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Tyson Foods (TSN) CEO Noel White on Q4 2019 Results - Earnings Call Transcript

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FQ4: 11-12-19 Earnings Summary

Press Release *Slides*

EPS of $1.21 misses by $-0.06 | Revenue of $10.88B (8.85% Y/Y) misses by $-50.42M

Earning Call Audio

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00:00 -59:11

Tyson Foods Inc. (NYSE:TSN) Q4 2019 Earnings Conference Call November 12, 2019 9:00 AM ET

Company Participants

Noel White - President, Chief Executive Officer

Stewart Glendinning - Executive Vice President, Chief Financial Officer

Jon Kathol - Vice President, Investor Relations

Conference Call Participants

Peter Galbo - Bank of America

Michael Piken - Cleveland Research

Ken Goldman - JP Morgan

Heather Jones - Heather Jones Research LLC

Jake Nivasch - Credit Suisse

Adam Samuelson - Goldman Sachs

Alexia Howard - Bernstein

Ken Zaslow - Bank of Montreal

Michael Lavery - Piper Jaffray

Ben Theurer - Barclays

Operator

Good morning and welcome. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad. To withdraw your question, please press star then two. Please note this event is being recorded.

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

Jon Kathol

Good morning and welcome to the Tyson Foods Incorporated earnings conference call for the fourth quarter of fiscal 2019. On today's call are Noel White, President and Chief Executive Officer, and Stewart Glendinning, Chief Financial Officer. Slides accompanying today's prepared remarks are available as a supplemental report in the resource center of the Tyson investor website at ir.tyson.com.

Tyson Foods issued an earnings release this morning which has been furnished to the SEC on Form 8-K and is available on our website at ir.tyson.com.

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

I would like to remind everyone that this call is being recorded on Tuesday, November 12 at 9:00 am Eastern time. A replay of today's call will be available on our website approximately one hour after the conclusion of this call.

This broadcast is the property of Tyson Foods and any redistribution, retransmission or rebroadcast of this call in any form without the express written consent of Tyson Foods is strictly prohibited.

Please note that our references to earnings per share, operating income and operating margin in today's remarks are on an adjusted basis unless otherwise noted. For reconciliations to our GAAP results, please refer to this morning's press release.

I'll now turn the call over to Noel White.

Noel White

Thank you Jon, and good morning everyone. First, I'd like to welcome Dean Banks as President of Tyson Foods. I'm delighted Dean is joining our team. He brings extensive experience as a leader, an entrepreneur, and has a background in innovation technology. I've served on the Board with Dean since I became CEO and know him as a thoughtful leader who respects and truly values Tyson Foods' heritage and is an excellent cultural fit with our company. I will remain CEO and Dean will report directly to me and will be based here in Springdale.

Now onto a review of our fiscal 2019, which was a year highlighted by record sales and significant progress in delivering our strategy for long term growth. We remain focused on ways to grow, deliver and sustain our business. This includes growing our prepared foods and value-added chicken business; secondly, growing our international business, and reducing earnings and volatility across our business.

Here are some examples of our fiscal 2019 accomplishments. We expanded our global business with operations in Asia and Europe. We continue to innovate our iconic brands, which outpace the industry. We launched alternative protein products into the marketplace. We're improving efficiencies by opening new distribution centers. We're positioning ourselves for the future by integrating our business through a new enterprise technology platform. We continue to invest in advanced analytics as well as the development of automation and robotics with a new technology center here in northwest Arkansas, and we're making strides in our sustainability initiatives. For example, earlier this year we announced a new partnership with the Environmental Defense Fund. We've also partnered with Proforest to help conduct a deforestation risk assessment across our supply chain. We're leading innovation in animal welfare research and we also continue efforts to expand the progressive beef program where certified cattle feed lot operators are following best practices.

Here are some additional highlights as we look back on fiscal 2019. Sales dollars grew 6% to a record $42.4 billion, driven mostly by chicken-related acquisitions and increased pricing in the beef and prepared food segments. We achieved record beef operating income. Tyson's retail core business lines outpaced the top 10 retail food manufacturers in the 52-week period. Core volume was up 4.1% and total Tyson retail volume was up 2.7%. Both the business lines and total Tyson retail have posted five consecutive quarters of growth with total Tyson's showing its highest retail growth in the last two years. In the fourth quarter, Tyson's core business lines outpaced category growth with overall share up almost a full share point.

Turning to food service, Tyson's Focus 6 product lines continue to double the broad line sector with a 2.5% volume increase over the prior year. In addition, we see growth opportunities in other areas of food service beyond broad line. Digital marketing and mobile ordering accelerated growth in major QSR and convenience store chains with [foodservice] [ph] traffic from digital ordering up 25%. Tyson is leveraging new digital and social platforms within the K-12, convenience, and broad line distribution channels and we're investing in building new digital capabilities in fiscal 2020.

