

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

TSN - Tyson Foods at BMO Capital Markets Farm to Market Conference

EVENT DATE/TIME: MAY 16, 2012 / 12:00PM GMT



CORPORATE PARTICIPANTS

Donnie Smith *Tyson Foods, Inc. - President and CEO*

CONFERENCE CALL PARTICIPANTS

Ken Zaslow *BMO Capital Markets - Analyst*

PRESENTATION

Ken Zaslow - *BMO Capital Markets - Analyst*

(audio in progress) welcome Tyson. Since becoming CEO, about two-and-a-half years ago, Donnie Smith and his team have transformed Tyson into a top tier multi-protein Company. In fact, over the last four years, Tyson's earnings power has quadrupled and EPS of \$2 is no longer peak, but sustainable given the vast improvement in operations and prudent capital investments. It is particularly remarkable in the face of record high input costs. We look forward to hear in what is next on Donnie's agenda. It gives me great pleasure to introduce CEO of Tyson, Donnie Smith.

Donnie Smith - *Tyson Foods, Inc. - President and CEO*

Thanks, Ken. Good morning, everybody. I want to start off, of course I have to, our lawyers get paid by the word. So I have to start off with the obligatory page on forward-looking statements and basically what that says is the water is deep, there is no lifeguard on duty, so swim at your own risk, okay.

To follow-up on Ken's point, when you look at the slide, I hope what you see is stability. I hope what you don't see is \$0.86 through the first two quarters divided by or times two because that's not our picture, as we said on our last call, we feel great about a strong back half. And it looks like this will be the third year in a row where we see earnings at around \$2 a share.

So what I hope you see in that slide is some stability because we have spent a lot of time on operational efficiencies, change in the mix, investing in our business to improve flow and flexibility and making sure that we have all four segments of our business with all three proteins running well and that has become a hedge for us against a lot of the commodity volatility that we've been facing.

Here is another slide that I think we need to look at as we talk about stability and where we've come from in the last three years. We've done a great job over the last 10 years reducing our debt, the last three have been a very steep decline. We've got our net debt down to about \$1.5 billion now and as you can see that's about 20% net debt to cap. So balance sheet is in good shape. We've done, I think, a great job of getting the business stable. So our next question ought to be, okay, so where do you go from here? How you're going to grow this business? And that's why I'd like to focus the rest of our time.

So, I'm going to walk you through five key points and then give you maybe a picture that will help you solidify your mind. But let's talk about the five things that will be important to Tyson's future as we look at our strategic plan going forward. First, we need to talk about our balance sheet and we do view our balance sheet as a competitive advantage. When we think about our balance sheet, we think about two words, de-risking and optionality.

We need to maintain a lot of liquidity to be able to work through these volatile commodity markets and we do that and we'll continue to do that. But we also have the flexibility to be able to spend CapEx on our current business and we've been on a very good pace about improving our efficiencies, improving the flow through our plants, de-bottlenecking a lot of our plants and being able to provide that stable manufacturing environment we need to grow into the future. With a strong balance sheet, obviously, acquisitions are possibility and those can play, but we are not at a point to where we have to acquire to grow. We can build or buy and we like again, having that option. We want to have lots of options in front of us to return cash to the shareholders.



Second thing, as we accelerate our growth, we will do that primarily through value-added and international. We, obviously, we have commodity businesses and by the way, I think, it's very important to leverage the three things that we have. We have raw materials, we have relationships and we have resources and we will spend our time going forward leveraging those three things to grow our business and grow our earnings.

As we do that, the top two categories that we're going to be focusing on are value-added poultry and value-added prepared foods domestically and also our international growth. I've got a couple of slides later on in the deck that going to illustrate that in a little bit more detail. So let's park here, park the thought here and then I'll get into a little more detail later.

Innovation leadership, very key to what we do. Whether it's innovating a product, process or an analytic capability, leading in innovation is so important to being able to grow the demand for your product. And so we spent a lot of time focusing on creating new products for new channels, new categories, expanding capacities and being able to use our existing capacity to be able to fill these key categories for our customers. Also we work on proprietary ingredients and packaging for extending shelf life and for new packaging formats for our customers to be able to support our growth.

Talent development. As we look forward, the sustainability of what we've done will continue as we continue to deepen and develop the team around Tyson Foods for that growth. So we spent a lot of time on developing our talent, whether it's training the sales force, the manufacturing team, whatever aspect of our team to be better and as we go forward to have the people that we need in place to be able to sustain our growth.

