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TSN - Q3 2015 Tyson Foods Earnings Conference Call

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OVERVIEW:

TSN reported 3Q15 revenues of $10.1b, adjusted operating income of $568m, and adjusted EPS of $0.80. YTD adjusted EPS was $2.32. Expects FY15 revenues to be approx. $41b and adjusted EPS to be $3.10-3.20.

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PRESENTATION

Operator

Welcome to the Tyson Foods' quarterly-investor earnings call.

(Operator Instructions)

This call is being recorded. If you object you may disconnect now. I will now turn the call over to Jon Kathol, Vice President of Investor Relations. Sir, you may begin.

Jon Kathol - *Tyson Foods, Inc. - VP of IR*

Good morning and thank you for joining us for Tyson Foods' conference call for the third quarter of the 2015 fiscal year. On today's call are Donnie Smith, President and Chief Executive Officer, and Dennis Leatherby, Executive Vice President and Chief Financial Officer.

Our remarks today include forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. 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 news release issued earlier this morning and our filings with the Securities and Exchange Commission for a discussion of the risks that can affect our business.

This morning we will be referring to our third-quarter adjusted operating income and EPS. The Company uses non-GAAP results such as adjusted EPS, adjusted operating margin, and adjusted operating income to provide investors with a better understanding of the Company's operating performance by excluding the impact of certain non-recurring items affecting comparability. Please refer to today's news release for a full reconciliation of our GAAP to adjusted results.

As always, we'll have a Q&A session following our prepared remarks. To insure we get to as many of you as possible please limit yourself to one question and one follow-up and then get back in the queue for any additional questions. I'll now turn the call over to Donnie Smith.

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

Good morning, everyone. Thanks for joining us today. By now you've seen the results in our press release so I'll start by saying that there were four areas where we over-delivered and one that was a negative.

The four positives are that synergies are ahead of expectations, Prepared Foods exceeded forecast, the chicken segment exceeded forecast, and cash flow was $864 million, allowing us to reduce net debt by $688 million. The one negative was that beef under-delivered our expectations by $84 million. We could not offset the quick and substantial impact of beef in the quarter despite the significant progress across the rest of the portfolio. And I'll talk more about that in my commentary on the operating segments.

Synergy capture from the integration of Hillshire Brands is going extremely well. We had raised our estimates last quarter to more than $250 million this FY, and now we're on track for about $300 million, largely driven by operational improvements in the Tyson legacy Prepared Foods operation. The majority of the synergies, $79 million for the quarter, fell within the Prepared Foods segment where we continue to re-rate the cost structure of the business.

In the third quarter, Prepared Foods produced record adjusted operating income of $197 million with an adjusted 10.9% return on sales. Volume was up 77% reflecting the addition of Hillshire Brands, and average sales price was up 13%.

The fundamentals in this segment remain strong and we continue to focus on a long-term growth and brand building. We anticipate our retail margins will moderate a bit in the forth quarter as we spend against the national launches of Hillshire Snacking and Ball Park Jerky, as well as increased MAP spending behind innovation in the base business.

We'll also see an impact from price reductions in some product lines when we respond to commodity declines, particularly in pork-raw materials. Our strategy is to protect margins over the long term while maintaining competitive price premiums versus the competition in the market. Our actions will set us up for a strong 2016 when we should reach the low end of our new range of 10% to 12% a full year earlier than originally planned.

Moving on to the Chicken segment, operating income was $313 million with an 11.4% return on sales. Operating income for the last 12 months exceeded $1.2 billion. Volume was up 3% while average sales price was down 5% versus Q3 of 2014.

The Chicken segment should finish strong with an operating margin of around 12% for the year. And despite disruptions caused by export bans and predicted supply increases, we expect our Chicken segment to perform at or above the top end of its normalized range of 7% to 9% again next year.

We're pulling innovation projects forward and adding new ideas to the pipeline that include dark-meat utilization. Most of these products will fall into our Prepared Foods segment for branded items like Aidells Sausage, Ball Park Flame Grilled Chicken Patties, and a host of food-service applications. So, we're excited about the opportunities there, not just for the short term but for the longer term, as well.

Turning to the Pork segment, operating income was $64 million with a return-on-sales of 5.3%. Volume was down 5% due to the sale of our Heinhold business in Q1, and average sales price was down 28%. Excluding the divestiture volumes were up 3% versus Q3 of 2014.

Exports continue to be a challenge. A strong dollar, lower prices from the EU and Canada, and the West Coast port slowdown have been contributing factors. Despite all this we still came close to being in a normalized range for the quarter.

Expansion of the hog herd has been taking place, as expected, and it should continue into 2016. With productivity improvement we expect 3% to 4% more hogs and more pork on the domestic market, which should be a positive for our Prepared Foods segment. Demand for pork is strong,

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especially when consumers compare it to the price of beef, so we expect our Pork segment to continue to do well and be in its normalized range for FY15 and FY16.

Our Beef segment continued to struggle this quarter, resulting in an operating loss of $7 million. Sales volume was down 4% while average sales price was up 7% versus Q3 of last year.

There were two issues in the Beef segment that caused the loss. First was the West Coast port situation. There was a significant amount of meat in the pipeline and we sold it at lower values in alternative markets rather than building inventory and tying up our working capital. This cost us about $84 million in the third quarter.

The second issue began in late May, early June when feed-lot margin erosion accelerated. Feed lots slowed the pace of their cattle marketings from the normal 150 days to about 180 days. As a result, we haven't seen the anticipated summer push of cattle.

However, the most recent cattle-owned feed report indicates that there are more cattle-owned feed than a year ago. Because we run for margin and not for market share, we're not willing to over pay for cattle, and we've had to cut back on our hours at our plants resulting in inefficiencies and added costs. In the short term, we are negatively impacted but markets will equilibrate, and conditions are expected to improve for the long term.

Pasture conditions have recovered dramatically and are supporting the rebuilding of the cattle herd. The USDA Cattle Inventory report released July 24 indicated that beef heifer retention is at 106.5% of a year ago, the largest percent since 1986. Only 32.5% of the cattle on feed were heifers, a record low.