We're also continuing to move forward with plans to grow our value-added fresh meats business to better meet consumer demands in the western United States. Two weeks ago, we broke ground on our new facility in Eagle Mountain City, Utah. The plant will convert fresh beef and pork into steaks, chops, roasts, and ground beef for grocery meat cases. This additional production will allow us to increase our already growing value-added fresh meat sales. Our growth is enabled by an ongoing financial fitness mindset and we are more focused than ever to drive out costs across the enterprise to enable future investments.

I'd like to highlight some of our progress our operations team made in fiscal 2019 towards making Tyson the employer of choice. We experienced record low turnover in many of our operations over the past year. In addition, we improved our safety record again this year by reducing OSHA recordable incidents by 18% versus our goal of 10%. This is on top of the 20% reduction we experienced in fiscal 2018. We continue to expand our program that offers onsite life skill training classes for frontline team members.

A significant part of our focus in fiscal 2019 was on building for the future. As a result, we're optimistic about fiscal 2020 results as we drive for constant improvement. Currently, we expect to meet or exceed our long-term target of high single digit adjusted earnings per share growth. We also continue to drive innovation, deliver on our customer promise, and meet global consumer expectations. We'll do this while controlling costs and increasing efficiencies.

As I transition to the segments, I want to remind everyone that in our press release this morning we provide guidance for our segments. Stewart will provide more clarity on other guidance items in his remarks.

Now turning to our segments, prepared foods continues to perform well at retail with strong growth supported by increased map spending. Volumes of Jimmy Dean frozen breakfast were up 6.6% in the most recent 52-week Nielsen data on the strength of new product launches, including Simple Scrambles, Egg'wiches, and Breakfast Bowls. We continue to innovate and will build on the success of these breakfast-on-the-go products by expanding the Jimmy Dean line into biscuit roll-ups and morning combos.

We drove volume across retail with sales of Hillshire Farm smoked sausage and lunch meat both up 5% while sales of Ballpark hot dogs increased nearly 3% and Hillshire snacking was up 15% in the last 52 weeks. We’re excited about the momentum we’re seeing in our new alternative protein products and the power that Tyson sales, culinary and supply chain bring to this category.

We introduced Adele’s Whole Blends as our first offering earlier this year. Since our last earnings call, we’ve nearly doubled our retail distribution of Raised & Rooted nuggets to more than 7,000 stores and expanded into food service. This month, we began shipping our new Raised & Rooted blended burger made with Angus beef and plant protein. We have a deliberate go-to-market strategy for our alternative protein products. They must taste good and they must be healthier alternatives to other products already in the marketplace.

In 2020, we continue to expand with new products in both the retail frozen and fresh space as well as in food service. Alternative protein projections remain strong and we’re well positioned to lead in this growing space. Last year, sale of our non-protein food service businesses improved our product mix and pricing while reducing sales volume for the prepared foods segment.

Operating income for the year was relatively flat as strong demand and improved mix was offset by increased raw material and operating costs. Looking ahead to 2020 for prepared foods, we expect continued growth in retail consumption as well as food service channels like convenience, K-12, and non-commercial. As African swine fever reduces global pork supplies, we could see increased raw material costs, but keep in mind a large portion of our business is price list and direct pass-through pricing. This allows us to act quickly to recover costs when we see a sustained raw material price movement.

Moving onto the beef segment, we experienced strong demand and favorable domestic market conditions in the fourth quarter offset by increased costs associated with a fire at our Finney County, Kansas plant in August. We recorded $31 million of fire-related expenses in Q4 net of primary insurance recoveries for a portion of the claim. I’m pleased to say our team members whose jobs were affected by the fire are still being paid. There have been tremendous steps taken by the entire beef team, our contractors and the community to rebuild the plant and get us back to full operations as quickly as possible, and we currently believe the plant will be up and running in the next 60 days.

The beef segment's operating income for the year was a record $1.1 billion despite logistical challenge and lost volume resulting from the fire. Our premium beef programs contributed to the overall success with a record year for sales volumes and value-added margins. Looking ahead, we expect market fundamentals to be similar to fiscal 2019.

Now turning to the pork segment, our revenue enhancement strategy continued to boost our performance, driving wider spreads relative to the industry benchmarks. This includes our premium programs, which experienced 27% category growth year-over-year as well as increases in exports and food service penetration. Our workspace initiatives are helping our pork plants be the employer of choice and keeping them fully staffed with record low turnover. Exports to Mexico, Japan and China are picking up and we've started seeing the improved pricing because of supply shortages in China and other Asian countries affected by ASF. We'll be in a better position to compete for these export opportunities as we move to buying only ractopamine-free hogs.

Overall, we expect industry hog supplies to increase about 3% year-over-year. We also expect increased livestock costs, record export volumes, and pricing improvement.

Now turning to the chicken segment, as I said in September, we have a solid chicken business and we fully expect to see operational improvement in 2020. We're doing so by streamlining processes, improving operations, and lowering costs. Sales volume for the year increased with incremental volume from acquisitions. The additional rendering volume from these acquisitions lower our average sales price. Operating income decreased due to higher costs and the challenging pricing environment. Additionally, operating income was impacted by net feed ingredient and derivative losses of approximately $55 million in the quarter. On a run rate basis, this is nearly $100 million more than Q3. We now have the right people in the right roles and we're seeing improvement, although we're not satisfied with the pace.