And then the fifth thing is, we've spent a lot of time in the last three years focusing on the fundamentals of our business. And we've done a good job about providing the stability we need to have a strong base or strong platform of functional excellence on which to launch off and to growth. We cannot and we will not lose focus on those fundamentals.

Now you have to realize though what got us here won't necessarily get us there, but if we ever lose focus on what got us here, there is no way to out market a bad cost. And in this environment you cannot pass along your inefficiencies to your customers. And so we have to make sure that we take those inefficiencies out of the business and we maintain fundamentals. Those things are like yield, labor, plant efficiency, all that kind of stuff but also a key focus on team member safety. Industry-leading focus on food safety and quality assurance. Those type of things, those things that are fundamental of our business that is a key cornerstone.

So here is a picture that I'd like you to think about as you look at where Tyson is going in the future. Say at this way, based on a strong foundation of functional excellence and a commitment to the fundamentals by the way driven by book of metrics, our compensation plans all the way down to the supervisor level are structured around certain metrics that they have to perform and so we've tried everything to what we would call a book of metrics that maintains our focus on the fundamentals.

So based on a strong foundation of functional excellence and balance sheet strength, our future is going to be on accelerate, innovate and cultivate. Cultivating our talent, innovating our processes, our analytics, our products et cetera and then accelerating our growth through value-added and International business.

So let's talk a little bit about the value-added opportunities and the opportunities in International. So looking at our poultry and prepared foods business, we still have great opportunity in what we would call unpenetrated channels for us. First of all convenient stores. If you go into any retail store at America, there is about 100% chance that you can walk out with a Tyson product.

If you go into any convenient stores in America, there is less than 5% chance you're going to walk out with a Tyson product and there is about 148,000 convenient stores in America. That's a huge opportunity for us. And we are going to be focusing on that in the future, drug stores, dollar stores, regional chains, small regional chains, not the big chains, that have lots and lots of restaurants, but those that may have 40, 50 restaurants or less. We've not focused on that group of restaurants chains like we should and we are beginning to focus on those as we should.

There is still some opportunity for us in the Deli, whether that Deli is in a convenient store or in a retail store. There is big opportunities for us there, still opportunities for us in schools. We are a big supplier to the USDA and to the government in general, but there is opportunity for us to continue



to grow our school business and we'll be focused on that as well. And then obviously there is -- I talked to our retail folks about more doors and more stores.

We still have opportunity to expand. So thinking about some categories, not just particular outlets in the channel. Breakfast is a big category. And we don't play as heavily in breakfast as we should. So we will be focusing on our breakfast offers, smoked meats. We do a great job in smoke and sausage and smoked bacon, but we don't smoke a lot of other parts, and lot of other promos.

We have the capability to do that. We have the experience to be able to do that well, we have the resources we need to be able to do that. So we will be focusing on that. Appetizers, we lead in meat appetizers at retail. But I think there are some -- I would use the term extensibility to expand beyond just meat appetizers and to expand our breadth in appetizers.

So there is a couple of examples. So by the way, soups, very strong in soups at food service. There is the ability to move that into retail and to continue to grow that by the way on the menu and food service. So those are just some categories that I think that we have the opportunity to expand our growth in. We've got the raw materials, we've got the resources and frankly we've got the customer relationships we need to do that.

So now let's talk about International. Currently four countries, four geographies that are important to us, China, India and then Mexico and Brazil. I want to just briefly talk about those in aggregate and then we will talk about them quickly. I want to be very conscious of my time. I'll talk about them quickly, individually.

So we will concentrate in country production in those four countries that I mentioned. We have great customer relationships in those geographies and we will leverage those customer relationships as we grow that business.

You will see in China, 100% Company controlled housing is going to be important to our offering and we are focused on that there because we want to ensure supply chain integrity and food safety. And then we are very focused on cultivating, again that where our team members in those environments and in those geographies to be able to grow our business.

So let's talk about them individually. China, by 2014, we will have about three million head in China, largely and 100% Company controlled and largely Company-owned housing. We do have first-mover advantage, we think, in total integration from pullet to plate. And we will have a very balanced offering both at food service, particularly QSR, but also a good retail offering so that we can maintain a balance across the entire bird and have a good mix of products in the marketplace. And we'll leverage current relationships that we already have in that market.

