

November, 10, 2017

## Tyson Foods, Inc.

Analyst: TJ Curtin

Sector: Consumer Staples

Industry: Food Products

Current Price: \$74.14

Target Price: \$108.61

### Company Description:

Tyson Foods Inc. and its subsidiaries make up one of the world's largest food companies with a variety of well-recognized brands and a strong international presence. The company is a market leader in the areas of chicken, beef and pork as well as prepared foods which represent the four business segments that it operates in. As a fully integrated company, the organization produces, processes, markets and distributes its food products to a variety of customers.

### BUY:

Current Price:	\$74.14
Target Price:	\$110.31
Market Cap:	25.77B
Volume:	2.72M
S&P Debt Rating:	BBB-
ROE:	18.32%
Kd:	4.02%
ROIC:	11.97%
WACC:	4.28%
EBITDA Margin:	9.59%
Operating Margin	7.68%

### Catalysts:

#### Short Term(within the year):

- New Brand Optimization
- Mid-November Earnings Announcement

#### Mid Term(1-2 years):

- Revenue Increases and Cost Synergies from Acquisitions

#### Long Term(3+):

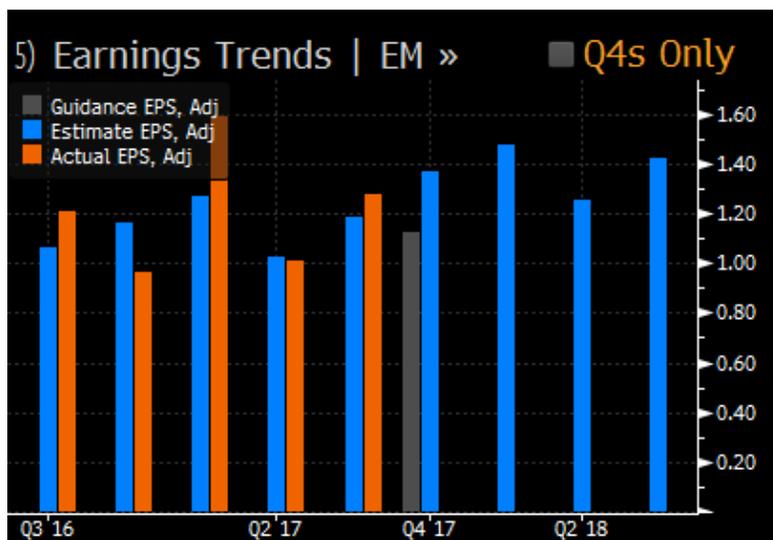
- Strong Growth as Industry Leader
- International Growth
- Increased Market Share



## Thesis:

Founded in 1935, Tyson Foods Inc. is an industry leader in the food and packaged food industries. I believe that the company is relatively undervalued and shows strong growth prospects for the coming year. With an upcoming earnings announcement on November 15th, for which the company and some analysts have recently revised their estimates to a higher number, the company will likely see an appreciation of share value with better than expected performance. TSN has a history of growth and providing value to shareholders. Executives have recently announced their intentions to focus on lowering debt levels, achieve strong growth and create shareholder return. The company boasts solid financial fundamentals, a diversified product mix, better than expected performance, better performance than peers, and has announced efforts to innovate and cut costs whilst revenues from previously invested R&D ventures continue to grow and recent acquisitions boast an additional \$700 million in potential revenues for the coming year.

## Earnings Performance:



TSN is subject to seasonal fluctuation, the result of which can be observed in the earnings trends graphed above for the past year. It can be noted that, despite a tough second quarter partially due to plant fires for which measures have been put in place to ensure that issues do not occur moving forward, earnings per share have grown on average over time. Although the graph only shows data for 2016-2017, EPS growth was up 39% in 2016 as compared to 2015 and expectations continue to grow for the coming years. Total shareholder return for 2014 through 2016 also exceeded competitors. TSN projected a 5-year CAGR of 20% for earnings from 2012-2017 which it has surpassed in actuality; earnings estimates are expected to grow in the coming years as they have in the past.

