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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Tyson Foods First Quarter 2020 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note, this event is being recorded.

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

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

Good morning, and welcome to the Tyson Foods Incorporated earnings conference call for the first quarter of fiscal 2020. On today's call are Noel White, Chief Executive Officer; 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.

Tyson Foods issued an earnings release this morning, which has been furnished to the SEC on Form 8-K and is available on our website at ir.tyson.com. Our remarks today include forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements reflect current views with respect to future events, such as Tyson's outlook for future performance on sales, margin, earnings growth, and various other aspects of its business. These statements are subject to risks and uncertainties that could cause actual results to differ materially from our expectations and projections. I encourage you to read the release issued earlier this morning and our filings with the SEC for a discussion of the risks that can affect our business.

I would like to remind everyone that this call is being recorded on Thursday, February 6 at 9:00 AM Eastern Time. A replay of today's call will be available on our website approximately one hour after the conclusion of this call. This broadcast is the property of Tyson Foods and any redistribution, retransmission, or rebroadcast of this call in any form without the expressed 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.

Thanks, Jon, and good morning everyone. Along with Stewart, joining us in the room today is Dean Banks who joined the company at the beginning of the month and is beginning to transition to his new role as President of our company. Welcome, Dean. We're pleased to report we delivered top and bottom line growth in our first quarter and generated record Beef results.

Before I speak to these results, I'd like to talk about our focus on sustainability to meet the growing global demand for protein. That's why we recently announced at the World Economic Forum in Davos, the creation of the Coalition for Global Protein. A combination of strategies and solutions including all forms of protein are needed to responsibly feed the world population expected to reach almost 10 billion in 2050, requiring an estimated doubling of the production of protein needed today.
Our goal is to unite stakeholders across the food and agricultural sector to develop new and creative solutions to sustainably feed the world with affordable nutritious food. We believe, this reflects positively on our strategy, which is focused on sustaining our company and our world for future generations, while growing our business by delivering superior value to consumers and customers, and fueling our growth and returns through commercial, operational and financial excellence.

Turning to our results, our overall first quarter was in line with expectations, with adjusted earnings of $1.66 per share. Beef and Pork results were strong. Prepared Foods drove growth in retail consumption. The Chicken improved operationally although continued to face soft pricing, which weighed on results. Looking across the marketplace, consumption of our retail Prepared Food products has been outstanding. Both the Tyson core retail business lines, which were up more than 5% and total Tyson retail up more than 3% outpaced volume and sales growth versus the top 10 retail food manufacturers in 52 weeks ending December 28. This growth contrasts with the total food and beverage category, which was down 0.4% for the same period.

We've now experienced six consecutive quarters of growth. Our core business lines are outpacing the categories with volume share growth of 1%, and all core business lines are holding or growing share. In the foodservice channel, our foodservice Focus 6 product lines grew 3.5% and more than twice the total broadline distribution channel growth of 1.6% over the last 13 weeks. The power of our foodservice brands, innovation and capabilities across all channels has set the stage for growth. In the last three months, Jimmy Dean breakfast sausage volume grew 10%, Tyson Red Label grew 17% and the Tyson brand grew 8%.

Now, let's take a look at our business segments. In Prepared Foods, growth and share performance has been outstanding, especially with our big brands. Retail innovation launched at the end of fiscal 2019 is performing well with velocities meeting or exceeding targets on our national launches, Jimmy Dean Biscuit Roll-Ups and Jimmy Dean Morning Combos with both demonstrating velocity performance in the top half of their respective categories, while still early, Biscuit Roll-Ups show potential for driving category growth.

Prepared Foods profit margin in the first quarter was impacted by an $80 million increase in raw material costs driven by beef trim and hams. Some of this increase was offset by pricing. However Prepared Foods may continue to experience volatile input costs. We continue to experience some operational effects from our recent ERP system implementation, which impacted margins by roughly $40 million in the quarter. About half of this was discounted sales with the remainder related to inventory write-downs and donations. Although, the effects have persisted longer than anticipated, we continue to work aggressively to resolve them and we are seeing progress.

In the alternative protein category, the Raised & Rooted brand is only the beginning of our plan to build the world's leading portfolio of plant protein products. In the back half of the year, we're planning multiple new launches across protein forms, brands, meal occasions and channels. Over time, we see these options as another stable protein complementing our core offerings. We're being practical and thoughtful in our approach to enable us to create better product experiences with healthier nutritious ingredients at affordable prices. Looking ahead for the Prepared Foods segment, we expect to maintain our momentum in the market. We will do this by continued investment behind our brands through marketing, promotions and innovation. And we will remain agile with pricing to offset input costs, driven by the volatility of raw materials. For the fiscal year, we believe that Prepared Foods segment's adjusted operating margin will be 10% to 12%.

Our Beef segment produced a record adjusted operating margin of 11.2% in the first quarter. The quality of domestic fed cattle has been excellent. This makes every link of the beef supply chain more valuable, whether it's the producer, the packer, or the retailer and results in a better product for consumers. Our premium programs
continued to grow as a percentage of sales. Our customers and consumers are seeing the value in our quality and it’s translating into increased revenue. Our Fresh Meats premium programs have nearly doubled over the last five years to approximately 1 billion pounds.