The beef cow herd should have the largest percentage increase since 1980 at 3% or 750,000 head year over year. When those cattle come to market we'll be ready with the plant's position close to high density feeding areas, the most efficient operations in the industry and the most knowledgeable, experienced team in the business to run them. So, while the current headwinds in our Beef segment don't have a quick fix and challenges will continue into 2016, we still believe in the long-term viability of our Beef business.

For the final segment report, International was positive in Q3 with $1 million in operating income. Average sales price was down 10.5%. Volume was down 25% due to the sale of our Brazilian operation and weak demand in China, partially offset by stronger demand in Mexico. We're still in a holding pattern in China. And the sale of our Mexico business closed on June 29 following the end of the third quarter.

Now let's move from the segments to consumer demand. At food-service, dollar sales were up 3% for all commercial restaurants for both the latest year and the latest quarter. The largest growth was in QSR Mexican with QSR Chicken showing the second highest growth rate. We expect consumption to continue growing at food-service.

In the retail channel, fresh chicken and pork remain highly advantaged categories. For the most recent year-over-year comparison fresh chicken volume was up 2% behind 4% higher pricing. And fresh pork volume was up 1% with pricing up nearly 6%.

But it's important to note that in the near term, the pork situation has changed dramatically. In the last 13 weeks, pork volume was up 18% with pricing down 12%. The lower fresh-pork pricing could translate into slower growth in fresh chicken as the gap in price per pound has narrowed nearly 50%, with chicken having a $0.55 a pound advantage to the consumer today versus $1 a year ago. Both ground- and whole-muscle beef volume were down behind higher pricing.

Tyson Foods has retail experience expertise in fresh meats as well as numerous prepared foods and frozen value-added categories. Retailers have recognized our capabilities by trusting us with an additional 30 category captives versus a year ago for a total of 95. And they continue to rely on us to provide the insight and leadership to grow their categories.

Eight of our nine core business lines are showing positive-dollar sales growth in the latest 52 weeks. Five of the nine have realized dollar-share growth over that same period.

Jimmy Dean frozen breakfast is a notable performer and grew at more than two times the category growth rate, up 15% in the most recent 13-week period. Additionally, our retail value-added poultry business continues to improve. And at a 55 share is back to category growth levels that set up well for long-term growth. I feel good about the strength of our brands moving into Q4 and 2016 and expect to continued share growth across the majority of our brands, supported by our brand spend and close management of the fundamentals.

I'm also excited about our innovation and product pipeline. We judge our success on a vitality index of the percentage of sales from products launched in the last three years, and we're in best-in-class range in both retail and food-service. We've got a great line up of innovation coming in the next several months and in the next few years, and I expect us to stay best in class.

One of the largest platform launches in Q4 is the national expansion of Hillshire Snacking. This platform is highly incremental to the portfolio, leverages one of our strongest brand equities, and will drive category growth by bringing new consumers into the Snacking section. Consumer response has been very strong and we'll accelerate our support for this launch through Q4 as we drive consumer trial with targeted advertising.

Our second major platform launch in Q4 will take the Ball Park brand, America's number one hot dog brand, into the jerky category with a point of difference. Our flame-grilled process delivers a uniquely tender jerky that both consumers and customers are enthusiastic about. We have many more new products, new platforms and innovations in the pipeline and I look forward to sharing those with you in the coming quarters.

As I wrap up my comments, I'll say that in the near term we continue managing the acute issues of beef supply and exports while accelerating momentum in Chicken and Prepared Foods. I think it's important to expand the lens and bring into view some things that are going our way in the year ahead. We have leading brands in growing categories and we're supporting our brands to maintain our leadership position.

Prepared Foods should benefit from favorable raw-material prices. We have the number-one brands of fresh and frozen value-added chicken. And we now have additional trade pack and fully cooked capacity to help grow these businesses and build on recent market-share trends.

Synergy capture is going very well. We're on track for about $300 million this year and expect more than $400 million in 2016 and more than $600 million in FY17. We generated strong cash flow that we've used to pay down debt and we expect to reach our leverage ratios ahead of schedule. We think our stock is a great value so we plan to start buying back shares in the fourth quarter, again ahead of schedule.

Although we never expect a perfect operating environment, most things are going very well and we're positioned for long-term growth. We're excited about what's ahead and we're confident in our ability to achieve at least 10% EPS growth next year and average at least 10% over time. Dennis?

Dennis Leatherby - *Tyson Foods, Inc. - EVP and CFO*

Thanks, Donnie, and good morning, everyone. With record third-quarter earnings of $0.80 per share on an adjusted basis this was our ninth consecutive quarter of year-over-year EPS growth. Adjusted operating income of $568 million was a 40% improvement over Q3 last year.

Our results were in line with our projections but how we got there was different than we expected. Revenues grew 4% to $10.1 billion compared to the same quarter a year ago with adjusted return on sales of 5.6%. Year-to-date adjusted EPS is $2.32 or a 12% increase compared to the prior year of $2.07.

Operating cash flow through three quarters was approximately $1.7 billion. And we spent $636 million on capital expenditures, which was $189 million greater than depreciation as we continued to invest in projects with a focus on delivering high ROIC.

Our effective tax rate in the third quarter was 33.6%. Subsequent to quarter end, we completed the sale of our Mexico operation and received $400 million in proceeds subject to a working capital true-up in Q4. We used the proceeds to retire the 2015 notes last week.

Net debt to EBITDA for the past 12 months was 2.6 times. Net debt to EBITDA was 2.2 times on a pro-forma basis when including Hillshire's results for the past 12 months and adjusting net debt for the $400 million in proceeds related to the sale of our Mexico operation. Net-interest expense was $70 million during the third quarter.

Including cash of $471 million, net debt was $6.8 billion, down $688 million from Q2. Total liquidity was $1.7 billion remaining above our goal of $1.2 billion. For the quarter, our average-diluted shares outstanding were 414 million.