Measure	Q4/17 Est	4Wk Chg	YoY Gr	Growth vs Comps	Past Surprise
11) EPS, Adj+	1.365	1.83%	42.2%	Stronger	Beat 5 of 8
12) EPS, GAAP	1.365	1.83%	33.0%	Stronger	Beat 5 of 8
13) Revenue	9.915B	0.18%	8.3%	Weaker	Beat 6 of 8
14) Net Income, Adj+	499.375M	3.09%	37.1%	Stronger	Beat 5 of 8
15) Operating Profit	832.333M	4.35%	--	--	--
16) EBITDA	1.046B	2.29%	36.7%	Stronger	Beat 5 of 7

The table above shows earnings, revenue and profit figures for the company with growth versus competitors and performance vs. expectation metrics. It can be noted that earnings, revenue and profit figures have all grown for the past month as well as the past year, and that only revenue was weaker than competition while TSN beat its competition in earnings, net income, operating profit and EBITDA figures. Tyson has also beat analyst estimates for a majority of the past 8 periods that were measured and has recently revised its future earnings expectations in an upward manner.

### Business Strategy:

Tyson Foods Inc., the number 1 most admired company in the food production industry as described by *Fortune*, recognizes the increasing consumer demand for protein as a part of diets. As a majority of people are increasing the protein in their diets, Tyson is aiming to capture a large portion of this market share through a variety of protein products including Beef, Chicken, Pork and Prepared Foods. The organization is also making efforts to appeal to customers in the top 5 identified desired health & wellness attributes that have been named by survey respondents in the bar chart to the right. As consumers become more health-minded, the organization is focusing on providing healthy product lines and has taken an initiative to supply vegetarian and vegan options in the future. With corporate social responsibility in mind, the organization has taken measures to reduce their carbon footprint, prevent animal suffering and to run the organization in as cost-effective and sustainable a manner as possible.



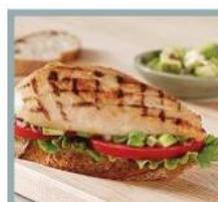
**Reduces Greenhouse Emissions**



**Improves Worker Welfare**



**Improves Animal Welfare**



**Improves Food Safety**



**Reduces Land Use**

The table below shows revenue by segment as a proportion to total revenue with Beef making up the largest portion of the product mix and Pork representing the smallest portion. Revenues are expected to top \$41 billion for 2018. Tyson's "Core 9" includes nationally recognized brands such as Ball Park Hot Dogs, Jimmy Dean Breakfast Items, Hillshire Farm Meats and State Fair Corn Dogs and volume growth for these brands is over 270bps for the past year over year. Strong brand loyalty with regard to these products creates a competitive advantage against the lesser-known brands of competitors.

In Millions of USD except Per Share 12 Months Ending	FY 2016 10/01/2016	
 Revenue	36,881.0	100.0%
 Beef	14,513.0	38.5%
 Chicken	10,927.0	29.0%
 Prepared Foods	7,346.0	19.5%
 Pork	4,909.0	13.0%

Adjusted income by segment is shown in the table below for the 9 month period ending July 1, 2017 separated by Beef, Pork, Chicken, Prepared Foods and Other. Beef, not surprisingly, boasts the highest sales whilst Chicken represents the highest operating income figure and makes up the second largest segment of the company by revenue. As can be seen by the separate line for AdvancePierre, Tyson has strengthened its position in the Prepared Foods and Other category recently; an acquisition that is expected to continue offering revenues and synergies for more than the next year.

In millions  
(Unaudited)

**Adjusted Segment Operating Income (Loss)**  
(for nine months ended July 1, 2017)

	Prepared					Intersegment		Total
	Beef	Pork	Chicken	Foods	Other	Sales		
Sales	\$ 11,015	\$ 3,876	\$ 8,374	\$ 5,590	\$ 257	\$ (997)	\$ 28,115	
Reported operating income (loss)	572	524	790	451	(87)	-	2,250	
Add: AdvancePierre purchase accounting and acquisition related costs (a)	-	-	4	21	34	-	59	
Add: San Diego Prepared Foods operation impairment	-	-	-	52	-	-	52	
Adjusted operating income (loss)	\$ 572	\$ 524	\$ 794	\$ 524	\$ (53)	\$ -	\$ 2,361	