I’m pleased to report that our Finney County, Kansas, plant damaged by fire last August is now back to full operations. Beef exports are strong with the potential to be even stronger now that trade agreements have been formalized. I’d like to remind you however that our second quarter is typically our most challenging for Beef. In addition to the challenges caused by winter weather in the Midwest, the drought in Australia has forced a herd liquidation, putting more beef on the global market.

Looking ahead, exports from Australia are expected to decline substantially as the ongoing drought and the tragic fires are likely to delay their herd rebuilding. With Australian beef amounted to 25% of U.S. beef imports, this could be beneficial to our business. Our export sales continue to equal or exceed industry growth rates. For fiscal 2020, we’re expecting our Beef segment’s adjusted operating margin to be at the upper end of 6.5% to 7.5%.

Moving to our Pork segment, strong pork demand and solid operational execution along with ample hog supplies led to a 14% adjusted operating margin in Q1. Export markets were the primary driver for increased demand. We believe that we are at the very early stages of the global demand shifts that we’ve expected from African Swine Fever. We’re filling additional orders to China and we’ve seen year-over-year increases of nearly 600% in the first quarter, and we’re already benefiting from indirect shipments as we backfill in other markets.

We’ve progressed towards the ractopamine-free hog supply. This will open up more markets to us as the need to move product globally increases. In fact, global demand for all proteins is increasing as ASF continues to reduce pork supplies in Asia. For fiscal 2020, we’re expecting our Pork segment’s adjusted operating margin to be 6% to 8%.

Now turning to the Chicken segment, we’re pleased that our execution is better and operations are on track to deliver $200 million year-over-year run-rate improvement. However, pricing, which has been weaker than expected, was the primary driver of our return on sales in Q1 though softer pricing has persisted into the second quarter. All leading indicators point to domestic poultry supply growth and the USDA is projecting a 4% increase in chicken production. I previously indicated global protein suppliers being impacted by ASF, while demand continues to grow at about 2% per year.

In light of ASF, we anticipate global demand will keep pace with U.S. supply growth as Chinese imports of U.S. chicken are expected to double. Domestically, we’ll continue to innovate and drive demand in the frozen value-added space with products like Tyson Air Fried Chicken. This product launched last July with strong customer acceptance and is demonstrating dollar velocity performance in the top half of the category. Early data shows that the Tyson Air Fried Chicken is attracting new consumers and driving growth in this $2.6 billion category. Looking ahead in the Chicken segment, we expect annual adjusted operating margin of 4% to 6% driven primarily by softer pricing and overall chicken supply.

In International and Other, both our legacy and newly acquired businesses are contributing to our improved international performance. We see the potential to expand in these growth markets, which are estimated to drive 98% of global protein demand increases over the next five years with 70% of that growth coming from Asia. We have a business of scale and there are still synergies to unlock. We have high-quality assets and a strong team led by Chris Langholz, who recently joined the company as President of International. Chris has an extensive background at global protein and we welcome him to the Tyson team.
Our legacy international business are performing well, increasing sales and earnings. Our new acquisitions are providing great platforms for growth. We're committed to becoming the global leader in protein by serving emerging markets and strategic customers across channels and across segments. Across our businesses, trade deals are contributing to our optimism. We believe with improved access to global markets from recent trade deals, we are well positioned to capitalize on opportunities, in the global marketplace.

In addition to U.S. trade deals with Japan and South Korea, we're very pleased that the Phase 1 trade agreement with China and the U.S. MCA, have both been signed. An important benefit of the deal with China is the inclusion of more protein eligible for shipment. We're shipping product to China and have more orders on the books. But keep in mind the tariffs that remain in place, puts the U.S. at a pricing disadvantage in the Chinese market. If tariffs are lifted or reduced, we would likely see an acceleration of already increased global demand for U.S. pork, beef and chicken.

We're closely monitoring news of the coronavirus. We're actively assessing what this outbreak may mean for us, for our global business and preparing for the possibility of any impact. In China, we've been working with the government and have successfully restarted some of our operations. The financial impact is unknown at this time.

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

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

Thanks, Noel, and good morning, everyone. Our first quarter results were in line with our expectations with earnings of $1.66 per share, up 5% from Q1 2019. Operating income was $894 million, up 6% over last year. First quarter GAAP operating income was impacted $52 million or $0.11 per share, for a restructuring charge and $16 million net of insurance proceeds or $0.03 per share for costs related to a fire at our beef plant, in Finney County, Kansas. Sales in Q1 were up 6% to just over $10.8 billion with an 8.3% return on sales. Sales volume was up 4.7% and average sales price was up 1.4%. Our operating cash flows were $894 million for the quarter, and liquidity was $1.4 billion at quarter end. Including cash of $497 million, net debt was $11.2 billion. And net debt to adjusted EBITDA was 2.7 times for the 12 months ending, December 28. Net interest expense was $117 million in Q1.

