is a component of that. We've experimented with on-site health clinics is another we've experimented with. But we're trying to be creative and trying to make sure that we're positioned well to have a place people want to come to work and we see that as being critical to our future success.

And so that's what we're doing, \$24 an hour. I would tell you that's maybe leading in the marketplace. But it's, I think it's also a competitive wage. And so we want to be on the leading side of that. And so that is our intent. That's how you can think about that as we think about labor going forward. We see that is the cost of inflation and the cost of labor going forward.

Alexia Howard

Great, thank you. And just as you look out to fiscal 22, what do you see as the biggest uncertainties and risks this year? It sounds that you're fairly confident in the chicken margin recovery. But across the business what do you see as the biggest uncertainties from this perspective today?

Donnie King

Sure. I would tell you that in all my years of being in this business there are always risks that come up. The one thing I am certain of is as we get into 22 we will--there's going to be something happen we hadn't anticipated. If you go back to this time a year ago, we had--we thought we had a pretty solid plan around in poultry around grain pricing--or pricing relative to grain and then we saw a tremendous increase in the cost of grain and we were sitting with fixed pricing on so much. So those types of things happen.

What I can tell you and why we're excited is that we've adjusted our model, our pricing model, and so that we de-risk it not only for us but also for our customers so that when there is inflation then we're in a position we can adjust pricing with those customers and our relationships with them are really second to none. And these have been really good conversations. It's been a win win approach in these conversations and we're proud of that. And it starts with that relationship with the customer.

So we've moved and de-risked our model relative to pricing and inflation and that we believe puts us in a better position. In terms of labor I don't know how to anticipate a new COVID variant or something that the vaccine might not protect against. But I can tell you that we took a bold action to do everything we knew to do to protect team members and we saw it as an investment and a de-risking of our business just by having a vaccinated workforce. And so that--we believe

that's one less thing that we'll have to deal with this year. That's one less thing we're seeing in terms of complexity to our business.

Alexia Howard

Great, thank you very much. I'll pass it on.

Operator

The next question will come from Adam Samuelson with Goldman Sachs. Please go ahead.

Adam Samuelson

Yes, thank you. Good morning everyone.

Donnie King

Good morning.

Stewart Glendinning

Morning.

Adam Samuelson

Morning. So may be just a bit of a clarification question on the guidance. And as we think about kind of what embedded in the segment margin assumptions, can you help us think at the total company level what level kind of non-raw material inflation is assumed for things around logistics and labor and packaging to--in there? As well what is assumed on a year on year basis for feed costs in the chicken segment?

Donnie King

Thanks, Adam. I'll start with it, and I'll pass it over to Stewart. He can cover maybe in greater detail on some of those non-grain. We've positioned ourselves from a poultry perspective as well as from a Prepared Foods perspective so that we can respond to inflation, whether it be grain, labor, transportation, warehousing costs which are the biggest ones, packaging, you know packaging and ingredients have all going up in price as well. In fact, I would--it might be easier for me to tell you what hasn't seen--what component hasn't seen inflation in this past year. But we think we've got our model positioned to adjust for that around pricing and responsiveness.

And we don't expect customers to pay for our inefficiencies. But we'd like to think that we have relationships with customers that allow us to be able to take to them part of our inflation that we see in the marketplace and be able to pass that on ultimately to the consumer. And so that's the way we thought about our model. That's how we've adjusted our model and it's been a yearlong--really a yearlong event doing that. And we are in a pretty good place right now.

With respect to chicken I think based on today's current level of inflation we have currently caught up with the inflation with pricing across the chicken segment. We're putting that pricing in place in Prepared Foods and of course our commodity businesses of beef and pork, you know, those respond more rapidly to inflation. And so those are working as designed as well. Stewart, would you like to add any color to them?

Stewart Glendinning

Sure, Donnie. Adam, just a couple of points to make here. So first of all, you had a question earlier on about the savings. You know, that's the three to \$400 million is coming through as a benefit in the year. We shared with you that obviously volume is increasing, so you're going to

see some increase from volume. And of course, we're continuing to pass through price and have the benefit of some mix. When you look at the top line of these businesses though, keep in mind and actually look at the cost. Keep in mind the guidance around beef which is lower than last year. Right? And therefore on beef you should expect to see both the cut out floor and you should expect to see the cattle cost increase. And that's going to be part of it.

Perhaps a couple of other things to keep in mind, there are ingredient costs that are outside of grains, things like cooking oils, you've seen the price of oil that has increased. Distribution is up and we've had 13 strong quarters of share gain in our Prepared Foods business and that business will likely invest money behind our brands this year to make sure that that kind of momentum continues. So that that's probably a run through the big guidance.

Adam Samuelson

All right. That's really helpful. And then on the productivity, you talked about it--look it's a bit more of a gross productivity action where you hope to capture as much as you can to the bottom line or you choose to reinvest. But can you help frame kind of the scope of the spend that that productivity is going after. Obviously, it wouldn't have that much impact on some of the direct raw materials in terms of the feed ingredients or cattle or hogs that you buy. What's the right denominator to think about the scope of the savings from (INAUDIBLE) million dollars over a couple of years?