## Ownership:

Top Ownership Type (%)			
54) Ownership Type	10/29/17	Curr	Change
41) Investment Advisor	82.46	82.20	-0.26
42) Hedge Fund Manager	6.41	6.43	+0.02
43) Pension Fund	2.87	2.98	+0.11
44) Bank	2.19	2.21	+0.02
45) Government	1.46	1.54	+0.08
46) Individual	1.39	1.39	0.00
47) Sovereign Wealth Fund	1.04	1.04	0.00
48) Insurance Company	0.94	0.95	+0.01
49) Corporation	0.94	0.94	0.00

Tyson is currently owned by a large percentage of investment advisors, as can be seen in the table above that shows ownership by type. This group of investment advisors have recently lessened their holdings as a percentage by .26%, however other than this group of investors, every other ownership group has either increased or held their position over the past year. This shows that a majority of investors are either seeing growth prospects attractive enough to increase their holding, or that they do not see the company's history of strong growth and respectable shareholder returns changing course anytime soon, limiting the suggested downside that analysts see in the organization for the foreseeable future. This is a positive sign for the market's confidence in the stock price at the current moment.

## Management:

Tyson's management team is committed to growing not only the top line, but also profitability and shareholder return through a direct and clear multifaceted strategy that is projected to strengthen the company's market position in a positive manner. In February of 2017, Tyson announced the addition of new leaders to their management lineup in an effort to "increase focus on consumers, customers, technology and sustainability. Clear priority and accountability in these four areas, coupled with a structure designed for collaboration and agile decision-making, position the company for continued success in a changing market." Three top executives have worked for the organization for over 10 years, allowing for a strong working knowledge of the organization to exist and to be conveyed to newcomers. Recent hires have been vetted and strategically aligned to ensure that employees are placed in the right position relative to the company's goals. Executive management includes:

- Sally Grimes, President, North American Retail
- Andy Callahan, President, North American Foodservice & International
- Noel White, Chief Operations Officer
- Monica McGurk, Chief Growth Officer
- Dennis Leatherby, Chief Financial Officer
- Scott Rouse, Chief Customer Officer
- Devin Graham, (interim) Chief Technology Officer
- Mary Oleksiuk, Chief Human Resources Officer

## Strategic Acquisitions:

In August of 2014, Tyson Foods Inc. acquired Hillshire Brands, a leader in branded convenience foods, using a mix of cash, debt and equity at a cost of \$63 per share. Hillshire had approximately \$4 billion in sales for the prior year, 2013. The reasoning behind this was to strengthen the company's position in providing protein at breakfast and throughout the day to customers in an easy to prepare manner. Total synergies are expected to stem from the categories of prepared foods improvements, procurement, manufacturing and logistics as well as organizational and fiduciary realms and are projected to reach \$700 million by the end of 2018.

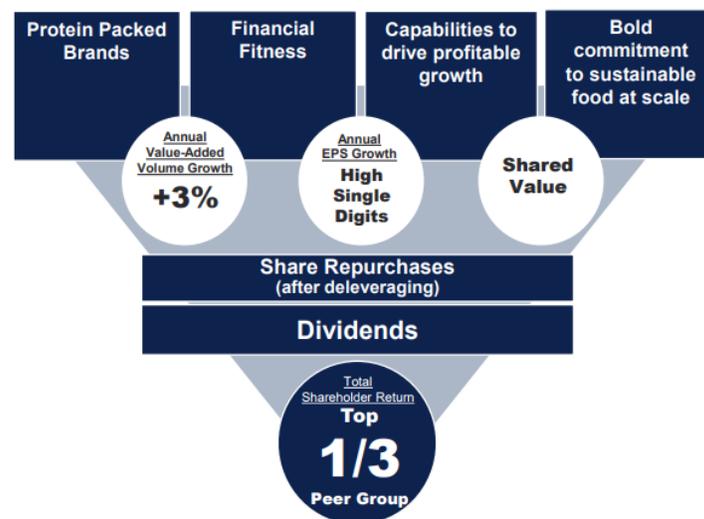


In April of 2017, Tyson declared their definitive intention to acquire AdvancePierre Foods Holdings, Inc., a leading national producer of ready-to-eat lunch and dinner sandwiches and snacks, for a per share cash price of \$40.25 amounting to a total of approximately \$4.2 billion. This was funded, in part, through bridge financing provided by Morgan Stanley Senior Funding, Inc. The rationale for this strategic acquisition surrounds the notion that together, Tyson and AdvancePierre will strengthen their market position through the complementary product portfolios that each entity offers. For Tyson specifically, this strengthens their position and leadership in the prepared food segment and also enhances their financial profile as the company believes it can use its strong cash flow to mitigate debt payments through the improved EBITDA figures thanks to the acquisition. Lastly, the acquisition creates significant cost and revenue synergies. Increased revenues from the previous two acquisitions showcase Tyson's ability to successfully acquire and integrate competitors and total synergies for the fiscal year of 2018 are expected to reach \$200 million with respect to this acquisition.