Capital expenditures were $312 million in the quarter. And we continue to target an overall CapEx return of approximately twice our cost of capital. Our capital allocation will continue to prioritize debt reduction, while reinvesting in our business for organic growth, buying back stock and increasing our dividend. In the first quarter, we repurchased 1.5 million shares, for $132 million. Weighted average shares outstanding were approximately 367 million in the quarter. Our effective tax rate was 22.7% in the first quarter. Depreciation and amortization was $288 million. As Noel said, our newly acquired international businesses are contributing to the improvement in our international operations. Their contributions are in line with or better than our expectations, despite the high amortization and purchase price accounting loads placed on them.

Noel has articulated our segment return on sales guidance, which should give you an indication of how we expect our businesses to perform. 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 $450 million. We continue to project approximately $1.3 billion in CapEx for the fiscal year, as we progress with building additional processing capacity for case-ready fresh chicken, beef and pork, and we plan to scale back CapEx when those projects are completed. We expect liquidity to remain above our $1 billion target. Our effective tax rate is expected to be around 23.5%.
I would like to remind you that Q2 is normally a weaker quarter for us and we have seen a slower-than-expected start in January. For Q2 fiscal year 2020, we are expecting lower earnings than Q1 driven by continued weak market conditions in Chicken, higher raw material costs, and some residual ERP impacts in Prepared Foods and normal seasonal cyclicality in Beef and Pork. When combined with the overall availability of protein, a continuation of these factors will likely result in our earnings being lower than the same quarter last year. This is before any potential impacts to our business from coronavirus.

Improvements in the back half are dependent upon achieving expected savings and pricing improvements in Chicken, managing to offset raw material cost increases in Prepared Foods and continued strong demand for Beef and Pork later in the year.

That concludes my remarks, and now we'll go back to Noel for additional commentary. Noel?

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

Thank you, Stewart. Supply demand dynamics have become much more global and our diversified business model and global footprint put us where the growth is occurring and allow us to capitalize on growth opportunities. In addition, we’re encouraged by potential increased export demand and the resulting reduced domestic availability of proteins. In closing, our strong brands, strong team, world-class assets, great customers and a global footprint to meet growing demand for protein leave us well positioned for future success.

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

**QUESTION AND ANSWER SECTION**

**Operator:** Thank you. We’ll now begin the question-and-answer session. [Operator Instructions] Our first question will come from Alexia Howard with Bernstein. Please go ahead.

Alexia Howard
Analyst, Sanford C. Bernstein & Co. LLC

Good morning everyone.

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

Good morning, Alexia.

Alexia Howard
Analyst, Sanford C. Bernstein & Co. LLC

Hi, there. I’m sure others will be focusing on the chicken dynamics, but just to kick things off at a higher level, can you give us an update on where things stand with the trade agreements, particularly with China? What's going on with the tariff situation? And what are you seeing in terms of international shipments? Because I know that there’s things opening up around the world for you. How do you expect that to evolve over time? Thank you.

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

*Operator:* Thank you.
Yeah. Actually, we are very pleased that our government has come to trade agreements. Just since our last conference call with Japan and Korea, Phase 1 agreement with China, with U.S. MCA, so we're very pleased with the progress that our government has made. Shipments continue and interest has been strong. We are currently shipping and we have more orders on the books for China. And our business in the other countries that I mentioned continue to be strong as well, not only those countries, but other countries around the world. So, from a trade perspective, it looks very promising. And as you might have seen overnight, some of the tariffs that have been in place with China were lowered by approximately 5%. So, that's great progress as well.

Alexia Howard
Analyst, Sanford C. Bernstein & Co. LLC

Great. And as a follow-up, we have seen the pork cut-off price start to increase over here as we would expect. We haven't seen much movement in terms of the grocery on-shelf pricing, which ultimately could start to drive the overall meat on below par. Do you anticipate that those retail prices will start to increase on the pork side and then start to bleed out into the other parts of the business as well?

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

All right. Alexia, first of all, I think pork continues to be a great value in the marketplace. And whether it's beef or chicken, chicken is also very attractively priced, and whether there's room to raise prices on pork, I think it really depends on what happens to the cutout over the course of the next 60 days or so. I don't think retailers are going to immediately going to change prices because of some short-term increases in wholesale prices. I think that if they believe that that will continue to be the case then it will. I think it's too soon to call.

Alexia Howard
Analyst, Sanford C. Bernstein & Co. LLC

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

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

Very good. Thank you.

Operator: Our next question will come from Ken Zaslow with the Bank of Montreal. Please go ahead.

Kenneth B. Zaslow
Analyst, BMO Capital Markets (United States)

Hey, good morning to everyone.

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

Good morning, Ken.

Kenneth B. Zaslow
Analyst, BMO Capital Markets (United States)

I just have two questions. One is can you talk about your Chicken operations outlook? The industry is clearly going – is kind of soft, but can you parse out the difference between what happened Tyson internally issues and underlying fundamentals for the chicken industry? And where is that going to go? Again, the quarter is done.
Second quarter is largely kind of in the books as well, but can you talk about where the outlook will go and how you kind of think about that?