In addition to achieving operational improvements, we also expect to improve pricing in select products and categories, continued performance gains, and synergy capture from our Keystone and American proteins.

We continue growing our flagship Tyson brand. Our core retail frozen and value-added poultry sales volume was up 1.2% in the fiscal year according to Nielsen. We plan continued branded growth with new products like Tyson air fried chicken and Tyson Smokehouse case-ready chicken, and we're accelerating food service growth through innovation and limited time offers.

In international and other, the acquisitions of Keystone and our new Thai and European operations led to increased sales. Along with Keystone in China, we're closing the gap through better performance by our legacy Tyson operations. In fact, legacy China business had a record fourth quarter and was profitable after breaking even through the first three quarters of the year, and our China retail business continues to see strong volume growth.

Our international operations along with exports are an important part of our growth strategy. That's why we continue to advocate for trade agreements that will benefit our industry and farmers. For example, we're working with lawmakers on both sides of the aisle to ratify the U.S.-Mexico-Canada agreement. The U.S. and Japan recently signed a trade deal that will benefit our beef and pork businesses by putting them on equal basis with other export countries. Two weeks ago, it was reported that China is planning to lift its four-year ban on U.S. poultry. We welcome these positive developments and the more stable operating environment they provide.

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

Stewart Glendinning

Thanks Noel, and good morning everyone. Fourth quarter and fiscal year results were in line with our revised expectations with earnings of $1.21 and $5.46 per share respectively. Operating income was $686 million with a 6.3% return on sales in the fourth quarter and just under $3 billion with a 7% return on sales for the fiscal year. Revenues were a record $42.4 billion and volume was up nearly 9% for both the fourth quarter and the fiscal year primarily due to acquisitions. Average sales price was flat in the fourth quarter and down 3% for the year primarily due to the product mix from the acquisition of the American proteins rendering business.

We are very diligent with our capital allocation strategies and last quarter I mentioned we were focused on debt reduction. We paid off the $1 billion of senior notes that matured in the fourth quarter mostly with cash generated in the quarter. We also were able to repurchase 300,000 shares for $27 million. For fiscal 2019 in total, we repurchased 3.7 million shares for $252 million. Our operating cash flows at year-end were $2.5 billion and liquidity was $1.2 billion.

Including cash of $484 million, net debt was $11.4 billion. Net debt to adjusted EBITDA was 2.8 times for the 12 months ending September 28. With net debt coming down and cash up, we are well positioned to have all of our capital levers available in 2020.

Net interest expense was $121 million in Q4 and $451 million for the full year. Capital expenditures were $288 million in the quarter and $1.3 billion in the fiscal year, and we continue to see strong returns on these investments.

In 2019, two new distribution centers were brought online and we invested in new processing capacity for chicken and value-added fresh meats. We also invested in additional enterprise technology as well as our new Tyson manufacturing automation center. These investments will provide long-term benefits and support our growth strategy. We continue to target and overall capex return of approximately twice our cost of capital.

Our effective tax rate was 20.5% in the fourth quarter and 20.7% for the fiscal year. Depreciation and amortization was $289 million in the fourth quarter and approximately $1.1 billion for the full year. Weighted average shares outstanding in Q4 were approximately 367 million.

As I mentioned on our last call, we faced hurdles integrating new information technology that resulted in short-term increases to our working capital. Within the fourth quarter, we also had increased distressed inventory sales in parts of our prepared foods and chicken segments. This negatively impacted operating income by approximately $40 million. Our metrics are improving each month and our on-time customer service is nearing our historical targets, but some amounts may carry into our first quarter.

Now I'd like to provide our thoughts on the 2020 fiscal year. As I'm sure you noticed in our release this morning, we did not provide specific EPS or sales guidance. The timing and magnitude of potential impacts resulting from African swine fever are still hard to quantify. Additionally, there are continuing developments in trade negotiations which can create uncertainties in our external environment. While these factors alone did not drive our decision, they do significantly compound the difficulty of accurately forecasting EPS and sales. To be clear, we believe we're positioned to deliver our long-term earning algorithm of high single digit adjusted EPS growth and there is potential for profound upside depending on how events materialize.

There are a number of additional metrics I will provide on 2020, which will be a 53rd week; however, take note we've adjusted our outlook to be comparable to 52 weeks. Net interest expense should approximate $450 million. We plan for capital expenditures of approximately $1.3 billion as we continue construction on the Tennessee chicken plant and begin construction on the Utah case ready plant. We expect liquidity to remain above our $1 billion target. Our effective tax rate is expected to be around 23.5%.

You've seen our segment return on sales guidance in our press release this morning. Our capital allocation in 2020 will continue to prioritize debt reduction while reinvesting in our business for organic growth, buying back stock, and increasing our dividend.