Now here are some thoughts on the full year of FY15 and some early thoughts on FY16. Please note that although our accounting cycle results in a 53-week year in FY15, our outlook is based on a 52-week year.

We expect revenues of approximately $41 billion for FY15 which is over 9% growth compared to FY14. This is driven primarily by a full year of Hillshire Brands results offset by reductions in our international operations. We believe 2016 revenues should be similar to FY15 as we grow our current businesses to offset the impact of FY15 divestitures.

We expect to capture approximately $300 million from our Prepared Foods profit improvement initiatives and Hillshire Brands synergies in FY15 and more than $400 million in FY16. Net-interest expense should approximate $280 million for FY15 and $260 million in FY16.

We currently estimate our adjusted effective tax rate to be around 34.5% for FY15 and to be around 36% for FY16. CapEx is expected to be $900 million for FY15 and between $900 million to $950 million in FY16 as we continue to focus on projects that will create long-term shareholder value.

We expect net debt-to-adjusted EBITDA of approximately 2 times by the end of FY15. Prior to adjusting for any future share repurchases, as well as changes in our stock price, which will impact the dilution from our tangible equity units, we expect our FY15 and FY16 diluted shares to approximate 413 million based on our share price at the end of Q3.

As we have demonstrated over the past several years our capital-allocation decisions are governed by our disciplined focus on driving long-term shareholder value. Our priorities for deploying the significant cash flows that our operations generate are for growing our businesses through organic growth and operation-efficiency capital projects with attractive returns, acquiring businesses that support our strategic growth objectives, and returning cash to shareholders through share repurchases and dividends, all while maintaining plenty of liquidity and investment grade ratings.

Following the Hillshire acquisition we shifted our priority for deploying discretionary cash toward debt reduction. Strong cash flows have allowed us to make great progress toward fulfilling our deleveraging commitment. And including the notes we paid off list week we have paid down more than $1.6 billion in debt since the acquisition.

Now that the balance sheet has been appropriately strengthened, we're in a position to begin buying back our stock in Q4, which is a full quarter earlier than we had originally anticipated. As Donnie mentioned, we see compelling value in our shares. Buying back our stock now is a great way to return cash to shareholders while enhancing long-term shareholder returns.

Our Chicken and Prepared Foods segments have driven great results so far in FY15. However, as a result of the unanticipated export disruptions experienced in our Beef segment in Q3 and its continued margin pressure, we have modified our guidance to $3.10 to $3.20 adjusted EPS for FY15. While not what we previously anticipated, it still represents growth of 5% to 9% over FY14 despite the headwinds we faced.

FY16 is poised for continued growth in operating income and EPS, and we expect chicken margins should be at or above the top end of its normalized range of 7% to 9%. Prepared Foods should reach the low end of our new range of 10% to 12%, which is a full year earlier than originally planned.

Pork margins should be in its normalized range of 6% to 8%. Beef margins should be profitable but below its normalized range of 2.5% to 4.5%. And we expect adjusted-EPS growth of 10%-plus compared to FY15.

In closing, we are very focused on finishing the year strong. Our team has been remarkable in coming together and successfully integrating the largest acquisition in our history to deliver another record year for Tyson 2.0. Overall, I am personally proud of the results our Team has accomplished to propel us into 2016 and beyond.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question is coming from the line of Ken Goldman of JPMorgan.

Ken Goldman - *JPMorgan - Analyst*

Hi. I have one quick one and then a longer follow-up, if I can. The first one, are you still looking for, just to confirm, 10%-plus earnings growth next year? I was a little confused by the phrasing in the printed document.

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

Yes, Ken, we are. Here is the way I'm looking at it. Even if we're a tick or two off this year, when you look at our 2016, nothing is really fundamentally changed. While it's early, I really expect that anything we've given up this year would come back to us again next year as we deal with this acute issue in Beef. So, that's the way we're thinking about it.

Ken Goldman - *JPMorgan - Analyst*

And then thinking of Beef, if the main issues were marketing delays by feedlots, which we can see in the data, and non-recurring port issues, if we can't, doesn't that suggest the problems are more temporary in nature? Not that Beef doesn't have longer-term issues, but you're getting cattle back next year, the port issues will be cleaned up. So I'm just curious, is that the right way to look at it? Is it really a temporary issue and by this point next year you should be back to slightly below normal?

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

Yes, that's certainly the way we're looking at it. If you look at the most recent cattle-on-feed data we're going to have more cattle next year. The calf crop is up. It looks like it's going to be up about 1.2% this year, which portends a fed slaughter of about 1.2% to 1.5% next year. So, more cattle are going to show up.

The way we're looking at it is, once we get past and get through the -- now what's lingering are the supply issues now that we've dealt with these export issues. While it's still a little bit too early to tell, it feels like, if we go back and look at FY12 through FY14, our margins in Beef were about 1.5%, 2%, something like that. And it feels like, to me, that 2016 is setting up to be about like that range. So, again, too early to say for sure but it feels like to us today that these issues are temporary and that next year will be about like what we saw in 2012 to 2014, something like that.

Ken Goldman - *JPMorgan - Analyst*

I'm just confused about one thing. That's very helpful. But we knew that the feedlot issue -- we thought that marketing delays would be happening. You can see that build up. You still had price mix in Beef up 7% in the quarter. So, when these issues, especially the port one, cropped up, was that at the very end of the period, or was that more evenly spaced throughout the three months?

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

Let me give you more detail on exactly what happened. Late in May several of our export customers began telling us that they could not take delivery on their orders. If you'll remember, about that time the cut-out was at about 260ish or so, and it felt really toppy to us. So, feeling weakness in the cut-out we made the decision, frankly, to just resell that product and not take a chance.

So, we sold it into other markets. And when we look at the price differential between what we had expected to receive and what we ultimately resold it for, it cost us about $84 million. Now, I hasten on to say, I'm really glad we did it because, looking back, pricing continued to deteriorate all through the month of June, and has continued to deteriorate. You saw a little bump at 4th of July but we didn't have very good sell-through at the 4th of July holiday. So, the cut-out has continued to erode.

