



Exeter Student Investment Fund

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Tyson Foods Inc [NYSE: TSN]

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Mr. Market has provided us with a defensive opportunity to bolster our portfolio. The demand for Tyson's products has been proven to remain strong during recessionary times, it has stable operations and a good dividend yield (currently ~ 2.63%) which has not been reduced for over 25 years. Tyson is the largest producer of meat in the US, supplying large fast food chains, hotels, schools and other domestic retail channels. Demand in this sector has taken a huge hit in the short-term which the market has recognized. For a long-term horizon given, its market share, Tyson is well poised to capture the increase in demand once we resume normality providing us with a cheap long-term opportunity.

Thesis – “The market has taken a short-term view on the company providing us with a undervalued long-term investment. The company has the largest market share by sales in the US and has a global presence, giving it the durability for its products to remain in stable demand during the current recession and through its duration.”

Company Overview - History



- **Founded** in 1935 by John W Tyson, the company benefitted during WWII when chicken was not included in the foods that were rationed – this caused their “Post-war Boom”.
- **Aim** – “To produce and market trusted quality food products that fit today's changing lifestyles and to attract, reward, and retain the best people in the food industry.” – supplies KFC, Taco Bell, McDonalds’, Burger King, Wendy’s to name but a few. Supplying large chains accounts for almost half their revenue
- **Strategy** – company has traditionally grown through acquisitions and the organic growth of the population. More recently the company has been investing into cultured meat companies and launched new plant-based products. Largest meat supplier in the US based on sales.
- **Pricing** – Currently \$66-68
 - High: \$91.92
 - P/E: 12.44
 - Market Cap: 19.90B



Open	67.78	Mkt cap	19.90B	Prev close	67.63
High	68.20	P/E ratio	12.44	52-wk high	79.11
Low	67.23	Div yield	2.64%	52-wk low	42.57

→ [More about Tyson Foods, Inc.](#)

Company Overview - Management



President & CEO – Dean Banks

- Appointed October 2020.
- President of Tyson Foods since December 2019 and served on the board since 2017.
- Previously Managing Partner of SEED Ventures
- Former Platoon sergeant and squad leader in the US Marine Corps
- MBA Harvard Business School



Chairman of the Board – John Tyson

- Appointed 1984
- Previously served as CEO and has been a director since 1984
- Grandson of the company's founder
- Owns 1% of the company.

Largest stake holders: The Vanguard Group Inc (10.57%), T. Rowe Price Associates (4.98%), BlackRock Fund Advisors (4.90%)



Essentially anything that would indicate that the globe is resuming normality for the long term.

Competitor Overview



Tyson Inc:

Gross Margin 5yr ave = 15.37%

Pre-tax margin 5yr ave = 6.53%

Market shares of chicken, beef, pork are 33.14%, 48.58% and 10.12% respectively

Market share in US = 42.21%³

JBS:

Gross Margin 5yr ave = 16.72%

Pre-tax margin 5yr ave = 1.75%

Market share in US = 34.9%²

WH Group:

Gross Margin 5yr ave = 22.01%

Pre-tax margin 5yr ave = 7.00%

Packaged meat market share in US = 33%¹

1. <https://pitchbook.com/profiles/company/10762-75#overview>
2. Statista <https://www.statista.com/statistics/264898/major-us-meat-and-poultry-companies-based-on-sales/>
3. <https://csimarket.com/stocks/competitionSEG2.php?code=TSN>

Valuation – Balance Sheet



TYSON FOODS, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(In millions)
(Unaudited)

	January 2, 2021	October 3, 2020 ¹
Assets		
Current Assets:		
Cash and cash equivalents	\$ 2,406	\$ 1,420
Accounts receivable, net	1,900	1,952
Inventories	3,915	3,859
Other current assets	323	367
Total Current Assets	8,544	7,598
Net Property, Plant and Equipment	7,664	7,596
Goodwill	10,913	10,899
Intangible Assets, net	6,719	6,774
Other Assets	1,618	1,589
Total Assets	\$ 35,458	\$ 34,456
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current debt	\$ 566	\$ 548
Accounts payable	1,997	1,876
Other current liabilities	2,286	1,810
Total Current Liabilities	4,849	4,234
Long-Term Debt	10,791	10,791
Deferred Income Taxes	2,331	2,317
Other Liabilities	1,706	1,728
Total Tyson Shareholders' Equity	15,638	15,254
Noncontrolling Interests	143	132
Total Shareholders' Equity	15,781	15,386
Total Liabilities and Shareholders' Equity	\$ 35,458	\$ 34,456

Pros

- Current Ratio¹ = 1.90
- Quick Ratio¹ = 0.95 – inventories consist of mostly, live stock, processed products, supplies. Depreciates quickly.
- Debt to Asset Ratio¹ = 0.55. WH Group = 0.43, JBS = 0.74
- Debt to Asset (less Goodwill) Ratio¹ = 0.80
- ROCE = 20% , 5yr = 24.176% (WH Group = 11.7%, JBS = 10.8%)³
- Management expects total liquidity to remain above their minimum target of \$1bn. It was approx. \$4.2bn at Jan 2021, on target.