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

Sure, Ken. First of all, our Chicken operations if you remember last quarter, I said that we expected a $200 million improvement year-over-year in 2020 versus 2019, purely from a performance standpoint. And I am pleased to say that we are on track with a run-rate of capturing that $200 million. So, our plants continue to perform better than what they were. However, the pricing environment on poultry has been relatively weak, and that's obvious in publicly available data. So, the improvements that we've captured purely from a performance standpoint has been either offset or more than offset by the weakness in wholesale pricing.

**Kenneth B. Zaslow**
Analyst, BMO Capital Markets (United States)

So, you think it's mostly the industry, not your operations, that has created a downside to your guidance?

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

Absolutely. Yes.

**Kenneth B. Zaslow**
Analyst, BMO Capital Markets (United States)

Then my second question is just building on Alexia's question is, when I think about the exports, can you tell me what you think the exports will increase for chicken, beef, and pork in 2020, and more importantly, 2021? Are we looking at double-digit increases across the board? Are we looking at 20%? Like how do you think about this in terms of how the export picture will build over the next – for each of the proteins?

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

Ken, I can't give you an exact number as to what the expectation of the increase is going to be. I think it will certainly increase. And if we think back through 2019, there was a run-up in hog prices in the spring and exports didn't material quite as quickly as what was expected. There were heavy shipments coming out of both South America and Europe to China, and then the Chinese stepped into the U.S. market and we saw the effect of that in the fall. And a lot of the product arrived and cleared in time for the Chinese New Year. There's product that continues to shift. There continues to be interest in pork and the same thing would be true with beef and with poultry.

So, interest has been strong. Demand has been good. And the other thing I mentioned on the call last quarter is that we expect it to backfill into other markets. And that in fact has happened that our shipments to some of the other countries have in fact increased. So, it's not just China. It's to other countries around the world as well.

**Kenneth B. Zaslow**
Analyst, BMO Capital Markets (United States)

Thank you.
Hi. Thank you. I have some questions about the Chicken guidance. You lowered the margin estimate by about 200 basis points. But also in your prepared remarks, Noel, you said that, you're now including the assumption that global demand will match the supply growth, which has also been increased to 4%. I think in your prior guidance you said you were not going to include any ASF impact on the Chicken business or on the business as a whole. Are we now assuming that there's a positive ASF impact in the back half of your year? And then I had a follow-up.

Yes. We do think that there will be a positive impact, Rob, on exports. We are expecting the 4% production increase. We are expecting to continue to see growth in demand from an export standpoint, not only to China, but to other places in the world as well.

Okay. But it's just not enough to drive your overall chicken pricing higher to offset the excess supply here in the U.S.?

Yes. And, Rob, I think we need to keep in mind that when we talk about exports and into the different markets that there's strength in certain products, there's weaknesses in certain products when we talk about chicken. So, the USDA data would indicate that chicken breast pricing in particular has been weak. On the other hand, there has been strength in other products such as boneless, skinless, thighs, tenders and wings. So it's not as simple as just thinking chicken, but it's specific parts that there's strength and weaknesses.

Sure. And here's the follow-up. I've talked to industry participants about what's causing the excess supply. It looks like some of it is transitory related to favorable weather and grow outs. Can you give us a sense as to whether you think this 4% U.S. supply growth sustains for another year, for another two years? I mean, I can make the case that there's a lot of capacity coming online. So, maybe 4% is the new number. But I could also see the argument that maybe we're coming to the end of a multiyear expansion in the industry.

Right. Rob, first of all, there was very favorable weather conditions as we came through fall for growing conditions. I think the weight of the chicken as an industry was up year-over-year. I know that ours was certainly
heavier than what we originally projected and I just have to assume that that's probably the case with others in the industry as well. Historically, the U.S. increase over the course of time has averaged at about a 2% growth rate and that's pretty well kept pace with what the increase in demand has been. So, over the course of 12 months, it's hard for me to say, but I think over the course of time that we think in terms of about 2% that that's kind of where my mindset would be.

Robert Moskow  
**Analyst, Credit Suisse Securities (USA) LLC**

Okay. All right. Thank you.

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

Yep, thank you.

**Operator:** Our next question will come from Heather Jones with Heather Jones Research. Please go ahead.

Heather Jones  
**Analyst, Heather Jones Research, LLC**

Good morning. Thanks for taking the question.

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

Good morning.

Heather Jones  
**Analyst, Heather Jones Research, LLC**

Good morning. So, I want to stick with Chicken and just dive a little deeper. You mentioned that you're on pace to generate the $200 million in operational improvements. And like you said, breast meat pricing has been weak. Now, if we rewind a few years ago, Tyson was always, well pretty consistently short breast meat, but it seems like because the year-on-year deterioration in Tyson's Chicken performance for this quarter was worse than the industry. So am I right in thinking that you guys are long more breast meat than you've been in the last couple of years? And if so, is there any expectation that that should shift in coming quarters?

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

Good question, Heather. When Rob asked the question about production increases and I mentioned that the weights were heavier than expected. That is in fact true with us and breast meat production as well. So, we did use more internally. We did not buy as much on the outside market as what we had originally projected or planned to. Corrections have been made Heather that our buy versus growth strategy remains intact. However, in Q1, it was not exactly as we planned.