We do believe because we will have new housing, our production advantages. Yes, we will have larger capital expenditures in those markets, but the performance that we will get from birds grown in brand-new Company controlled, Company-owned housing should give us a very, very strong competitive advantage.

So now moving quickly to Brazil. Three complexes will be at about 2 million head by 2014. As we have three single shift at plants now, as we mentioned on our last call, we are in the process of double shifting our Campo Mourao plant, that's going very well. We like what we are seeing in terms of our operating efficiencies, we are beginning to double shift the plant at Itaipopolis and San Jose will be last on the list. When we -- as we get there, we will expand a little bit beyond the 2 million head.

Our goal would be to about 60% export out of Brazil, about 40% in the internal market and we are working actually the -- what one would have thought will be labor advantage in Brazil is rapidly changing. And so we are in the process of automating our plants to become more efficient and change in our mix to have a more value-added mix that's more appropriate for the retail market.

Then in Mexico, we've been in Mexico for 10 years to 15 years, established operations, strong value-added play and offering in Mexico about 2.7 million head per week there. We will continue to work on optimizing our product mix, optimizing our live assets. We also have pretty old housing in Mexico and we are upgrading that housing now and as we do we build a competitive advantage in live performance. We will continue to do that.

And finally in India, small, a little less than half a million head by 2014, good business, good QSR growth. We don't want to necessarily outgrow the market in India but we do think India as a place for good long-term growth and we want to be there, we want to expand our geography, add more value-added production there, and I think you will see us doing that in the future.

So let's try to wrap this up and again back to accelerate, innovate and cultivate. Strong balance sheet which gives us lots of options. We like that. A very strong commitment to the fundamentals of the business and we will -- now we have an unwavering commitment not to let go of the benefits that we've gained over the last three years. But as we look off into the future, we've got to focus on growth and we've got to focus on growing sales and earnings and our primary vehicles for growth will be value-added, both chicken and prepared foods, and also growing our international business.

We intend to lead in innovation not only products, but processes, analytics and finally making sure that we cultivate this team for sustained growth so that they understand the culture, they understand the core value, but they also understand what they need to do every day to focus on our customers and continue to grow our business.

So with that, we don't -- we're not covering the Appendix, but we will open it up for questions.

Ken Zaslow - *BMO Capital Markets - Analyst*

I will kick it off with one question. Look, over the last 30 years, I think most investors think of the protein industry as a very cyclical industry. And it seems like what you're trying to say today is, look, we're trying to break that mould. So my question to you is look, what level of confidence do you actually have that there is a secular growth mile at Tyson and is there some way to define how you think about the growth?

Donnie Smith - *Tyson Foods, Inc. - President and CEO*

Yes, there is Ken. And that's exactly what we're trying to do. As we look forward, we have the opportunity to add value to the raw materials that we produce, being in all three proteins, I believe, is a competitive advantage and will be over the next several years. But being able to add value to all three of those proteins, we'll provide a stable growth curve not only of sales but also of earnings as we move forward.

So what we wanted to do is to build the strong foundation to launch [all form], but rather than the subject to the volatility of any one segment that would, let's call it, take us out of the game for a year. We won't be able to leverage all of the segments and be able to have a much more stable growth curve as we move forward. Mic coming right behind you, okay.

QUESTIONS AND ANSWERS

Unidentified Audience Member

Can you just give little details to how you manage the profit on beef while National and JBS reported a loss and does that mean do you think they were closer to plant closure or could we see one of your competitor's perhaps start to act a little desperately?

Donnie Smith - *Tyson Foods, Inc. - President and CEO*

Let me just talk about us. We focus constantly everyday on the fundamentals of our business, labor efficiency, line efficiency, yield and those types of things. And our team and as we've talked about a little bit earlier, we are paid on how well we do against those metrics. We stay focused on those things because they're important to our offering to our customer, and so if you lead with quality, if you lead with service, if you lead with innovation and you're relentlessly focused on the fundamentals, it gives us a, I won't say routine, but a consistent return against the normal indexes just looking at cattle cost and USDA carryout prices.

Looking forward, in any one year, the cattle supply that we'll process is the cash crop from two years earlier. So we know coming into this year cash crop was going to be down about 2% or so. The production was down. I'm going to round it off at 5% or so for the first half of the year. So in essence, we pushed cattle forward into the back half of the year and we are seeing that now.