I'm glad we don't have an inventory problem to deal with. Our inventory is in great shape. And as soon as these markets can respond, we'll be ready to do that.

Maybe even a finer point -- you've got some items -- I'll give you like a beef short rib, or a rib short rib, or something like that -- they command quite a premium in some of the export markets. These items today, though, we're having to roll those into our grinds. You can't really see it in the cut-out, but that's a significant value decline on items like that. So, that's what we're dealing with now. Again, we think this issue is acute and hopefully we'll get on through it throughout this quarter.

Ken Goldman - *JPMorgan - Analyst*

Thanks, Donnie.

Operator

Thank you. Our next question is coming from the line of Adam Samuelson of Goldman Sachs.

Adam Samuelson - *Goldman Sachs - Analyst*

Thanks, good morning, everyone. Donnie, maybe just continuing on last point, or last line of questioning on Beef, it sounds like the forward view for next year and beyond has not really changed. Is that actually --?

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

That is correct.

Adam Samuelson - *Goldman Sachs - Analyst*

Okay. I wanted to just clear that up. In Prepared Foods, the margin performance in the quarter was very strong, well above both our expectations and, I believe, the Company's. Can you help us think about the outlook where you're guiding? It seems like pretty healthy sequential margin decline in the fiscal fourth quarter and next year, only at the low end of the range of the 10% to 12% range despite about $100 million incremental year-over-year synergies. It looks like some healthy year-over-year cost tail winds. Just help us think through what the spending environment in Prepared Foods that's only getting to the low end of that margin range.

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

Okay, let's start with Q4. We're launching two new platforms, the Hillshire Snacking and the Ball Park Jerky and we're fully supporting those launches. We're also going to have somewhere between $25 million and $30 million worth of AI impact lingering into Q4, so we'll deal with that.

We are increasing MAP spending for back-to-school in two or three of our categories there. And then we're going to be lowering the price in a couple of categories to make sure that we manage our price gaps versus our competition to make sure that we stabilize or sustain our growth rates going into 2016. Dennis?

Dennis Leatherby - *Tyson Foods, Inc. - EVP and CFO*

Adam, I just have one fine point about Donnie's comment about AI. That's related to the turkey part of our Business.

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

Yes, that's correct. No leg quarter in chicken impact there at all, just in Prepared Foods. So, that's our Q4.

As we go into the fall, we expect to see very good growth in our categories. The categories are very solid. We want to regain some share in a couple, three of our major categories. And feel very good about -- if you look at this year's average we'll probably average around 8% on sales in Prepared Foods for the year, and then seeing a couple hundred basis points maybe plus increase next year while growing that business. That feels really good to us.

Adam Samuelson - *Goldman Sachs - Analyst*

Okay. And then maybe just a quick one for Dennis, if I could. Dennis, can you walk us through how to think about the pace of share repurchases and planning, just go into the market, no ASRs or anything like that?

Dennis Leatherby - *Tyson Foods, Inc. - EVP and CFO*

Sure. The way we're thinking about it is we expect to break through our leverage target of 2 times. We see that as a sweet spot for us, to be in the 1.5 to 2 times net debt to EBITDA.

With that being said, that allows us to start buying back stock. So, we're going to start this quarter as opposed to next. And we're going to watch that ratio. That's really going to govern how much we do each quarter as we go forward, but should be a fairly significant amount.

Adam Samuelson - *Goldman Sachs - Analyst*

All right, thank you very much.

Operator

Thank you. Our next question is coming from the line of Farha Aslam of Stephens Inc.

Farha Aslam - *Stephens Inc. - Analyst*

Hi, good morning.

Could we just switch to Chicken for a moment? You had a very strong quarter. You've guided up for this year. And going into next year, there's a fair degree of confidence in your guidance despite the weak pricing in dark meat. But your guidance previously was at least 9.5%. Is your guidance today a change or pretty consistent with what you were saying before?

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

No, we've tried to stay really consistent at being at or above the top end of the range.

Farha Aslam - *Stephens Inc. - Analyst*

Okay, so your guidance hasn't really changed.

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

That's correct.

Farha Aslam - *Stephens Inc. - Analyst*

So, we could expect next year to be another strong year in Chicken.

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

We think so. Farha, if you think back over the last two or three years in our Chicken business, we like the way that we balanced our portfolio across the various bird sizes. We spent a lot of time adjusting our pricing strategies to be able to reduce volatility and stabilize our margins. We've been able to grow our value-added mix. Our trade pack business is just doing great.

We've spent a lot of work and a lot of time and improved our cost structure. I think I said on the last call we've reduced our export exposure leg quarters by 50% over the last five years and we'll continue to do that in the upcoming year. I mentioned in my prepared remarks that we've got an opportunity inside some of our Prepared Foods categories to move some dark meat there.

The CapEx that we spent against our business is really paying off and making our plants very efficient. So, when you combine all that up it gives us a lot of confidence in our ability to stay at or above the top end of that range next year.

Farha Aslam - *Stephens Inc. - Analyst*

That's really helpful. And then in Prepared Foods, this is a bigger, larger business for Tyson so could you help us understand your amount of marketing spend, your MAP spend, how you're thinking about this for this year and next year? Because clearly this is just not a commodity-related margin that we need to just look at. We need to understand how you market these products. Could you share with us how much your marketing expenditures are for this year and going into next year?

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

Yes, Farha, we target to spend about 5% on sales on MAP in our retail brands. Now, that can fluctuate a little bit depending on the timing of innovation, if we're making some price changes and that type thing. A notable is example of that would be this Q4. We're launching two new product lines. We're supporting those with MAP. We're increasing our MAP spend a bit this quarter for back-to-school.

So, it will fluctuate a little bit but over the year our target is 5%. And I think it's really important for investors to know that we're going to maintain our investment in brand building. And when a brand is ready for MAP spend we're not going to pull back from the brand building commitment.

And that's why going into 2016 we feel very good about moving from 8% return on sales in Prepared Foods this year up to about 10%-plus or so next year, while maintaining a very good growth posture from that point forward. We've got a great innovation pipeline behind these brands that we'll continue to deliver to the marketplace over time. That's our whole view.