Heather Jones  
**Analyst, Heather Jones Research, LLC**

Okay. Thank you for that. And my follow-up is, as far as – how should we think about – I mean pork exports to China have been pretty strong consistently and I would expect those to accelerate. But on the poultry side, just wondering if you could give us a sense of how you expect the cadence of those exports to be. The coronavirus
seems to slow down the logistics some, but do you expect this to build as that February 14 agreement takes place? Or I mean, how should we – how are you guys thinking about the cadence and exports to China, poultry specifically?

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

Heather, every day brings something new. The news overnight was [ph] welcome (32:04). If anything I'd say that we're going to have quite a bit of volatility. As I mentioned, demand continues to be – or interest at least continues to be strong. There is certainly the need and coronavirus has just clouded that a bit frankly Heather. There has been disruptions. There's been disruptions in domestic production. There's been disruption at the ports. So that has skewed shipments receivables. I would expect that we get – once we get past the coronavirus incident whenever that might be, that I do think that there's going to be a very strong demand coming out of that. But trying to estimate what that time period is, is going to be is not possible at this point.

**Heather Jones**
*Analyst, Heather Jones Research, LLC*

Okay. Thank you so much.

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

Thank you.

**Operator:** Our next question will come from Ben Theurer with Barclays. Please go ahead.

**Benjamin M. Theurer**
*Analyst, Barclays Capital Casa de Bolsa SA de CV*

Yes, good morning Noel, Stewart. Thanks for taking my questions. So, I guess we've talked a lot about Chicken, so I want to switch a little bit into Pork and Beef. So, clearly, on Pork to start off, I mean you've had a very strong first quarter, 14% operating income margin; but nonetheless, you kept the guidance unchanged at 6% to 8%. So, I mean simple arithmetic, it looks like you're looking for a relative weakness on a sequential basis for the remainder of the year.

And I was also curious because you've said on an earlier question that you now do take a little bit of ASF benefit into the back half of the Chicken segment. So, you're not taking anything into consideration for Pork? Or is it just trying to be conservative? If you could give a little more clarity on the guidance in Pork?

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

Sure. Ben, our Q1, October, November, December, is typically the strongest margin quarter for us and it's not unusual for us to drop off in Q2. So, we're basically following the typical seasonal patterns that we would see. Normally, we'll see things start to improve in Q2. And then through the summer, it's not bad. And then in Q1, October, November, December, it strengthens pretty substantially. So, we're just projecting the basic seasonal patterns that we've seen in the past.
And that is literally absent any ASF benefit though?

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

In this case, yes.

Benjamin M. Theurer  
Analyst, Barclays Capital Casa de Bolsa SA de CV

Okay. And then on Beef, I mean, clearly you've highlighted it within the release that you still had obviously the operational headwind, but just not being able to get enough volume through because of the closing of the Kansas plant and the fire that affected it. Now, you're back in.

Could you elaborate a little bit? Like if things would have been normal, how would Beef turned out? So, if you – I mean you've adjusted for it to a certain degree, but how was your volume at the other beef plants during the quarter where you printed the minus 8% if we take out the one that was shut down because of the fire just to see the underlying fundamentals on Beef?

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

Yes. Ben, that's impossible to say what volumes would have been with/without the fire. I think the distinction was basically that the strength in our export demand and I think it's more of a demand story than restricted supply story. So, don't know what supply would have been without the fire, but I do know that demand has been extraordinarily strong, both domestically and from an export standpoint in Beef.

Benjamin M. Theurer  
Analyst, Barclays Capital Casa de Bolsa SA de CV

Okay, perfect. I'll leave it here. Thank you very much.

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

Thank you.

Operator: Our next question will come from Adam Samuelson with Goldman Sachs. Please go ahead.

Adam Samuelson  
Analyst, Goldman Sachs & Co. LLC

Yes, thanks. Good morning every one.

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

Good morning.

Adam Samuelson  
Analyst, Goldman Sachs & Co. LLC
So, I was hoping to just dig a little bit more on the Chicken business and really just make sure – just thinking about the different market segments there and the pricing and market pressure that you're facing. I mean, again, I think it's going back to Heather's question on the buy versus grow and breast meat seems to be bearing a disproportionate amount of some of the market pressures of late. I'm just trying to think about how that's translating into your – whether it's the tray pack, the small bird, your further process business. I wouldn't think that, that impact is equal. I mean especially where, I would think like quarters you should have some benefit, from better pricing.

And as we think about 2020, just any comments on contracting for various foodservice, institutional accounts. How those played out?

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

Yeah. Adam first of all, I can't talk about pricing. It's a very sensitive subject. Most of the pricing is concluded, not all of it, but most of it. And I would say that, as we came through our Q1 and as we entered Q2, grocery pricing in particular, is weaker than I would have expected it to be. However, as I mentioned earlier, there has been strength in other products. Like quarter pricing frankly has been a bit erratic, as we came through Q1, January, February. And I don't know at this point what March, April, May is going to hold. A lot of those prices are not yet settled. So that would be purely speculative on my behalf.