In the case of inorganic opportunities, we will be very disciplined and return-focused in our approach to any acquisition. Our track record on acquisitions continues to be very encouraging. Consistent with my comments last quarter, we are already exceeding our cost of capital on an after-tax basis in 2019 for our most recent four acquisitions: Smart Chicken, American Protein, Keystone, and the poultry operations in Europe and Thailand. As we start to realize the full benefit of synergies while driving further growth, we expect strong returns on these acquisitions.

Finally, yesterday the board of directors increased the previously declared quarterly dividend to $0.42 per share on Class A stock. We anticipate the remaining quarterly dividends in fiscal 2020 will be $0.42, resulting in an annual dividend rate of $1.68 per Class A share.

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

Noel White

As Stewart said, the positive impacts we anticipate from African swine fever are still hard to quantify, but here's what we do know. It's likely to improve export markets and change protein consumption dynamics for a number of years. We also saw a return on sales expectations for the segments in our press release. We're well positioned to benefit from ASF, but our long term success is not dependent on ASF or any other one-time events. Tyson Foods is a strong company with a sound strategy and a unique diversified business model.

In summary, we're optimistic about fiscal 2020. Our outlook is based on our diverse portfolio, the strength of our brands, our willingness to enter adjacent categories, partnerships with customers, and ongoing focus on financial fitness. We have opportunities not to only grow but to thrive while creating long-term shareholder value.

Question-and-Answer Session

Operator

[Operator instructions]

The first question comes from Peter Galbo of Bank of America. Please go ahead.

Peter Galbo

Hey guys, good morning. Thanks for taking the question. I guess taking into account that you didn't put out a range for the EPS guidance, even if we just take the midpoint of each of your segment guides, you can kind of come up with a number that meets more of that exceeds end of the guidance that you did give, something in the low double digits to low teens EPS growth. Can you help us reconcile that in terms of how you're thinking about each of those margins, whether we should be thinking about the lower end of that range at least coming out of the gate, or if it's really maybe just some conservatism on your part? I have a follow-up as well.

Noel White

Yes Peter, let me say we are very optimistic about 2020 and what we can deliver through the fiscal year. Each segment is a little bit different. I would say that as we enter 2020, beef is off to a very strong start and we view 2020 as another exceedingly strong year. Pork started a little slow, however has come on very strong in the month of November, as you can probably see in public reports. Chicken was off to a bit of a slow start but it's improving as well.

The reason that we didn't give the guidance is that we have a very good outlook of what we think we would earn in 2020 without the impact of ASF. The difficulty was actually in predicting what the top could be. We have a good sense of the base, it's the top that becomes the problem. That's the reason we didn't give the guidance.

Peter Galbo

Got it, okay. That's helpful. Maybe just on prepared foods, I think that's kind of what caught investors by surprise in terms of the raw material inflation being, I think you called out $60 million year-over-year in 4Q. What does the timing lag look like in terms of the price increases? When might we actually start to see that roll through, and how should we think about demand deterioration if there is a large step up in pricing?

Noel White

The impact in Q4, Peter, wasn't necessarily on the increase in price and raw materials, there were some other factors. Stewart mentioned the inventory levels, the write-offs that occurred. That situation is largely under control. There is going to be a little bit rolling into Q1, but it was basically the issues that we talked about at the end of our Q3 call on an SAP installation, some inventory levels, and we did take a pretty sizeable adjustment in fourth quarter. So much improved, but not quite where we want to be here as we enter Q1.

Peter Galbo

Okay, thanks guys.

Operator

The next question comes from Michael Piken of Cleveland Research. Please go ahead.

Michael Piken

Yes, good morning. Just wanted to get a little bit of an update on where you are in some of the chicken plants that were struggling operationally. Are you back to the normal line speed, and how much of an impact or headwind might we see in 1Q fiscal 2020 from any operational issues that took place last quarter?

Noel White

Yes, sure Michael. We have made progress. As I mentioned, we're not satisfied with the pace. Over the course of the last couple of months, I would say operationally we are improved in performance, still not at the standard that we would expect. However, there has been some other pressures within the poultry segment. You can see public reports that margins have been compressed just to market dynamics. So operationally we are performing better, still not where we need to be, but there have been some other pressures that have affected poultry as well as we enter Q1.

Now from a pricing perspective, it's still early in the pricing season. There's been no surprises and, as I said in my remarks, there are pricing opportunities on specific products, so we are optimistic as we enter 2020, and we do think that the range that we provided in poultry is achievable throughout the year.

Michael Piken

Okay, great. As a follow-up, I know you mentioned that the contracting was underway and no surprises. How do you think about the contracting fees and knowing there's a potential opportunity from ASF? Is that changing the duration of the contracts or how they're structured in terms of how much you would have as a fixed price versus cost-plus versus index? Any color there would be helpful.

Noel White

Yes Michael, I'm sorry, I can't talk about pricing scenarios just from an anti-trust standpoint, so I can't go there.

Michael Piken

Okay.

Operator

Was there a follow-up, Mr. Piken?