Farha Aslam - *Stephens Inc. - Analyst*

That's helpful, thank you.

Operator

Thank you. Our next question is coming from the line of David Palmer from RBC Capital Markets.

David Palmer - *RBC Capital Markets - Analyst*

Thanks. A question on Pork; obviously, the Street had your percentage margin in fiscal 3Q higher than where you came out. That shortfall might have been higher for the street than what you were internally budgeting. But why was that margin down sequentially and from year ago? And you are saying 6% to 8% for 2016. How quickly can you get back within that range? Thanks.

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

Yes, I think the real change for us, we saw more imported Pork into the US and, frankly, into other markets where we ship product, a bit more than we expected, and that caused our Pork margins to be a tad lower than what we thought. As we look at domestic disappearance, though, when we look at the availability, you've got quite a bit of availability on the domestic market.

We think you've got a lot of hogs coming to us as we move on into the fall, so, we expect that margin to expand a bit. But I'd say the biggest impact on Q3 was probably EU or Canadian or other countries that export into pork markets had a little bit more pork on the market than what we expected.

David Palmer - *RBC Capital Markets - Analyst*

And how much was Pork just the input benefit to the Prepared Foods segment itself? Obviously that's a big segment for the synergies, but if you tease out the implied Pork downstream benefit, how much was that, do you think?

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

David, repeat that question again. I want to make sure I got it right.

David Palmer - *RBC Capital Markets - Analyst*

Presumably one of the benefits of a pressured pork market might be on the margins you get on Prepared Foods. Was that a benefit there?

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

Yes, we did see improvements in Prepared Foods due to lower raw material costs. However, just a quick reminder. So far our Prepared Foods business still has long-term commitments with other pork producers for our pork raw materials.

So, we did see a market. If pork raw materials are down it's a benefit to our Prepared Foods business. There's really not been any synergy capture yet from an end-to-end basis because we'll maintain our commitment to the previous suppliers until those contracts run out, and then we'll be able to have an additional synergy coming up.

I hope that helps.

Dennis Leatherby - *Tyson Foods, Inc. - EVP and CFO*

But as we say in the earnings release in the Q, it's $170 million for Q3, $200 million year to date.

David Palmer - *RBC Capital Markets - Analyst*

Thank you.

Operator

Our next question is coming from the line of Michael Piken from Cleveland Research.

Michael Piken - *Cleveland Research Company - Analyst*

Yes, thank you. Just wanted to talk a little bit about, within your Chicken business, maybe the profitability of some of the various businesses, and with the pressure on leg quarters and maybe even the big bird deboning. If you could just talk about the profitability of your various businesses and how you see retail versus foodservice, that would be helpful.

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

Sure. Foodservice demand, if you look at traffic, traffic is flat to up slightly. But we do feel like now that with gas prices moderating that will continue through the rest of the year. So, feel better about improved demand at foodservice.

In retail, fresh chicken is still a clear winner against very high beef prices. Certainly the increase of pork on the market recently has tamed a little bit of Chicken's growth but it still feels really good at around 2% or so. At one point we saw 3% or so demand growth in Chicken. But the retail growth still feels good. It's relatively priced. It's a very cheap protein for consumers.

When we look at our business, we try to over time build some internal hedges within our business to where if we have pricing exposure to parts markets, like breast meat or whatever, we try to build into our production plans the ability to offset a good portion of that through purchases on the outside market. That way we don't succumb to the movements of those markets.

If you look at our pricing versus the parts markets, we don't correlate very well to breast meat and that type thing. Probably the whole bird market is a better pricing indication of how our business will perform. So, if you look at our small bird business, business is doing great.

We've moved to a lot more of what we would call whole body form sales, whether it's eight 8-piece cut-up at foodservice or at retail, rotisserie. Those types of things continue to move the business forward there, it feels good. Tray pack, of course, is doing great.

Our big bird business is fine. A lot of what we do is supply raw material through our big bird business into the value-added further processed items at both foodservice and at retail.

As I mentioned in my script, in the last four weeks our retail frozen business is now back up to a 55 share, which is where we were before we had our production problem. So, we feel great about being able to grow that business. Hopefully that's a pretty good recap of how we view our segments inside of Chicken.

Michael Piken - *Cleveland Research Company - Analyst*

Okay. And just as a quick follow-up, have you done any buy versus grow with the weakness in the leg quarters? Or is it still, at cheaper feed costs, more profitable for you to run your plants full out?

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

Oh, absolutely. A big part of our -- I'm going to say that this past quarter we probably bought something on the order of 90 loads of breast meat a week. And what that does is it allows us, of course, to fulfill demand in our value-added further processing lines without having a leg quarter to sell.

It's key to stabilizing our margins. When we build our production plans we look at forward demand and then balance to the nearest whole bird increment and back that into a production plan. But I might hasten on to say, too, that this year our production will be flat, and next year we do not have a production increase in the plan. So, we will continue to be able to buy raw material on the market and add value to it without the exposure to the leg quarter.

Operator

Our next question is coming from the line of Diane Geissler from CLSA.

Diane Geissler - *CLSA Limited - Analyst*

Good morning.

I wanted to ask on the Beef division if you could give us an idea about where you were in terms of capacity utilization? And then I think you've quantified the resale of the product that was expected to go to a certain export customers that had to be redirected due to the divergence, the export, the port issue. But is there a way to quantify the lower run rate within your plant in terms of what that might have done to the margin overall?

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

Yes, if I look at the industry capacity utilization, we're probably in the low 70s, and I think that's about where we are. We tend to have our plants in areas where there's a little bit higher concentration of cattle, so we may be a point or two above that.

In terms of quantifying the impact, we know when we're running 34s and 36s a week in our plants that that does cost us. It raises the cost in our plant, makes us a lot less efficient, so it does have a cost to us. I don't know that I can quantify that right off the bat, but it does impact margin.