As we look forward, I think the key to being successful is to be close to high volume, high density feedlots. And if you look at our plants, Texas, Nebraska, Kansas, Iowa and Illinois and our plant out in Washington, all of those plants are located very close to high volume, high density feedlots. If you're moving cattle today, just rough rule of thumb, and is about \$0.10 per head per month, just roughly. And so, if you've got to pull a cattle 500 miles to your plant, you're going to be at a \$50 disadvantage to the person that's next door to feedlot per se. And fortunately for us, our plants are located next door to the feedlot.

So, we feel good about supply going forward, as we look out into 2013, it looks like the cash crop is going to be down about another 1% to 2%. So, there will be ebbs and flows during the year, during each quarter. But we look at a sustainable cattle supply, especially in light of where our plants are located. I hope that answers your question.

Unidentified Audience Member

Yes. I just wanted to follow-up on the global export markets in general. One you mentioned how Brazil was kind of losing some of its competitive advantage on a labor basis. How that may be changing, in particular, Brazil exports to certain principal markets or is it a global trade, sourcing place and how does that stacking up now versus the US?

Donnie Smith - Tyson Foods, Inc. - President and CEO

Okay, great point. And by the way a great catch. I don't want you to necessarily think that in Brazil you still don't have an advantage because of the grain cost. You are still advantaged somewhat in Brazil in terms of your cost structure, not near as dramatic as it was five years or 10 years ago, but there still is an advantage. It's just we're seeing the labor market tightened up. And so our answer for that is to mechanize the plants in Brazil like we do in the US and become more efficient that way.

As we look forward, I do think -- Brazil has very little encumbrances into export markets. I think if you look back at the last quarter, the Japanese boneless leg meat market was oversupplied and got very soft. That [factor led quarters] frankly up into the Middle East and Africa and suppress prices there and that was an impact. We are working through that oversupply now so the markets are rebounding. But I think, long-term Brazil is going to be a good place to export poultry into various geographies around the world. And I don't know the current percent off the top of my head, but a fairly large percent of their total production is exported, where in America, I think about 20% of our production probably is exported, it'd be much larger in Brazil. So does that help?

Unidentified Audience Member

I guess the question I have is a little bit follow-up to the gentlemen's question about our performance on beef. I think if you look at the same outperformance, if you will, would have been true in pork as well. And what I'm trying to understand is, is it if we take the two, as you describe two primary drivers of that outperformance, efficiencies and then value-added innovation, whatever you want to call it.

I mean can you focus on, I would argue I think that efficiencies are going to be much harder to squeeze out of things going forward. So what I'm trying to understand is if we look backwards, what percentage of the outperformance was more in your mind attributable to efficiency as opposed to just getting more for your product than your competitors would through value-added?

Donnie Smith - *Tyson Foods, Inc. - President and CEO*

Good question. I'm running back through some quick math in my head. I would tell you it's equally weighted. That's going to be rough, in about three seconds worth of think time, and that's generally not enough for Donnie. But we do maintain in our facilities great efficiencies. Now, I do believe and we do believe that we will continue to become more efficient in the future.

We constantly work on, and by the way, incent our folks to find advantages through the process. But we do have a good value-added marketing program whether it's Case Ready or whether it's a premium offering, whether it's a -- some value-add that we do in the plant. There is just lots of ways to get there and I don't want to be, I think, tied to or chained to one specific thing that makes us better because that one specific thing may change over time. So, we want to maintain a balanced approach on both the production side and the marketing side to be able to sustain that event. So, it's really balanced. I rambled a little bit there. But I probably should have just answered it balanced and shorter.

Unidentified Audience Member

If I take a look at the chicken pricing environment, the forward curve on corn [in balance] versus soybean meal. Cost saving opportunities and a lot of that stuff that you went through the presentation. For 2013, the 5% to 7% chicken margin, kind of normalized margin seems to be more handcuffing you to this limitation of that you could only perform between 5% and 7%.

Is that the way to think about, is that the 5% to 7% is the right way to think about even for 2013 or is there ability for you to just say look, that 5% to 7% is not really the number, which again, you go through all the numbers, the cost savings, the food service, opportunities, it seems 5% to 7% is more of a handcuff?

Donnie Smith - *Tyson Foods, Inc. - President and CEO*

That's a great question. We had no problem outrunning the range in pork. We will have absolutely no qualm whatsoever about our running range in chicken either. We've really spent the last three years talking about normalized margins to be able to set the stage for helping investors understand what we can do to stabilize this business.