## Adapting to Market Preferences:

The chart below is a visual representation of Tyson Foods’ strategy for the coming years that is aimed to drive growth and increase shareholder return. As consumers are increasing the amount of protein they consume per meal, the variety of protein products that the company offers should see increases in sales as population growth continues to increase and the company reaps the benefits of previously employed marketing campaigns. The financial strength of the organization, taking into account the past 2 years of recent acquisitions that have strengthened the finances of the larger organization, will lead to a better ability to increase market share and the breadth of products that consumers can choose from, which will in turn strengthen the brand loyalty for the organization. A mix of these past two categories allows the organization to be capable of continuing to drive growth through R&D, marketing, and taking advantage of opportunities that smaller organizations with less cash on hand would not be able to capitalize on. Lastly, as the organization begins to focus on feeding the world in a sustainable manner, this cost-effective method of conveying corporate social responsibility is expected to have a positive impact on shareholder value. This combined list of attributes, with a focus on deleveraging the organization followed by a potential renewed focus in share repurchases coupled with the organization’s history of and commitment to paying increasing dividends provides strong prospects for why the company will continue to out-earn a majority of the peers in its group.



As consumers begin to demand the humane treatment of animals with respect to their food sources and whilst health concerns are on the rise, Tyson has set initiatives aimed to align with the demands of its customers in an effort to continue to be an industry leader. With respect to food, the organization aims to serve antibiotic-free chicken to customers and has announced their efforts to convert chicken supply chains to accommodate this on a larger basis throughout the year. In order to minimize labor variances and to ensure the safety and satisfaction of employees, the company has set the goal of reducing workplace injuries by 15% for the year. In order to ensure that animals are treated in a humane manner and that there are no conflicts of interest, Tyson has called for 3<sup>rd</sup> party audits of its chicken farms. Lastly, with regard to environmental impact and carbon emissions, the organization is working to set and meet scientific sustainability goals constantly in order to accommodate the customers that are concerned with the impact that their food choices have on the environment.

FOOD	PEOPLE	ANIMALS	ENVIRONMENT
Convert chicken supply chain to no antibiotics ever	Reduce workplace injuries by 15% per year	3 <sup>rd</sup> party audit of farms to certify humane treatment of chickens	Working with partners to set science-based targets

### Comparison to Competitors:



The bar chart above shows 3 year total shareholder returns, from 2014-2016 for Tyson and 15 of its strongest competitors. It is obvious that Tyson has outperformed its peers by a vast margin for this period, with the closest runner up, Hormel Foods, coming in at 81% lower than Tyson’s 3 year returns. Industry leading cash flows for this organization with respect to its peers also provides a strategic position for the company to take advantage of growth opportunities that are sure to arise over the coming years. Zack’s research ranks TSN as 24 out of 265 within its industry based on a variety of metrics, placing it within the top 9% among competitors in the industry. This ranking shows that the company is a strong leader but still has room for improvement which would translate directly to increased shareholder value.

## Conclusion:

In conclusion, I believe that Tyson Foods Inc. is currently undervalued and is also a great growth prospect for the coming year. With recent successful acquisitions and investment in R&D over the past 2 years, and a positive outlook and forecast for 2018, TSN is ready to reap the benefits of its past efforts as it strives to utilize its capable management team and assets to generate new revenue, increase market share, deleverage itself and continue to grow earnings and dividends to return value to shareholders. The table below shows the calculation of various ratios in comparison to industry competitors and the market as a whole. Data from Morningstar.com was used to calculate these ratios. As can be seen, Tyson is undervalued in comparison to the market in every valuation metric by a rather significant margin, and is undervalued compared to the industry on a P/E basis.