Michael Piken

Sure, yes. In that case, I guess maybe we could just go within the chicken segment, if you could just provide any color in terms of the mix maybe of your business going forward, in terms of can you at least provide some color in terms of how much is spot sales versus more indexed? Anything that could kind of help us model things out would be helpful.

Noel White

Michael, the pricing really doesn't change that much year to year with us. It's fairly consistent, and as I've mentioned before, we have a wide variety of pricing mechanisms which does in fact help stabilize earnings to a certain extent. There is not the sizeable shifts that take place with most of our customers. They're on a variety of different pricing mechanisms, so those customers as we enter pricing season, you don't necessarily change from a fixed price to a grain-based or vice versa. Most of the pricing scenarios are pretty consistent as we move from year to year.

Obviously the markets will move, but no surprises yet this year.

Michael Piken

All right, thank you very much.

Operator

The next question comes from Ken Goldman of JP Morgan. Please go ahead.

Ken Goldman

Good morning and thank you. I wanted to just follow up on the distressed inventory sales. It's probably not that big a deal because, as you said, it's mostly behind you, but were you hinting at that as SAP related? I just didn't quite understand exactly what the dynamics were there and wanted to get a little bit of color.

Noel White

Yes, Ken, to a large extent it was SAP related. We had some issues, if you remember I talked about last quarter, in Q3 with accurate inventory levels and ultimately that ended up with an increase in distressed product as we closed out the year, so it was related to SAP, inventory levels and the visibility that we had into the accuracy of our inventory. So largely corrected, not completely, but feeling much better about where we're at today than where we were even 30 days ago.

Ken Goldman

Send that stuff to me next time, I'll take it! It's good stuff. I just wanted a clarification, another one from something that was said in the press release, or written in the press release. You said that the pork segment operating margin or income, rather, decreased because of compressed margins, and that was in part driven by increased livestock supplies. I wasn't quite sure how increased or higher livestock supplies hurt your margin. You may have mentioned this or clarified this, but I didn't quite pick up on that.

Noel White

Ken, to be honest with you, I'll need to look back as well because that intuitively doesn't make sense to me either. If that was the case, it's not completely accurate. Let me tell you what the scenario has been, though, throughout calendar 2019. I think that by and large, most people were expecting an increase in exports, whether it's to China or other countries. Now with that, both the futures market and the cash price of hogs has moved higher, and it's moved higher in anticipation of those exports. Now, as we finish calendar

2019, those exports have materialized. Though we saw the run-up in hog prices, we didn't necessarily see the corresponding increase in pork prices which led to the compression in 2019.

Now, since the product is being produced for export today, we are seeing product prices move higher, as publicly reported, and it's extremely unusual. It's counter-seasonal for us as an industry to be processing 2.7 million-plus hogs per week and seeing product move higher, so we are seeing the impact, particularly over the course of the last several weeks.

Ken Goldman

Great, that's very helpful. Thank you.

Operator

The next question comes from Heather Jones of Heather Jones Research LLC. Please go ahead.

Heather Jones

Good morning. Thanks for the questions. Quickly on a trade question, late Friday, I think it was, there was a final rule published in the Federal Register about the U.S. setting up terms for us to be able to start the importation of Chinese cooked poultry. I was wondering, is it your reading that that is done and there will be no way to undo that, and what are your thoughts about the implications of that for China lifting the ban on U.S. poultry?

Noel White

Yes Heather, since it was published in the Federal Register, we do think that it is in fact on, and it would take a Congressional act to change it at this point. We saw it, we understood, we somewhat anticipated it, and the comment I would make, Heather, is that we are pro trade and whether other countries allow export access to their country or to ours, we're pro trade so it was actually encouraging to see the agreement that was made and we would fully expect that there'd be some type of trade agreement reciprocity with access to China from U.S. poultry.

So no surprise, and the fact that there has been seemingly some type of an agreement, not been made completely public yet, but we view it as encouraging.

Heather Jones

Okay, thank you for that. Then my follow-up is on chicken. You mentioned operational improvements, you mentioned select price increases in certain segments. You said you're still not where you want to be operationally, but basically from your Q4 run rate, you're projecting a pretty sizeable jump in EBIT margins and, like you said, excluding any benefit from ASF. I was just wondering if you could flesh that out some to give us comfort as to how you go from a Q4 run to 6 to 8% without ASF. Just help us understand more how you're thinking about that.

Noel White

Well it's not going to happen overnight, Heather, but it will be a process and we are in the middle of that process. The plan that was laid out as we came into fiscal 2020, our team is executing on, so the operational improvements, and whether it's labor efficiency, costs, yields, we are on track with where we expected to be.

Now, I did talk about some of the pricing pressure on some specific items, and that's in USDA data, it's visible. On the other hand, there are select items that are in strong demand, and I'm not going to necessarily talk about specific items but that creates pricing opportunities for us. In some cases, there is surplus product in the market; in other cases, there is somewhat of a shortage, so you take the pricing opportunity where in fact there's strong demand, and in the case where there's excess supply, then there's some pricing pressure, so the market does its job.