As we move forward, certainly, our goal is to expand our ranges by selling more value add, getting these international operations up and going and growing. And so, yes, can -- I don't want us to think handcuffed into a 5% to 7% range. But we just got there in chicken and we're pretty conservative in the way we talk and maybe too much so, so that's probably enough said.

Unidentified Audience Member

All right. Broiler [related]. Broiler starter for the year has been down 4% to 5%, but production has only been down 3% because of obviously, heavier carcass weights. My question is over the last five years we've clearly had a shift to more big bird deboning. Do you think this year the recent weights being up one or two year-over-year is a further shift to big bird deboning or is that plant efficiencies. It just make sense to put more pounds on fewer birds?

Donnie Smith - *Tyson Foods, Inc. - President and CEO*

I don't see, let me first of all talk in terms of head and then in terms of pounds. I don't necessarily see in the future more percentage of head being big bird versus other sizes. But I don't see our industry not continuing to add weight to the chicken either. So, in terms of pounds probably more coming from big birds, but not necessarily head, that'd be my opinion. I hope that answered you.



Unidentified Audience Member

A question about capital budgeting. So, you've taken about \$1 billion of cost out of the system in the last couple of years, which is fantastic. But your spending -- you're still spending in excess of your depreciation and amortization. Could you break it down a little bit?

Donnie Smith - *Tyson Foods, Inc. - President and CEO*

Sure.

Unidentified Audience Member

How many -- how much of that budget is still going forward 20% type cost reduction opportunities. How much is growth CapEx and how much is --?

Donnie Smith - *Tyson Foods, Inc. - President and CEO*

Great, great question. Let's roughly talk a third, a third and third. And our CapEx will be around \$850 million or so for the year, okay. So, maybe about a third of that is going to be normal routine maintenance CapEx, okay. There'll be another third of that roughly that will be on very good return, 20% plus return businesses, whether it's cost savings or an income producing new type thing. And then another third of that is focused this year on growth initiatives, primarily in our international operations.

And so the return on that 30% we feel very confident and it may come in year two or three. But if you look back in 2009 we had to hold the rein back in CapEx, and in 2010 we kind of started investing back in our business. And now, in 2012, I think, you're seeing the benefit of what we spent in 2010 and 2011. I fully intent for us to continue to see that kind of benefit because we're very judicious in where we spend that money. But I think that would be -- and going forward, I think that would be a decent way to look at our CapEx number.

Unidentified Audience Member

What we're going to hear throughout the day from the retailers and I was just wondering if you could speak for themselves on what they see in terms of their final demand. I was just wondering if you could speak a little bit to the food service. What you guys are seeing on food service side? I think it's been a -- since the economic slowdown, I think it's been a problem. Just can you make any comments on what you are seeing there?

Donnie Smith - *Tyson Foods, Inc. - President and CEO*

Sure. I think the worst is over. You're starting to see sales growth primarily driven by inflation. So pounds maybe not up so much but certainly they are up. Now we did see positive traffic in the Dec, Jan, Feb quarter, which is a great sign. Traffic was up about 1.7% largely driven by the QSRs. So as you think about food service in broad categories, maybe think about it this way. The large chains are growing, particularly sales, but they are also growing traffic. That's probably still come in at the expense of the independents who are still struggling.

Food service at a category I think you'll see some growth this year primarily in sales, volume will be about flat across all proteins. By the way, I think volume at retail is going to be flat across all proteins, maybe down [here], but about flat. But of course inflation is driving that. And then at food service, I think what you'll see is very strong features of chicken. This -- some are particularly and probably bleeding off into the fall because grains are -- beef shin and grains are so high. And I said yesterday on CNBC, some are the chicken. I think you're going to see a lot of features of chicken both at retail and food service. So that's how I would characterize it.

Ken Zaslow - *BMO Capital Markets - Analyst*

With that we will wrap it up. Thank you so much.

Donnie Smith - *Tyson Foods, Inc. - President and CEO*

Thanks.

Ken Zaslow - *BMO Capital Markets - Analyst*

For those of you who want more chicken, we do have a private panel about 1 o' clock. So 1.30 at sharp. So, either way we could get more insight into the chicken side.

Donnie Smith - *Tyson Foods, Inc. - President and CEO*

Thank you.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2012, Thomson Reuters. All Rights Reserved.