However, with breast meat, USDA data would say, it's trading something below $1 right now. So it's at or near historic lows. It presents a tremendous value, both at retail and at foodservice. And typically, when that happens, you see some type of increase in, either featuring or promotions at foodservice establishments. So, I think that over the course of time. And whether that's a month or six months, we're going to see increased promotion on those proteins that have the greatest value. And right now that would include chicken breast.

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

Okay. And then, just shifting gears, a bit of a clarification question, but maybe there's something in here. Just in the quarter in Prepared Foods, your reported volume was down 3.1%. Yeah, you look at whether the scan Nielsen do, that we could track and what you reported in the slides, in terms of the growth, both for retail and the Focus 5 foodservice items, there's growth. And I'm just trying to understand, kind of the disparity between the reported segment growth on the volume side versus what you can see in the measured channel.

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

Yeah. I think when you look at the – this is Stewart. When you look at the reported volumes, those volumes reflect some channel shifts that we had between our segments. They don't account really for any profit on a total basis. So, pretty immaterial, you see them in the quarter because of the kind of product, but the numbers we are giving you in terms of the performance in the market are more of the organic numbers that reflect the momentum of the business.

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

Okay. All right, I appreciate that color. I'll pass it on. Thanks.
Stewart F. Glendinning  
*Executive Vice President & Chief Financial Officer, Tyson Foods, Inc.*

Yeah. Thank you.

**Operator:** Our next question comes from Ben Bienvenu with Stephens Inc. Please go ahead.

Ben Bienvenu  
*Analyst, Stephens Inc.*

Hey, good morning. Thanks for taking the question.

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

Good morning, Ben.

**Ben Bienvenu**  
*Analyst, Stephens Inc.*

I wanted to ask about SAP. Stewart, you had said that -- I appreciate the color on the callout to the impact to Prepared Foods in the quarter. Obviously, you guys are making strides on improving the margins net raw material cost and net of SAP cost challenges. And the guidance for the balance of the year suggests that that should continue margin expansion. So I'm just curious, if you could provide any color on, how you expect the cadence of SAP impact to linger if at all? Should we see the magnitude diminish? And is it impacting any of the other segments beyond Prepared Foods?

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

Well, just to be clear this was a system that was implemented for both Chicken and Prepared. We see the impact only in Prepared at the moment. We don't want to give any specific guidance on the timing for that. You know that we're working aggressively. We are managing the factors that influence the write-offs and the distressed inventory that we see. And we of course expect to see improvement as we move forward.

**Ben Bienvenu**  
*Analyst, Stephens Inc.*

Okay. Great. And then one question for me on the Chicken segment. You talked about Noel making some corrections to being a bit longer on boneless skinless breast, can you help us think about what those adjustments are? How quickly you can make them? And if this is a sensitive question, I understand. But I think on the facility front you guys have been looking at opening the Humboldt facility later this year. Does the current supply environment impact that decision or the timing of that at all to the extent you can comment?

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

You're right, Ben that is a sensitive question. Now I -- the production in our Q1, it was heavier than it was originally projected. And we as always respond to things that we don't expect, so you can fully expect that to take place. And as far as timing of the Humboldt start-up, no, nothing has changed with that. The project is on schedule and on budget.
Stewart F. Glendinning
Executive Vice President & Chief Financial Officer, Tyson Foods, Inc.

And one other thing – sorry Noel, if I can just go back to the previous question. I just want to make sure that I'm very clear. Ben, your question on when we expect to see improvement. we have so far this quarter seen run rates that have been consistent with last quarter. And just for clarity as we're working on this of course we expect this not to be a permanent part of our business. I want to be really clear that that improvement lies in front of us.

Ben Bienvenu
Analyst, Stephens Inc.

Very, very helpful. Thanks and best of luck.

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

Thank you.

Operator: Our next question will come from Michael Piken with Cleveland Research. Please go ahead.

Michael Piken
Analyst, Cleveland Research Co. LLC

Thank you. Just wanted to touch base a little bit on some of the chicken sandwich wars. And basically it seems like there's been a lot of talk about the success of those sandwich wars. I'm just wondering like is the dynamic within the chicken markets healthier maybe for some of the smaller birds and maybe the tray pack or are there – is there a spillover effect from the weakness maybe in some of the bigger bird breast meat markets like – and can these sandwich wars maybe help the chicken market how much?

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

Michael with fast foods different customers use different sized birds, so it's not possible to say that's advantaging one segment versus another. If we go back a couple of years ago, we saw hamburgers being heavily promoted. And obviously this last year that switched to chicken burgers, or chicken sandwiches and it looks like this year that we're going to see the same thing. And that's purely because of the value that chicken is right now. And ground beef prices are higher. That's lean beef, particularly lean imported beef is up substantially due to the [ph] new (44:57) reasons I talked about it in the script with drought conditions and shortage of supply coming on the imported side.

Michael Piken
Analyst, Cleveland Research Co. LLC

Okay. Yeah. And then I guess just as a follow-up here. I think one particularly large operator you guys service pretty heavily is talking about potentially doing pretty big promotion for chicken later this year. Like is it possible or what steps to take place like if there's not enough of like the smaller birds like, can you guys chop up some of the bigger breast meat from the heavier birds to accommodate that product? Or how easy is it to do it? What steps does that entail? Thank you.