Stewart Glendinning

Yes, I mean it's complicated in our business, of course, because you've got all the commodity meat inputs. So you've got to pull those off. But I don't know that I've got a great number to put to you--to give to you that--what I would go back to is your starting point which is that you--we hope that this drops the (INAUDIBLE)--it's not a hope strategy actually. We have a very strong game plan here to drive these costs to the bottom line and they are part of--they're a part of our equation for next year.

And you'll see that. I mean, that's part of our guidance. The shape of next year looks good. I mean Prepared Foods and Chicken both showing improvement, strong improvement from the fourth quarter. Beef still expecting a very strong year despite lower numbers than we had this year. So I think the shape of things looks good. Those savings are embedded in the in the forecast that I gave you.

Donnie King

So, if I may answer or add one more thing to that, Adam. This--every one of these savings that we've talked about over the next three years, we have a program management office and we track that to the bottom line. We have built that into our 22 plan and if you look at the out years of 23 and 24, we've also built that into operating income. We did not count it unless we could show it hitting the operating income line of the business. This is, we did--we've done our work here to make sure this was not a sleight of hand but a true delivering of results and more importantly delivering of a much, much better process all the way around.

Adam Samuelson

All right. I appreciate all the color. I'll pass it on. Thank you.

Donnie King

Thank you.

Operator

The next question will come from Ken Zaslow with Bank of America Montreal.

Ken Zaslow

Good morning, everyone.

Donnie King

Good morning, Ken.

Stewart Glendinning

Morning.

Ken Zaslow

Just have a couple of jobs apparently. Bank of America, Bank of Montreal. But a couple of questions. You said you cover--you actually covered cost with pricing on the chicken business as of now. Help me understand, so does that mean that the issues right now are really operational issues and then as you move into the new year you're going to price on top of that as your pricing contracts come to anniversary? Is that how to think about it or did I misunderstand?

Donnie King

I think it--Ken, thanks. I think it's probably more of a point in time. My comment was as of today, we have, we are now--we have our pricing at a point where it covers the cost of inflation. We've also had during the quarter--most recent quarter we've had issues with the labor availability and inefficiencies associated with that. But we're now staffed. So as--I mentioned that in terms of a go forward position. We will be fully staffed and again I'm speaking of chicken here, but we'll be fully staffed. We'll be far more efficient.

David and his team are laser focused on the executional excellence in the business, and we're seeing great progress in there. And Noelle and her team in Prepared are doing exactly the same thing. So we're optimistic going forward. We believe the worst is behind us and we're excited about what we're seeing in our Q1 and what we'll see for the year. It's very much in line with what we project.

Ken Zaslow

So just to understand it, what is for the next year or two is really in your control as you've--trying to align more with industry on the pricing and the cost structure--on the cost, not the cost structure. But it's more right now--it is internal improvements that will drive the next year or two versus you are now relatively capturing what the market is giving to you on the pricing versus the corn side. Is that a fair assessment?

Donnie King

It's fair and largely accurate. The other thing I would add about that is in some of the more branded part of the portfolio there is typically a lag between inflation and this point we're able to get pricing. And we're looking constantly at ways to try to shorten that cycle with our customers. So think of that as being the differentiator there. But I would tell you much of what we have to do and the way we structured our model--executional excellence, and I call that out specifically in the script so will be top of mind to all of us across all businesses and functions at Tyson.

Ken Zaslow

If I could squeeze in one more and then I'll leave it there.

Donnie King

Sure.

Ken Zaslow

When you put in the capital spending that you're doing, and I know we all have to think about 2022, but when we think about 2023, 2024 what do you think the returns on that would be? And does that enhance either the stability of your model or the growth algorithm of your model as you are now deploying enough capital that it's almost an acquisition, right? You're not actually making an acquisition but you're putting enough capital there that there should be a return on that, that maybe something changes in 2023 2024. And I will leave it there and I appreciate your time.

Donnie King

Yeah. I will start with that and Stewart may want to add something to it. But the spend that we have, the return on that invested capital we certainly understand that we've had a few issues in delivering that over the past. But I will tell you that return on invested capital is a part of the entire leadership team score card. So we are proving those dollars as spent against a demand that is known and a return that is known and so we feel very confident about the returns on those businesses and so we're not concerned about the fact that we're going to get a really good return on that investment. In fact, we think it's--versus other options is a--is a much better return. So--but it's still ours to--ultimately you still have to execute. Stewart.

Stewart Glendinning

Yeah, Ken, just a couple of things. So first of all we're targeting double digit returns. And let (INAUDIBLE) shape be the guidance as we move forward so you get the timing of that right. But I mean we have strong returns here. In terms of the algorithm, it's going to do two things for us. First of all it's bringing some of the savings we're talking about in three to 400 million. It is providing a better and safer workplace for our team members. And let's not forget that there's going to be a considerable expansion of capacity here particularly in the international business on a percentage basis. So that is going to fuel that future growth. So we feel great about it. The numbers are big. But one thing about internal CapEx, you know exactly where you're putting the money, you know exactly what you're getting for it.

Ken Zaslow

Great. I appreciate it, guys. Take care.

Operator

This concludes our question and answer session. I would like to turn the conference back over to Donnie King for any closing remarks. Please go ahead.

Donnie King

Thanks again for your interest in Tyson Foods. We look forward to speaking again soon and hope to hear from you at our Investor Day on December 9th. Have a great day.

Operator

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