Stewart Glendinning

Heather, one additional item just for you to note, that in the quarter if you adjusted for the hedging that we saw at the end of the quarter, there was a $55 million loss there in chicken. If you adjust for that, you pick up about 1.5 extra percentage points on the operating margin, and I think that will help you reconcile when you add Noel's comments about how we get to the year end.

Heather Jones

Excellent, thank you so much.

Operator

The next question comes from Rob Moscow of Credit Suisse. Please go ahead.

Jake Nivasch

Hi, thank you. This is actually Jake Nivasch on for Rob. Just one quick one. It's about pricing, which I know we kind of spoke about, but if I can ask it in another way. The persistent problems at your plants, is that a risk going forward in terms of losing customers or any sort of negotiation, I guess loss of negotiating power?

Noel White

No.

Jake Nivasch

No? Okay.

Noel White

No, no. Don't view it that way at all, Jake. Now, through the course of 2019 with the new platform that we installed, there were challenges. That's largely behind us, but it has nothing to do with the operational challenges. It was more so the visibility that we had of inventories, timely shipments, shipments in full, but as Stewart said in his script, that is largely behind us. We are back very close to the historical standards that we would expect, so two completely unrelated topics.

Jake Nivasch

Got it, thank you.

Operator

The next question comes from Adam Samuelson of Goldman Sachs. Please go ahead.

Adam Samuelson

Yes, thank you. Good morning everyone. I was hoping, I don't know if you could help maybe just frame within the individual segments what would drive you margin-wise to the low end versus the high end? I know that you framed the guidance excluding any ASF impacts, but it seems like it's hard to separate that out from the state of the world today, so maybe help us understand prepared foods, what gets you to 10% versus 12% margins, chicken 6% versus 8%, and maybe any comments around how you'd see the bigger ASF impacts in each of the businesses.

Noel White

Right, right. That's difficult to answer, Adam, because we don't view it as being at the low end of those ranges. In prepared, I would say the risk would be if there was a rapid rise in raw material prices and we didn't timely reflect that in the pricing of our products. Now, you've heard me say before that we've already had conversations with many of our customers about the potential of prices rapidly increasing, and you also heard me say that there is a large portion of our business that is in fact somewhat of a--it's a pass through. I'd say that's probably the risk on the prepared side, but I can tell you our prepared foods segment is in really strong shape. We are capturing share gain, our volumes are strong, so we are very encouraged where our prepared foods business is at.

In the other segments, I'd say the only risk would be in, as we stated, the ranges. It was absent ASF. The only risk I can see is if we had a similar occurrence in 2020 that people were anticipating exports, hog prices stayed high, and exports don't develop. Other than that, I think beef is headed for a very similar year, if not better in 2020 than what they delivered in 2019.

Obviously in the industries in which we compete, there's always risk, we deal with that every single year, but there's nothing stands out that is of particular concern right now.

Adam Samuelson

That's helpful color. Specifically in the chicken business, I wonder if you can provide any comments on the demand environment domestically that you're seeing. It seems like especially on the food service side, this increased promotional activity on poultry could be a nice opportunity for you moving forward, but just how you're seeing that demand environment on your poultry side would be helpful.

Noel White

I think poultry is a great value right now, Adam. You look at the price spreads that exist between each one of the proteins, in the course of the last three or four weeks it has continued to widen, so I think poultry presents a great opportunity for stronger promotion, both at food service as well as retail levels through 2020. I don't think we've seen the full impact of that. We've seen some of the chicken sandwich promotions that have been rolled out at the QSR level, that's been helpful, I would say, but as we move through 2020, I think chicken will continue to be a great value. As I mentioned earlier, it's extremely unusual to see the pork cut-out moving higher at this time of year. Beef, it's not that unusual, but it has been extraordinarily strong.

Net disappearance, domestic disappearance, we're encouraged by. We're actually projecting per capital consumption to be down this year, and that's despite the fact that total production is going to be up, so obviously exports are significant help to us.

Adam Samuelson

All right, I appreciate that color. I'll pass it on, thanks.

Operator

The next question comes from Alexia Howard of Bernstein. Please go ahead.

Alexia Howard

Good morning everyone. I know that you're not giving guidance numerically around the impact of ASF, but could you possibly walk through the segments and just talk about the risks and opportunities relating to ASF? I imagine that in pork, it's really the question of what happens with the lean hog prices, there may be a big opportunity in chicken because you're backward integrated in there and demand might come up, probably not much would go wrong on supply in beef. But could you just give us an idea of qualitatively how you're thinking about the puts and takes around ASF, because obviously being within the company, you probably have better insight into what all the moving pieces are here than we do on the outside. And then I have a follow-up.

Noel White

Okay Alexia, let me speak in terms of what's happening from a global perspective rather than talking about each one of the proteins. From a global perspective, if we take just China, and the public reports would say that there's somewhere around half the hogs have died in China - it might be a little more, might be a little less, nobody knows the actual number, and China produces half of the hogs in the entire world. So there's somewhere around 25% reduction that's taking place on a global basis, which translates to a total protein supply globally of someplace between 5% and 6% decrease in global protein supplies, and that's everything else being equal.