Noel W. White
Chief Executive Officer & Director, Tyson Foods, Inc.
Well, okay. Michael first of all I cannot talk about what specific customers may or may not be doing. But I think that there will be sufficient supply regardless on whatever customer that you might be referring to. So I don't see an issue from a supply standpoint, but can't talk specifically about any specific customer.

Michael Piken  
Analyst, Cleveland Research Co. LLC

Okay. Thank you.

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

Yeah, thanks.

Operator: Our next question will come from Ken Goldman with JPMorgan. Please go ahead.

Thomas Palmer  
Analyst, JPMorgan Securities LLC

Good morning. It's Tom Palmer on for Ken. Thanks for the question. I first wanted to clarify the Chicken guidance. Company is guiding to 4% to 6% EBIT margin absent additional impacts from ASF. The prepared remarks and a lot of the answers today seem to focus on when pricing should get better this year from increased ASF-driven exports. So just given the first quarter results, which sounds like it's a slow start to the second quarter, what are the non-ASF drivers that would get the segment to 4% to 6%?

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

Well, first typically as we go into Q3, Q4 – our Q3, Q4, we do see a seasonal improvements that take place. So, as I talked about Pork, same thing is true with Chicken. Once we get into a little warmer weather, people fire up their grills, demand does increase. So we're projecting typical seasonal strength in Chicken as well.

Thomas Palmer  
Analyst, JPMorgan Securities LLC

Okay. I mean the quick math is if you're running at 2.5%, you'd be north of 5.5% in kind of the second half I guess?

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

If that's what the math says, I guess that's what it would say.

Thomas Palmer  
Analyst, JPMorgan Securities LLC

Okay. And then just wanted to ask on the Beef side. I mean it's not a huge cut but you did lower supply expectations. Is this mainly related to end of the year what you're seeing in terms of some of the cattle inventory? And do you think we would actually exit the fiscal year with year-over-year declines in supply or flattish? Just trying to get the picture there? Thanks.
Noel W. White
Chief Executive Officer & Director, Tyson Foods, Inc.

Yeah, Tom, the cattle supply is basically flat year-over-year. Cattle and feeder are actually up some. But month-to-month, quarter-to-quarter it does impact pricing and availability. But through the course of the year it all evens out. So as we look at the balance of 2020, basically flat if not slight increase over 2019. Same thing would be true in 2021 that we look at the [ph] cash crop (48:52) and it would say that we will have equal, if not slightly greater number in 2020 and then basically flat into 2021. And then as we move into 2022, 2023, it really depends on retention rate of [ph] heifers (49:10) and other factors that we closely monitor. So to answer your question, it would be basically flat supplies, perhaps a slight increase in 2020.

Thomas Palmer
Analyst, JPMorgan Securities LLC

Okay. Thanks.

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

Yep, thank you.

Operator: Our next question will come from Peter Galbo with Bank of America. Please go ahead.

Peter T. Galbo
Analyst, Bank of America Merrill Lynch

Hey guys. Thank you for taking the question. Noel, I just want to get your thoughts kind of from a much higher level as it pertains to coronavirus and maybe some of the more medium to longer-term impacts. Have you guys done anything – any work or just around, if wet markets in China are curbed here over the next several months, just what has that meant historically in terms of the Chinese consumer turning to more of a grocery store? And does that benefit the import market more than say it would if consumers were at the wet markets?

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

Yes, Peter I think if anything, it's just going to accelerate the efforts that the Chinese have had to decrease the number of wet markets. I think that we'll continue to see modern grocery continue to grow in China. So it's an acceleration. I think both ASF and coronavirus will contribute to that. Short term, obviously, there's going to be some impacts from coronavirus, but that will pass. So we think on a much longer-term basis, it's how we will service modern retail in China. And over the course of relatively short period of time, we think that that will probably take place particularly with the initiatives that the government has in place.

Peter T. Galbo
Analyst, Bank of America Merrill Lynch

Got it. Okay. That's helpful. And Stewart maybe just a quick clarification on the Prepared Foods side with – and I know this was asked earlier but just with the volumes down and I think you mentioned some of it was kind of inter-segment changes, I mean without any profit impact, but is that something we should kind of continue to expect over the course of the year that that volume might just optically look negative because of the segment change?
No. In fact you’ll only see it in this quarter. Last year really this took place a year ago. And because of the seasonality of this product you see a little bit more impact in the quarter. As I said in total, the volume is not material. And certainly the profit is completely immaterial.

Peter T. Galbo
Analyst, Bank of America Merrill Lynch

So on a go-forward basis we would expect to kind of see that Nielsen and then the data that you guys kind of converge a little bit more with reported results?

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

Yeah, that’s correct. I mean you also need to bear in mind that the various Nielsen numbers and the foodservice numbers, that some of those represent a portion of the volume. And certainly Jon can provide a little bit of a reconciliation during the follow-up call.