Diane Geissler - *CLSA Limited - Analyst*

Okay. So, you would say it's fair to say it's not only the diversion of this product into a less lucrative market but the lower run rate within your plants that caused the headwind? Both of those came into play in the quarter.

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

You're right, that does have an impact.

Diane Geissler - *CLSA Limited - Analyst*

Okay. And then just as a quick follow-up, looking at the inventory report that came out two weeks ago, it looks like 2016 is going to be more back-end loaded. So, as we look to model 2016, you've given some data in terms of what you think you will be for the full year, but I'd guess that the numbers are going to come on stronger in the second half, and then really ramp into FY17. The numbers would indicate mid single-digit increase in FY17 in terms of cattle supply. Are you reading it the same way we are?

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

Yes, very much so. When we look at the cattle on feed now, the feedlots have slowed turns down, but the cattle are still there. So, they are going to be coming into market later on this fall. But when you look at the calf crop that's building, that's really a latter part of 2016 and then on into 2017 issue.

So I think we're modeling it exactly the same way. I would think that if you look out over time -- so, I'm going to go 2016 over 2015 -- you're probably look at 1.5% or so increase in supply. Based on the heifer retention we're seeing today, it feels something like 1.5%, 2%. Might do a little bit better than that 2017 over 2016, but it's a little bit early to make that call.

But I certainly think you're right. It's going to be in the back half of 2016 and then incrementally better in 2017 in terms of beef supply.

Diane Geissler - *CLSA Limited - Analyst*

Okay, terrific, thank you.

Operator

Our next question is coming from the line of Robert Moscow from Credit Suisse.

Robert Moskow - *Credit Suisse - Analyst*

Hi, thanks. Donnie, there's a lot of commentary today on the call and in the press release about bigger supplies. You're talking about it in Beef, particularly more cattle in 2017.

And then in the press release in Chicken, I sensed a little more conservatism or caution regarding supplies maybe exceeding demand. And then in Pork you're talking about greater hog supplies, too. And all this in a context of a much stronger dollar, which I think has a more permanent impact on exports.

I understand all of the benefits of the capacity utilization for Beef and Pork, but is there a concern that a year from now you might be looking at an environment with a lot of back up of domestic supply because of weaker export and maybe just much weaker domestic pricing as a result? Is that a concern?

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

What we see in 2016, we look at protein availability or the per capita consumption, if you will, of protein up about 2.3%. We think that supplies are backing up here near term. But as we look forward you've got increased demand for protein on a global basis.

As we look at pork for example, in 2016 you're probably going to see less pressure from outside markets next year than you saw this year, which should improve pork demand. If you look at what's happened in China, China has significantly reduced their sow herd. If you look at what day-old pigs and pig replacement prices are doing, and what pork is doing, for example, at retail, pork prices and hog prices are increasing in China, which tells us that there's likely to be more demand for pork in China next year than this year.

Again, this beef deal you've got record high price spreads at retail. And I think with the slow growth in the beef herd that we're projecting, and call that 1.5%, 2% or so, we think Beef is going to maintain a umbrella, if you will, a premium price, if you will, to the other proteins. By the way, more pork on the domestic market is good news for our Prepared Foods business certainly.

So, the real key is chicken. And when you look at chicken, we plan to use our buy versus grow strategy to make sure that the 2% or so in domestic availability that we expect next year, that we can buy a lot of that raw material and be able to add value to it and protect our margins and stabilize our margins, like we talked about a little earlier in Q&A. That's really the way we look at the landscape in front of us. And that's what gives us a lot of cause to think -- fundamentally, nothing in our 2016 view has changed.

Robert Moskow - *Credit Suisse - Analyst*

Right. Okay. And one follow-up. The pipeline that you said backed up in beef and then flowed through at a lower price, is that all done or is there still a pipeline, so to speak, of product that needs to clear for export?

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

The clearing part is over. And we basically resold that product into other markets where we could move it. Now, the one issue that still lingers -- and, by the way, you wouldn't be able to necessarily see this in the cut-out -- is some of these items like beef plates and rib short ribs and short ribs and flap tails and those kinds of things that normally we have a good sell for into export markets that, while demand is down, particularly in Asia, these items are getting rolled into grinds. So, that still has an impact on our price realization.

The supply situation has continued to linger as feedlots -- we looked at the cattle-on-feed numbers in June to understand, they were stretching out their turns. The cattle-on-feed report in July indicated they continued to stretch out turns. So, there's a near-term squeeze there, if you will on the supply. But a lot of the demand issues that were very acute are behind us and we think we'll be able to see our price realization increase a little bit over time as some of these export markets begin to equilibrate a bit.

The flow off the coast is much improved. The port of LA is great. We're still seeing a little bit of difficulties down in Oakland. But the flow is beginning to get much more normal, if you will, to what we were seeing before these port disruptions.

Robert Moskow - *Credit Suisse - Analyst*

And drop credits, how are those trending right now?

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

Drop credits down. And that does affect our margins. And a lot of that has to do with, if you want to call it, the economic impact of the economy slowing down in Asia. That will correct over time.

If you look -- and I don't want to get into a whole bunch of detail on drop credit items -- but you've got two big categories, your variety meats and then your hides, and both of those prices are weak. We should see that come back over time. I suspect that will be a fairly slow climb out of the hole.

Robert Moskow - *Credit Suisse - Analyst*

Got it. Thank you, Donnie.

Operator

Our next question is coming from the line of Ken Zaslow of Bank of Montreal.

Ken Zaslow - *BMO Capital Markets - Analyst*

Good morning.

A couple questions. One, just semantics. If you're saying that nothing changed in 2016, and your language was, previous to this, that you'd say at least 10% on 2015 numbers, why not change your language to indicate that 2016 nothing has changed, because you're keeping the same thing of at least 10% growth on top of your long-term growth. Is there something to read into this? I just want to be perfectly clear here.

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

No it's just early, Ken. Frankly, the situation in Beef has not changed through July. I want to spend a little bit more time looking at that. I'd like to get this crop in the bin. We typically wait until this next quarter in Q4 before we get more clarity on that. It's just early.