Cons

- Solvency Ratio² = 0.17. WH Group = 0.36, JBS = 0.10

1. Numbers from Q4 Filing - period ending Jan 2, 2021
2. Numbers used from 2020 Annual Report
3. Numbers used from Factiva using latest annual results

Valuation – Debt



NOTE 6: DEBT

The major components of debt are as follows (in millions):

	January 2, 2021	October 3, 2020
Revolving credit facility	\$ —	\$ —
Commercial paper	—	—
Senior notes:		
2.25% Notes due August 2021	500	500
4.50% Senior notes due June 2022	1,000	1,000
3.90% Senior notes due September 2023	400	400
3.95% Notes due August 2024	1,250	1,250
4.00% Notes due March 2026 (“2026 Notes”)	800	800
3.55% Notes due June 2027	1,350	1,350
7.00% Notes due January 2028	18	18
4.35% Notes due March 2029 (“2029 Notes”)	1,000	1,000
6.13% Notes due November 2032	160	160
4.88% Notes due August 2034	500	500
5.15% Notes due August 2044	500	500
4.55% Notes due June 2047	750	750
5.10% Notes due September 2048 (“2048 Notes”)	1,500	1,500
Discount on senior notes	(44)	(45)
Term loan:		
Term loan facility due March 2022 (1.69% at 1/2/2021)	1,500	1,500
Other	231	216
Unamortized debt issuance costs	(58)	(60)
Total debt	11,357	11,339
Less current debt	566	548
Total long-term debt	\$ 10,791	\$ 10,791

- **Weighted average interest of debt = 4.05%¹ , JBS = 5%**
- **Gives cash outflow from interest of = \$429million – covered by FCF 6.24x**

1. The term loan is less 750 due to the company paying back 750 in February 2021.

Valuation – Cash Flow Statement



TYSON FOODS, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS

Three years ended October 3, 2020

in millions

	2020	2019	2018
Cash Flows From Operating Activities:			
Net income	\$ 2,071	\$ 1,993	\$ 2,973
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	900	819	723
Amortization	292	279	220
Deferred income taxes	18	77	(874)
Gain on dispositions of businesses	—	(17)	(42)
Impairment of assets	48	94	175
Stock-based compensation expense	89	77	69
Other, net	(124)	(20)	(58)
(Increase) decrease in accounts receivable	191	(226)	(2)
(Increase) decrease in inventories	86	(157)	(144)
Increase (decrease) in accounts payable	(64)	(55)	(44)
Increase (decrease) in income taxes payable/receivable	62	(254)	111
Increase (decrease) in interest payable	(41)	47	(3)
Net changes in other operating assets and liabilities	346	(144)	(141)
Cash Provided by Operating Activities	3,874	2,513	2,963
Cash Flows From Investing Activities:			
Additions to property, plant and equipment	(1,199)	(1,259)	(1,200)
Purchases of marketable securities	(105)	(64)	(42)
Proceeds from sale of marketable securities	87	63	37
Acquisitions, net of cash acquired	—	(2,462)	(1,474)
Proceeds from sale of businesses	29	170	797
Acquisition of equity investments	(183)	—	—
Other, net	(52)	88	(24)
Cash Used for Investing Activities	(1,423)	(3,464)	(1,906)
Cash Flows From Financing Activities:			
Proceeds from issuance of debt	1,609	4,634	1,148
Payments on debt	(1,212)	(3,208)	(1,307)
Borrowings on revolving credit facility	1,210	1,135	1,755
Payments on revolving credit facility	(1,280)	(1,065)	(1,755)
Proceeds from issuance of commercial paper	14,272	17,722	21,024
Repayments of commercial paper	(15,271)	(17,327)	(21,197)
Purchases of Tyson Class A common stock	(207)	(252)	(427)
Dividends	(601)	(537)	(431)
Stock options exercised	30	99	102
Other, net	(18)	(30)	(14)
Cash Provided by (Used for) Financing Activities	(1,468)	1,171	(1,102)
Effect of Exchange Rate Change on Cash	(1)	(6)	(3)
Increase (decrease) in Cash and Cash Equivalents and Restricted Cash	982	214	(48)
Cash and Cash Equivalents and Restricted Cash at Beginning of Year	484	270	318
Cash and Cash Equivalents and Restricted Cash at End of Year	1,466	484	270
Less: Restricted Cash at End of Year	46	—	—
Cash and Cash Equivalents at End of Year	\$ 1,420	\$ 484	\$ 270

See accompanying notes.