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

Peter, I think the takeaway needs to be that – I mentioned that our core lines grew something a little greater than 6%. We captured at least 1% additional share points and the numbers are just clouded by this production that moved from one segment to the other. So overall, our retail business continues to be extraordinarily strong.

Peter T. Galbo
Analyst, Bank of America Merrill Lynch

Got it. Thank you guys.

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

Yeah. Thank you.

Operator: Our next question is a follow-up from Heather Jones with Heather Jones Research. Please go ahead.

Heather Jones
Analyst, Heather Jones Research, LLC

Thanks for taking the follow-up. So Noel, just to clarify a comment you just made a few minutes ago. So the closure of the live markets that we’ve seen in some provinces in China, are you saying that you expect China’s ongoing shift away from live markets, wildlife trade et cetera to more like grocery channels? Are you saying you expect that shift to happen, you mentioned something over the short-term. Are you expecting that shift to happen over the short term you said?

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

No. What I said is that I thought that the shift moving from wet markets to modern retail that the combination of ASF and coronavirus would expedite that transition.
Heather Jones  
**Analyst, Heather Jones Research, LLC**

Okay. Okay. And my other follow-up is just going back to your comments earlier about the outlook for Beef as far as what’s going on in Australia, global demand. So it sounds like you have a bullish view on beef trim cost. So could you speak to what your expectations are for chicken feature at retail? Not asking about any specific customers but just in general, is it your expectation that chicken feature will benefit from beef trim cost this year?

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

The short answer would be yes, Heather. I think that when we look at value between the proteins, chicken is – particularly chicken breast right now is in fact a tremendous value. And pork is frankly as well with the quantity of pork that’s being generated despite the fact that exports are up and ground beef attributable to an increase of imported lean is relatively high priced compared to the alternatives. So I would expect to see more features of chicken as we move into spring and summer.

Heather Jones  
**Analyst, Heather Jones Research, LLC**

Okay. Awesome. Thank you so much.

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

Thank you.

Operator: Our next question is a follow-up from Rob Moskow with Credit Suisse. Please go ahead.

Jacob Nivasch  
**Analyst, Credit Suisse Securities (USA) LLC**

Hi. Thank you. This is Jake Nivasch on for Rob. Thanks for the follow-up. Just a quick one. Is there any reason why you guys didn't confirm the EPS guidance that's set from last call?

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

Well, Jake, we didn't give any EPS guidance on the last call and we're not planning to give EPS guidance for this year.

Jacob Nivasch  
**Analyst, Credit Suisse Securities (USA) LLC**

On the press release though, didn't you guys say high single-digit growth?

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

No. We did not. We talked about what our long-term algorithm looked like, but we did not address specifically anything for 2020.
Jacob Nivasch  
*Analyst, Credit Suisse Securities (USA) LLC*

Got them. Okay. Thank you.

**Operator:** Our next question is from Ben Theurer with Barclays. Please go ahead.

Benjamin M. Theurer  
*Analyst, Barclays Capital Casa de Bolsa SA de CV*

Yeah. Good morning again. I just wanted to follow-up on Prepared Foods. So you made very clear during the call you had obviously some cost associated because of the ERP implementation that's adjusted for, but you've also mentioned the $80 million headwind due to beef trim and ham.

So I was looking up at least so far what the quarter runs compared to last year and it seems still there is a fairly significant headwind in terms of ham cost, which clearly would result – would kind of drive towards relatively weakness because of that cost for Prepared Foods, but then a benefit in Pork. So what is your expectation, I mean, within that broader concept for your internal COGS on beef and ham, and how that should turn out through the year with or without ASF just to understand a little bit the dynamics on the margin recovery on Prepared Foods, where is this coming from?

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

Sure. Ben, yeah, I can address that. And there was a spike in prices of both 90% lean beef, as well as in hams. And we do not intend to take pricing action unless we believe that there is a shift that's taking place in pricing. As you look at ham pricing as we entered the fall, they presented a pretty good value. And then, they moved counter seasonally higher to about $0.90 on a volume basis. And subsequent to that, they've come back down, in fact, fairly sharply, most recently, at least in the last couple of weeks.

That is as opposed to imported lean beef. And if we do believe that there is a longer-term shift in pricing, that's when we would take pricing action. But we typically do not take pricing action on what we believe could be a short-term impact. And it doesn't matter if it's hams or if it's pork bellies, or bacon, or trim, only if we think that that shift is taking place and expect that to continue.

Benjamin M. Theurer  
*Analyst, Barclays Capital Casa de Bolsa SA de CV*

Okay. So, in other words, if it were to persist a little longer or come back, you would start thinking of price increases, which would still take some time to offset, so you modelize like, potentially would not get to your margin on Prepared Foods somewhere between 10% to 12%, but then you should more than offset that with better margins within Beef and Pork, or you're likely going to be above what the current guidance is. Is that fair to assume?

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

I think that's a fair assessment, Ben.
Okay. Thank you very much.

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

Yeah. Thank you.

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

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

Well, thank you for your time today and please join us online for our Annual Meeting of Shareholders, which starts at 11:00 Eastern time. Thank you.

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