Ken Zaslow - *BMO Capital Markets - Analyst*

And what are the signs that you can point to over the next 36 months that would either give you more confidence or less confidence in the 2016 outlook?

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

I feel great about Prepared Foods. We are lowering prices in a couple of categories and I'm sure looking for the volume response to that. That would continue to give us -- that would be the confidence we need there, so I feel great about that.

I feel good about Chicken. Obviously we would love to see some of these export bans removed. Leg quarters particularly hurt us a bit in Arkansas so I'd love to see that improve. But there, again, that doesn't necessarily change the outlook for 2016.

It really is this unexpected acute issue in Beef and getting a little bit more clarity on how that's going to turn out. That's the one. Synergies feel great.

If you look at the things coming up, we've got great brands and great categories. We're going to have a full year of our new tray pack operation in South Georgia. We've got plenty of fully cooked capacity now to be able to grow both at foodservice and retail and fully cooked. We're going to have plenty of hogs around us. That feels good. It certainly will help the raw materials in Prepared Foods.

I think Beef prices are going to continue to provide an umbrella. I mentioned synergies were generating a lot of cash, which gives us a lot of opportunity to buy back stock or invest in the business. So, we've got a lot of things going for us. Just really want to see this beef thing play itself out for another month or two.

Ken Zaslow - *BMO Capital Markets - Analyst*

Philosophically, as you shift away from commodities and take more of a value-added approach, what would it take for you to just put beef and pork on the market, to just say -- you know what, I'd rather just focus on prepared foods and chicken and that's what we're really trying to shift that portfolio towards?

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

If you look out over the very long term we still feel good certainly about pork in our portfolio. We feel good about having beef as a long term business. We really look at this thing with a very long-term view, so it still feels good to us for them to be in the portfolio.

Ken Zaslow - *BMO Capital Markets - Analyst*

So, there's no indication that you're even thinking about that.

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

No.

Ken Zaslow - *BMO Capital Markets - Analyst*

And my very last question, Dennis, you said -- we would buy a fairly significant amount of stock. How do I quantify that?

Dennis Leatherby - *Tyson Foods, Inc. - EVP and CFO*

Again, Ken, the way we're looking at it is we're trying to keep net debt to EBITDA around that 2 times level. We delevered to the point where we're pretty comfortable looking at, first and foremost, growth through CapEx, organic type growth expenditures.

But then think about free cash flow. It's $1 billion, it's going to grow over time. So, to the extent that we don't do much more deleveraging then it gives us more options in terms of buying back stock and working on dividends, too.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay, thank you.

Operator

Our next question is coming from the line of Tim Ramey of Pivotal Research Group.

Tim Ramey - *Pivotal Research Group - Analyst*

Good morning, thanks. We've talked a lot about the export demand. I assume that some of these specialty items were big into Korea. Are you just seeing weak economic activity in Korea, and so that's backing up through the system for these otherwise high price, high value-added items that are now going into grind?

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

By and large, that's right. I wouldn't necessarily limit the softness in demand we're seeing just to Korea. There is softness across broader Asia. And, as you know, those are great markets for a lot of those items. So, a little bit broader than just Korea.

Tim Ramey - *Pivotal Research Group - Analyst*

And, Donnie, was any of this attributable to the restart of Dakota City, or did that really occur just as expected?

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

It really has occurred as expected. I think we mentioned in our last call that we had some start up issues that we were working through. The start up issues that we worked through in Q3 did not impact earnings beyond what we would have expected them to. All that came in as planned. It really was this acute issue of making the decision to get that meat moving off the West Coast so we wouldn't have to deal with it in even softer markets.

Tim Ramey - *Pivotal Research Group - Analyst*

And just, finally, always good to hear you manage for margin not market share. We love that. But does that mean that, at least in maybe the 12-month outlook, there might be an opportunity to trim back capacity utilization or improve capacity utilization by shutting a line here or there?

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

Tim, we look at a lot of those things constantly in our efforts to manage margins. Too early to say about any potential moves we might have inside the system. But certainly we're working through the math on a lot of those issues. And, as you know, we get that down to about the fourth decimal point to make that call. So, we're looking at all of that. Don't see the opportunity yet.

Tim Ramey - *Pivotal Research Group - Analyst*

Okay, thanks a lot.

Operator

Your next one is coming from the line of Akshay Jagdale of KeyBanc.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Good morning.

First on Beef, I just want to be clear. We all calculate industry margin, and based on, obviously, publicly available data. And your Beef results underperformed that significantly, I think for the first time in like seven or eight years. I understand the issue that you explained clearly, but I just want to understand if it's a Company-specific issue, like it looks like from the outside. And maybe if you can give us a little more color on what's Company specific.

So, everything you were saying, the way you were saying it so far, it seemed like the rest of the industry should be dealing with those issues, too, but the numbers that I'm looking at for the industry point to your performance being way worse. Can you just help me clarify that?

What could we be missing? Maybe it's just that the cut-out doesn't reflect some of these issues yet, perhaps.

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

What you just said Akshay is largely correct, is that you wouldn't be able to look at cut-out and see the price differences between the revenue that we get from some of these export items and what we then get for it when we roll it into 50s. So, that's part of the issue.

I don't know, I don't want to comment on what the industry says or what they may show, but we felt like the right thing to do was to make sure that we didn't have an inventory problem. Because it felt like to us that going into Memorial Day to feel the cut-out getting toppy, like we did in Memorial Day, felt like the right thing for us to do was to resell all that product. Now, that may have hurt us worse than what the cut-out or what industry indices would have indicated but it was the right thing to do for our business.

We don't have excess inventory. If you look at beef inventories I don't know what they're up -- 20%, 30% or so. Ours is not and that feels really good because we'll be able to immediately respond when the market conditions give us an opportunity.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

So, overall, you'd characterize the beef issue as something impacting the industry equally, right? You've taken some strategic actions, which you believe are putting you in a better position, but overall this is an issue that everybody in the industry is dealing with. You are not dealing with it more so than anybody else, correct?