Now at the same time, we have trade patterns that are shifting as well, so with those shortages as an example, we see increase in exports from Australia, from New Zealand, countries like that, that's moving into China. We're seeing less imports into the United States .We're seeing more beef and pork move from South America into China and Southeast Asia, so the global dynamics are changing, they're evolving, and any time that the world loses that amount of protein supply and demand is growing, prices are impacted. That's the difficulty in forecasting what that impact is going to be for us in 2020, because of those market dynamics that continue to shift.

They're all favorable, they're all positive, and we can all run different economic models of what we think the impact is going to be, and that's one of the reasons I think you see the range that is EPS on our stock. There's basically a $2 range as we look into 2020, and I don't think it's responsible for Stewart and I to put forth a number where the visibility that we have, we're very encouraged but we don't want to put forth a number that we think could in fact be low.

Alexia Howard

Great, thank you. Then as a quick follow-up at a very different topic, want to welcome Dean Banks on board. Just curious, I can understand that his experience in innovation and technology brings something that's very timely and very needed. What does that mean for the CEO role, and how is your personal agenda changing here, Noel, as that transition occurs? Thank you, and I'll pass it on.

Noel White

Sure. Dean and I, we've worked together in the past. I have a tremendous amount of respect for Dean, his capabilities. He's going to be a great addition to the Tyson team. As you saw, he's been on our board for several years, so we've had the opportunity to work together.

Technology is a growth platform for us. As you saw in my statement, we have put in place several initiatives and we have a lot more to go. Dean is a great cultural fit with the company and with the leadership team. A

As far as my role, Dean and I will be working very closely together over the course of time. It's an opportunity for Dean just to have a much deeper understanding of our business and at the same time, I can tell you I'll be learning from him as well.

Alexia Howard

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

Operator

The next question comes from Ken Zaslow of Bank of Montreal. Please go ahead.

Ken Zaslow

Hey, good morning everyone. A couple of follow-ups. How much of the chicken margin improvement is operational versus environmental? I guess that's my first question and then I have a follow-up on that.

Noel White

Okay. Ken, the operational improvements, there is a minimum of 200 basis points that's built into that from an operational improvement standpoint. You heard us talk about that at the end of our third quarter, so there's a minimum of 200 basis points that's built into this.

Ken Zaslow

So you're not looking for a material improvement in the chicken environment year-on-year if you take your full year numbers versus 2020 outlook? Then assuming that doesn't also include the potential of China actually--a trade agreement with China, this whole reciprocity--I think you had discussed the reciprocity between the U.S. accepting Chinese chicken but the U.S. potentially being able to export to China, that does not include that as well? And what products can actually move to China, do you think?

Noel White

The answer to both questions is yes. As I spoke about earlier, there is some pricing improvement that's built in on specific items, and that is in fact independent of ASF, so regardless if we had AS or we didn't, we would expect to see some pricing improvement. There is some that's built in.

Now the significant impact of ASF is not built into it. It's true in both cases that there is some pricing improvement that's there, there's operational improvements, but we're not taking into consideration if there was significant quantities of poultry that moved to China.

What specifically that would move to China, I can't really answer since we've not had access for quite some time. However, it's like going to be some form of dark meat, including wings, so wings are, as you know, in strong demand in China as well as the dark meat from poultry, so those are probably the two most--the two specific items, as well as the paws that are also in very strong demand.

Ken Zaslow

Great. Then just on beef, your outlook does not include the insurance proceeds. I'm assuming that the insurance proceeds are what lost profitability you'll have, so when you're getting that 6.5% to 7.5% margin for beef, how much does that exclude for the potential recovery of lost profits, lost logistics costs? How do we think about that, because that 6.5% to 7.5% is probably not the real margin, right, it's understated by whatever you would have earned prior to the fire? Is that not the way to think about it, and can you put some parameters to that?

Stewart Glendinning

Yes, let's keep it simple, Ken. We've sort of looked at the year, we've looked at when the plant has come online, our costs, etc., and we've estimated that and given you that number. Know that on the insurance side, we've adjusted that out, and when we get those proceeds, we'll adjust those out as well. We're holding that to the side.

Ken Zaslow

So it does not include the insurance proceeds--

Stewart Glendinning

It does not take any benefit from the insurance proceeds.

Ken Zaslow

There's actual real cash and real margins, right? You'll actually be able to take that to the bank, right?

Stewart Glendinning

We will be able to take that to the bank, but remember of course that we took a $31 million hit in this past quarter, so.

Ken Zaslow

Great, I appreciate it, guys. Thank you.

Operator

The next question comes from Michael Lavery of Piper Jaffray. Please go ahead.

Michael Lavery

Good morning. Thank you. On the prepared foods guidance, you didn't qualify it with excluding an ASF impact. You mentioned how most of the pricing passes through. Is that really the biggest factor? Is it just that you've got some range there to allow for cost pressures if it comes? Obviously there could be an ASF impact. How do you factor that in, what offsets it, and just how should we think about risks or sensitivities on that segment?