- Dividend pay out for 2020 was 22% of FCF - 5yr ave = 24% FCF
- Net Cash from Operations/Revenue 2020 = 8.97% - 5 yr ave = 7.29%. Compared to peers JBS and WH Group with 5yr ave of 5.84% and 6.09% respectively.
- CFO/PPE 2020 = 47%, 5yr ave = 46% . JBS and WH Group 5 year ave of 27% and 30%.
- CFO/LTD 2020 = 35% , 5yr ave = 34%. JBS and WH Group 5 yr ave of 22% and 65%.
- Interest coverage = 7.55¹

1. Taken from Factiva - Key Ratios



Animal Welfare

Every plant harvesting live animals for Tyson Foods Inc has an animal welfare specialist on site that works collaboratively with the plant operators and Office of Animal Welfare. The Office of Animal Welfare is designed by Tyson to ensure that the company acts responsibly with care and excellent treatment of the animals in their supply chain.

Third party auditors check on farms that supply Tyson for things such as animal access to food and water as well as proper human to animal interaction.

Water

~ 31 billion gallons of water is used in their facilities a year. Majority of it is returned safely to surface water sources in the US through their wastewater treatment centres. Use modern technology and reclamation systems to conserve water usage.

Waste reduction allows the company to streamline costs and send as few materials to the landfill as possible.

Food Safety

Tyson checks their products for quality and safety at every touch point along the supply chain. Their state of the art Food Quality and Safety Assurance systems allow the company to continuously improve the safety and quality of their foods.

Community

According to Feeding America more the 41 million Americans live in food-insecure households. Tyson endeavours to alleviate this problem through their Community Pantry and Meals that Matter initiative. Meals that Matter provide food to areas in America hit by natural disasters. Their 53 foot trailer has the capacity to refrigerate 20,000pds (9000kg) of food which they use to support their onsite cooking crews.

Workplace

The company is committed to cultivating an organization run by diverse team members. Tyson maintains a talent strategy aimed at attracting the best employees whilst recognising and rewarding their performance. Tyson works to ensure that team members across the company receive fair compensation for their skills and experience

Valuation – Cash Flow Statement



Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Net Income	733	576	778	856	1224	1772	1778	3027	2035	2150
Net Cash from Operations	1046	1187	1314	1178	2570	2716	2599	2963	2513	3874
Capital Expenditure	643	690	558	632	854	695	1069	1200	1259	1199
FCF	403	497	756	546	1716	2021	1530	1763	1254	2675

- Found the company’s free cash flow from 1999-2020
- The CAGR of FCF over the last 21 years is 13.6%
- Projecting this out for a 10 yr horizon values the company at \$87.21 a share.
- Using CAGR of FCF over 5yrs gives a valuation of \$59.02.
- Both valuations use the discount rate of 10.2%. This I believe to be appropriate because this is the CAGR of the SP500 including dividends and Tyson is a dividend paying stock – taking a long-term view this is an appropriate bench mark and opportunity cost of capital allocation.

	Val per share
Value using CAGR 21yrs	87.2093355
Value using CAGR 5 yr	59.0214125



Red Flag – FCF has been growing at a much faster pace than revenue growth over the last 10 years. CAGR of FCF = 21%, CAGR of Rev = 3%. Indication of aggressive accounting.

- Consumer taste has been changing rapidly away from unhealthy processed foods. Consumption of plant based protein has been growing rapidly in the US. The company has been adapting by investing in cultured meat companies and by launching their own plant-based protein products under their current brands such as the Jimmy Dean label.

Just last month, we launched new alternative protein offerings under the Jimmy Dean label, including the Plant-Based Patty Croissant, which is already exceeding our original demand forecast. Recognized and trusted brands like Jimmy Dean provide a powerful platform to offer plant-based options, which is an illustration of our One Tyson strategy in action.





Pros

- The dominant player of the meat industry in the US
- Strong pricing power due to its market share
- Track record of durability during recessionary times
- Good capital efficiency and cash generation, conservative balance sheet
- Family run business

Cons

- Changing consumer tastes, movement away from animal protein to plant protein
- Red flag regarding revenue growth and FCF growth