<b>Ratios</b>	<b>Current</b>	<b>Industry</b>	<b>Market</b>
<b>P/E</b>	14.90	15.30	22.00
<b>Forward P/E</b>	13.00	-	21.10
<b>Price/CF</b>	13.00	-	21.10
<b>Price/FCF</b>	11.50	8.90	13.70
<b>Price/Book</b>	2.50	1.80	3.10
<b>Price/Sales</b>	0.70	0.40	4.20
<b>PEG</b>	1.50	-	2.10

Tyson Foods, Inc. (TSN)

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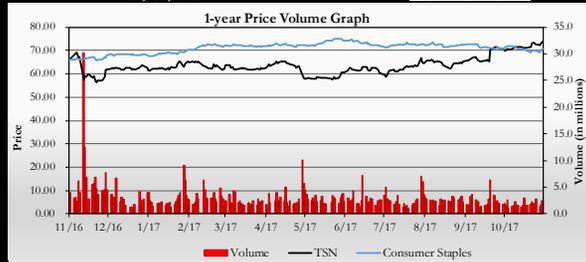
BULLISH

Analysis by TJ Curtin  
11/10/2017

Current Price: \$74.14  
Divident Yield: 1.1%

Intrinsic Value: \$98.23  
Target Price: \$108.61

Target 1 year Return: 47.63%  
Probability of Price Increase: 100%



Description		Market Data	
Tyson Foods, Inc., together with its		Market Capitalization	\$27,201.75
		Daily volume (mil)	2.63
		Shares outstanding (mil)	366.90
		Diluted shares outstanding (mil)	372.75
		% shares held by institutions	116%
		% shares held by investments Managers	65%
		% shares held by hedge funds	4%
		% shares held by insiders	1.15%
		Short interest	1.48%
		Days to cover short interest	2.42
		52 week high	\$74.30
		52-week low	\$55.72
		Volatility	25.72%

General Information	
Sector	Consumer Staples
Industry	Food Products
Last Guidance	November 3, 2015
Next earnings date	November 13, 2017
Estimated Country Risk Premium	6.40%
Effective Tax rate	23%
Effective Operating Tax rate	23%

Past Earning Surprises		Peers	
Quarter ending	Revenue	EBITDA	
7/2/2016	1.23%	7.96%	Mondelez International, Inc.
10/1/2016	-2.76%	-15.88%	The Kraft Heinz Company
12/31/2016	2.10%	18.09%	Sanderson Farms, Inc.
4/1/2017	0.03%	1.37%	Hormel Foods Corporation
7/1/2017	4.10%	2.63%	Pilgrim's Pride Corporation
Mean	0.94%	2.83%	Dean Foods Company
Standard error	1.1%	5.5%	McCormick & Company, Incorporated
			Kellogg Company

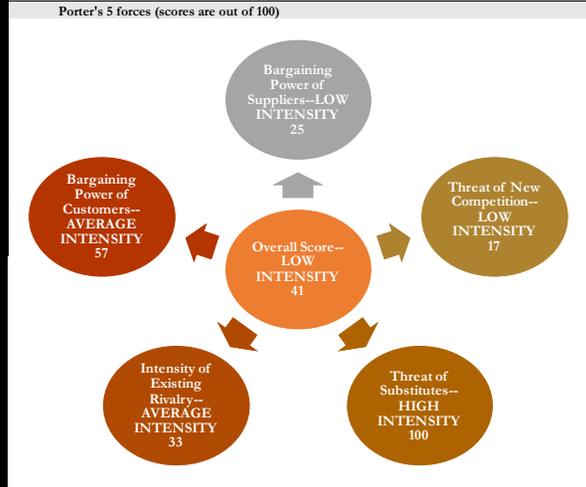
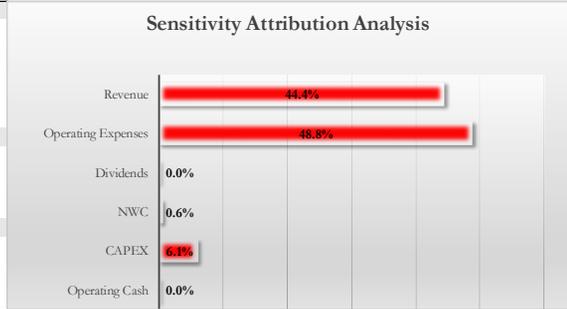
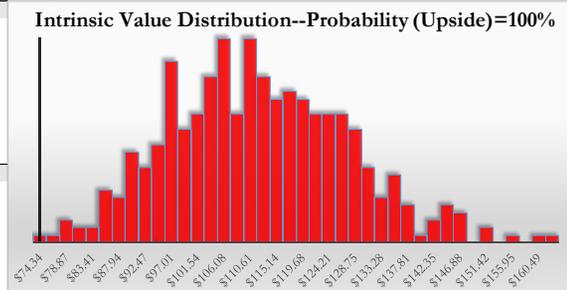
Management	Position	Total compensations growth	Total return to shareholders
Hayes, Thomas	President, CEO & Director	N/M	N/M
Leatherby, Dennis	Executive VP & CFO	11.3% per annum over 5y	2.55% per annum over 5y
White, Noel	Group President of Fresh Mea	24.07% per annum over 5y	2.55% per annum over 5y
Galaway, Curt	Chief Accounting Officer, Se	N/M	N/M
Spradley, Scott	Chief Technology Officer	N/M	N/M
Kathol, Jon	Vice President of Investor R	N/M	N/M