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

Akshay, I don't know what other people are doing in the industry, or how they're dealing with it. I think I can safely say that our market share in Asia is historically pretty large and so maybe we were impacted greater because of this issue based on that. But I don't have any comment about how it may be impacting us versus the rest of the industry or whatever. I can just tell you what happened to our business.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Okay. And then moving to Prepared Foods, is there any way you can give us a sense of how the businesses are doing on an organic basis? Obviously you're still going through the first year of the deal, the numbers look good this quarter. But just help me.

The way I'm thinking about it is you have $300 million in synergies this year that are going to help in that business. You have now what you've quantified, which is very helpful, $320 million in lower raw material costs. So, that's a positive $600 million tail wind. And on my numbers your EBIT is increasing a couple hundred million.

Now, you're investing a lot. So, can you give me a sense of, one, what's the base business doing, like from a growth perspective, market share overall, just broadly? And, two, can you quantify some of these MAP investments?

Give us some sense. Is it $50 million, $100 million, a couple hundred million? And what do you expect from a growth perspective next year to get a return on these investments you're making?

Thanks.

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

Hopefully this perspective will help, Akshay. If you look at our categories at retail -- by the way, our foodservice business is great. If you look at QSR Mexican and some of the other growth in foodservice, that plays very well into our portfolio. So, we feel great about foodservice demand and our ability to continue to grow that part of our Prepared Foods business.

At retail, if you look back over this last quarter, we grew sales in eight of our nine categories and grew share in five of nine. So, if you just look at the category growth that gives you a good indication of where we are.

Now, I can tell you that in Q3 we lost share in a couple categories that are meaningful to us. So, in Q4, we're going to reduce the price gap between us and the competition to regain that volume. There's always a balance between managing your gross margin and managing your market share. We're going to reduce those price gaps to get some market share back, because we want to go into the fall well positioned in the categories for growth into 2016.

Again, on the Prepared Foods synergies about 90% of those -- so, I think you're seeing that right -- about 90% of those, of the total synergies, are in Prepared Foods. And, really, what we're doing is just rerating our cost structure for that business down and then we'll take advantage of the raw material improvements over next year to have plenty of fire power on our MAP to make sure we keep our pricing gaps right so we'll continue to grow the business, all the while expanding our margins by a couple hundred basis points over what we did this year. We feel really good about that.

Operator

Our last question is coming from the line of Brett Hundley from BB&T Capital Markets.

Brett Hundley - *BB&T Capital Markets - Analyst*

Hello. Good morning, and thanks for fitting me in. I wanted to ask you a question on Chicken and get maybe a more definitive sense, Donnie, of where things can fall out for you guys in that business next year, and maybe just how good Chicken can be. You've given a lot of talking points, but I want to understand if there, in your mind, really is a definitive floor at 7%, if you can do another 12% next year.

I want to understand that range of outcomes, just given everything that you talked about maybe being a little bit more supply on the market relative to demand, pork continuing to be an incremental competitor to chicken at retail, but then your guys instituting buy versus grow, reducing your exposure to leg quarters. I thought it was really interesting your comment on dark meat utilization in Prepared Foods. And maybe you can give us a sense of whether that can be sizeable or not for you. But, anyway, just wanted to understand those different talking points.

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

Okay, Brett, I think you've absolutely got the right list. I'll tell you -- and I'm probably going to frustrate you a little bit with my answer, I'm sorry -- but it's just a little bit too early for us.

Really, I like to get the crop in the bin before we can get more definitive. But I'm very comfortable saying that saying that in FY16 we're going to be at or above the top end of our new 7% to 9% range, for all of the reasons you mentioned -- reducing our exposure to leg quarters, we've done a great job in balancing and changing our pricing structures to be able to balance our margins and stabilize our margins while growing the business.

We feel great that we've got the portfolio inside of Chicken appropriately sized across all the bird classes. That feels good. And a key component to making 2016 a great year is we are going to have a full year of our new tray pack plant in South Georgia. And we've got plenty of capacity to grow our retail value-added fully-cooked business and our fully-cooked foodservice business. And we see opportunities for demand to increase there.

We've got a lot of components that are in our favor. And it's really the culmination of the work over the last three or four years to put all of the pieces together to be able to stabilize our margins and then grow the business with that new stabilized margin structure. So, I think you're all there. I feel great about 2016. More details to come on our next call.

Brett Hundley - *BB&T Capital Markets - Analyst*

Okay. And then just lastly, either Donnie or Dennis, does your M&A desires act as a governor at all on your share repurchase plans? And can you go back over what your landscape looks like across M&A? You've talked about branded before, you've talked about value-added chicken. I want to be sure, does your M&A plans, do they extend into packaged foods or are you just looking at proteins? So, M&A as a governor on share repo and then just looking at what your landscape is specifically for M&A.

Dennis Leatherby - *Tyson Foods, Inc. - EVP and CFO*

I'll start with M&A as the governor. What we're trying to do is design our capital structure and cash flow and capital allocation in a way that allows us to have the best of both worlds. So, think about generating $1 billion or more in free cash flow, while investing heavy in organic growth in our existing businesses, but also maintaining a soil investment grade rating and good liquidity. And then, just as importantly, having quite a bit of incremental debt capacity to make acquisitions. With that I'll turn it over to Donnie to talk about strategy a little bit.

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

The M&A strategy is very consistent -- value-added poultry, prepared foods, and at some point international. That's our focus. Obviously we want to continue to grow the branded value-added part of our portfolio to continue to de-risk and de-commoditize our portfolio and make sure that our business is very consumer-centric. So, that's the plan forward.

I think Dennis did a great job on whether or not that's a governor or not. We don't think of either/or; we think of and.

Brett Hundley - *BB&T Capital Markets - Analyst*

Thanks, guys.

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

I think that's all the time we have for today. We're going to stay focused on our long-term growth of delivering at least 10% annual EPS growth over time by growing our value-added and prepared foods businesses and supporting our brands to maintain a leadership position. Thanks for joining us today and have a great week.

Operator

Thank you, speakers. And that concludes today's conference. Thank you all for joining. You may now disconnect.