Noel White

Yes, the prepared foods is probably the most difficult to forecast what we think the impact might be. Our other segments, obviously there is a positive impact, potentially significantly positive. In the case of prepared, it's on the risk side, so it is a matter of how quickly those increases in costs are captured. We're very confident that we'll continue to grow our business as we have over the course of the last several years, so the team that's in place running our prepared foods business is very focused on delivering growth and volume, and I can tell you if it comes down to a choice of selling a lot more at 10% or not much more at 12%, I'll take the money on the bottom line that's growing our business at 10%.

Michael Lavery

Okay, that's helpful. Thank you. Just on the alternative proteins, can you give us a sense--you mentioned you prefer to launch the ones that are positioned at healthier. How do you define that, and how incremental do you expect some of those products to be? What kind of sourcing assumptions do you make around those?

Noel White

Yes, so it is incremental, Michael. We don't see cannibalization of any of our other products, so it is in fact incremental. When we say healthier, that's the reason that we're been a little bit slower to launch, is that we view the alternative protein--when we go to market, those products not only need to taste great, but they have to be healthier than whatever the alternative is. That's where we think we can compete and win in the marketplace.

Michael Lavery

Do you measure that on things like sodium or calories? How do you define what healthier means?

Noel White

All of the above, Michael.

Michael Lavery

Okay, thank you very much.

Operator

The next question comes from Ben Theurer of Barclays. Please go ahead.

Ben Theurer

Yes, good morning everyone. Thanks. Just two follow-ups actually on what's been discussed. One on beef, if we take a look at the operating income versus the adjusted operating income, basically the increase on the adjusted one is because of the loss that is related to the plant fire and that's how we should have to think of that going into next year, it's [indiscernible] follow-up to understand what one you adjust, and you get the insurance, you're going to take it out, but then your reported operating income might be higher just because you recover it back then. Is that fair to assume?

Stewart Glendinning

Yes, that's the right way to look at it. If you look in our press release, you'll see a reconciliation that shows you the amount [indiscernible] and that's exactly the way you should think about it going forward.

Ben Theurer

Okay, perfect. Then we've talked about, and I remember we talked about during the third quarter conference call, the improvement you think you can achieve of roughly 200 basis points in the chicken segment once you've accomplished all the initiatives you've been aiming for. If we take that roughly 5% operating income margin for full year and then you assume you do get the 200 basis points into next year would bring us to the 7%, which is right at the midpoint of your guidance anyway. The question is how advanced are you currently going into--being right in the first fiscal quarter, and how much of that d you think will be delivered in the first half versus the second half of your fiscal year, just to get a little bit of a sense of what the ramp-up of those operational improvements is going to look like.

Noel White

Yes. Ben, I would say that it's going to be just a gradual, steady improvement. It's difficult to exactly quantify that for you by quarter, but there will be a gradual improvement throughout the year.

Stewart Glendinning

And Ben, as you know, we don't break those numbers out quarter by quarter. Each quarter we'll update our forecast as we go, so you'll see that, but as Noel mentioned earlier, he's got the right people in the right place and we're starting to see some of those metrics improving.

Ben Theurer

Okay. Then just maybe one last one, when do you think the beef plant that was impacted by the fire is going to be back on? How much lead time do you still need to be basically back operational there?

Noel White

It will be within the next 60 days, Ben, but we think that's probably on the long end. We think it could be potentially quicker than that. There is still some contractors that are finishing up, but the team's done a remarkable job to get back where it needs to be.

Ben Theurer

Okay, perfect - well, surprisingly possible. Thank you very much for giving me the chance to ask some questions. Have a good one, thanks.

Operator

Our last question today will be a follow-up from Heather Jones from Heather Jones Research LLC. Please go ahead.

Heather Jones

Hi, thanks for taking the follow-up. Just wanted to delve in, you made the comment, the right people in the right place a few times, I think, on the chicken business. I was wondering if you could just elaborate on that, any management changes there have been or whatever. Just was curious about that.

Noel White

Yes, there has been, Heather, some management changes. We changed the leadership of poultry at the end of January of this past year. There's been a number of changes that have taken place over the course of 2019, so Chad Martin leads our poultry business and then within the business segments, there's been changes that have taken place, as well as at the plant level. There are a number of changes been made, and we have complete confidence in the team that's in place today.

Heather Jones

Okay, so besides the one that we knew about at the end of January, the changes since then have been more at the plant level?

Noel White

No, it's been throughout the organization, Heather, so not just at the plant level but there has been a number of changes directly underneath Chad, and keep in mind Chad has a fairly sizeable team, so he chose his team, he put them in place, and we think we have the right team.

Heather Jones

Okay, perfect. Thank you so much.

Operator

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

Noel White

Okay, thank you for joining us today, and from all of us at Tyson, we wish you a happy holiday season. Thank you.

Operator

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