Profitability	TSN (LTM)	TSN (5 years historical average)	Peers' Median (LTM)
Return on Capital (GAAP)	10.1%	8.07%	12.22%
Operating Margin	4%	2.37%	7.61%
Revenue/Capital (GAAP)	2.36	3.40	1.60
ROE (GAAP)	18.5%	12.8%	27.3%
Net margin	5.2%	2.5%	9.2%
Revenue/Book Value (GAAP)	3.58	5.04	2.99

Invested Funds	TSN (LTM)	TSN (5 years historical average)	Peers' Median (LTM)
Cash/Capital	4.4%	7.8%	7.2%
NWC/Capital	9.6%	16.3%	5.0%
Operating Assets/Capital	41.0%	50.2%	51.0%
Goodwill/Capital	45.0%	25.8%	36.7%

Capital Structure	TSN (LTM)	TSN (5 years historical average)	Peers' Median (LTM)
Total Debt/Market Capitalization	0.56	0.36	0.54
Cost of Existing Debt	2.9%	8.2%	3.4%
CGFS Rating (F-score, Z-score, and default Probability)	A	BBB	BBB
WACC	7.3%	11.8%	7.6%



Period	Revenue Growth Forecast	NOPAT Margin Forecast
Base Year	-3%	7.1%
7/1/2018	6%	-0.4%
7/1/2019	4%	-0.2%
7/1/2020	4%	0.0%
7/1/2021	2%	-0.1%
7/1/2022	0%	6.5%
7/1/2023	0%	6.8%
7/1/2024	1%	7.1%
7/1/2025	1%	7.4%
7/1/2026	1%	7.7%
7/1/2027	2%	8.0%
Continuing Period	2%	8.3%

Period	Revenue to Capital Forecast
Base Year	2.20
7/1/2018	1.78
7/1/2019	1.87
7/1/2020	1.98
7/1/2021	2.05
7/1/2022	2.10
7/1/2023	1.89
7/1/2024	1.72
7/1/2025	1.58
7/1/2026	1.46
7/1/2027	1.36
Continuing Period	1.27

Period	Return on Capital Forecast	WACC Forecast
Base Year	15.5%	7.3%
7/1/2018	-0.7%	7.8%
7/1/2019	-0.4%	7.9%
7/1/2020	-0.1%	8.4%
7/1/2021	-0.3%	7.8%
7/1/2022	13.7%	7.9%
7/1/2023	12.9%	8.0%
7/1/2024	12.2%	8.1%
7/1/2025	11.7%	8.2%
7/1/2026	11.2%	8.3%
7/1/2027	10.9%	8.4%
Continuing Period	10.6%	8.5%

Period	Price per share Forecast
Base Year	\$95.89
7/1/2018	\$106.39
7/1/2019	\$115.84
7/1/2020	\$125.85
7/1/2021	\$135.13
7/1/2022	\$144.52
7/1/2023	\$154.18
7/1/2024	\$164.12
7/1/2025	\$174.33
7/1/2026	\$184.82
7/1/2027	\$195.58
Continuing Period	