Tyson Foods Inc.
Market Mavericks

Yash, Maggie, Hardik, & Stephen
10/28/24

Business Model

Description

- **Simple Explanation** – Tyson Foods Inc. includes a diverse range of protein products across chicken, beef, pork, and prepared foods. In addition to producing fresh meats, Tyson offers branded and packaged products under well-known names like Tyson, Jimmy Dean, Hillshire Farm, Ball Park, and Aidells, among others, which are sold to both retail and foodservice channels in the U.S. and globally.

Founding

- **How It Was founded** - Founded in 1935 by John W. Tyson in Springdale, Arkansas. Initially, he started the business by transporting chickens to markets in the Midwest during the Great Depression. As demand for poultry grew, Tyson expanded his operations from transportation to poultry farming, eventually leading the company into processing and distribution. This growth laid the foundation for Tyson Foods, which would become one of the largest meat and protein producers in the world.

Services

- **Describe Services Provided** - Provides a range of services primarily centered on processing and distributing proteins such as chicken, beef, and pork. It offers products for both retail and foodservice customers, with a portfolio that includes fresh and frozen meats, ready-to-eat items, and branded products.

THE TYSON FOODS FAMILY OF BRANDS

Company Overview & Investment Thesis

Company Name:	Tyson Food's Inc.	**Current Price:**	$58.67
Ticker:	TSN	**Current Date:**	10/25/2024
Sector:	Consumer Staples	**Target Price:**	$66.65
Industry:	Protein Processing	**Target Date:**	10/28/2025
Shares Out.:	354 Million	**Avg. Volume:**	2.145 Million
Market Cap.:	20.88 Billion	**Beta:**	.77
P/E Ratio:	59.4	**PEG Ratio:**	0.38
5 Year SD	26.53		

Investment Thesis: BUY $20,000 of TSN

Price Performance History

Pink: GSPC
Blue: TSN

Yahoo Finance chart details: O 43.07 H 44.44 L 41.38 C 44.39 Vol 19.5m
^GSPC 1,951.36
199.52%
39.92%

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	Avg (CAGR)
TSN	61.25%	68.42%	39.36%	106.82%	46.26%	98.98%	69.83%	34.45%	64.39%	**5.65%**
GSPC	12%	36%	30%	71%	102%	161%	113%	169%	232%	**26%**

Institute of Advanced Investment Management
THE UNIVERSITY OF UTAH

Industry Analysis

Competitive Advantage: Maintains a dominant position in the food products industry through its massive scale of operations, extensive distribution infrastructure, and strategic acquisitions. As one of the world's largest processors of chicken, beef, and pork, it leverages vertical integration and operational efficiency to ensure competitive pricing and reliable supply to major retail chains and food service customers.

Cyclicality: Tyson's product demand experiences cyclical patterns due to seasonal food consumption trends and volatility in livestock and feed costs. However, the company's diversified protein portfolio (chicken, beef, pork) provides natural hedging, while long-term contracts with major retailers and its prepared foods division help stabilize revenues during market fluctuations.

Growth Potential: Driving growth through expansion of its value-added products and protein alternatives portfolio, particularly plant-based. The company is investing heavily ($1.3B) in automation and digital technologies to enhance production efficiency, while also expanding its international presence in high-growth markets. Their focus on sustainability initiatives and transparency aligns with growing consumer demand for responsibly produced food products.

Industry Regulation: As a leading meat processor, Tyson Foods operates under strict USDA and FDA oversight regarding food safety, worker safety, and environmental compliance.

SWOT Analysis

Strengths

Scale and Integration: One of the world's largest meat processors with highly integrated supply chain operations. Vertical integration enables quality control while maintaining cost competitiveness.

Strong Financial Performance: Consistent revenue growth and market leadership = 2023 generated over $52 billion in annual sales.

Efficient Operations Management: With over 400 facilities and 137,000 employees. Advanced automation and processing capabilities enable efficient production and distribution.

Weaknesses

Environmental and ESG Concerns: Faces ongoing criticism over environmental impact, particularly regarding water usage, emissions, and waste management.

High Operating Costs Significant expenses in maintaining facilities, labor costs, and regulatory compliance impact profit margins.

Commodity Price Sensitivity: Highly vulnerable to fluctuations in grain prices for animal feed and livestock costs, which can significantly impact profitability.

Consumer Trends: Beef and Pork decline

Opportunities

Growth in Emerging Markets: Expanding presence in international markets (Asia-Pacific region) = protein demand is growing rapidly.

Expansion of Value-Added Products: Growing portfolio of prepared foods and branded products to capture higher margins and reduce commodity exposure.

Adoption of Sustainable Practices: Investment in plant-based products (Raised & Rooted brand) and cultivated meat research positions company for evolving consumer preferences.

Threats

Regulatory Scrutiny and Compliance Costs: Operates in a heavily regulated industry = compliance requires ongoing investment, and non-compliance risks reputational and financial penalties.

Intense Industry Competition: The food processing industry is highly competitive.

Changing Consumer Preferences: Consumers shift towards plant-based and alternative proteins = faces potential risks to its core poultry business.

David Eccles
School of Business
THE UNIVERSITY OF UTAH

Valuation: DCF Assumptions

- **Revenue Growth**: 2-3% near-term, 1-2% long-term
- **Operating Margin**: 8-10% initially, potentially up to 12-13%
- **CapEx**: 5-6% of revenue, declining to 3-4%
- **Working Capital**: 2-3% of revenue
- **Effective Tax Rate**: 21.6%
- **WACC**: 5.79%
- **Terminal Growth Rate**: 1.5-2%

Valuation Summary

Valuation Summary

Company Analysis

| Valuation Date	10/26/2024	Company Name	Tyson Foods	52 Week High	66.88
Team Name	Market Mavericks	Company Ticker	TSN	52 Week Low	45.13
Analyst Name	Yash Agrawal	Sector	Consumer Staples	Current Stock Price	58.67

Valuation Scenarios

Model	Base	Bear	Spread	Bull	Weights
52 Week Low / High	58.67	45.13	21.75	66.88	
Perpetuity DCF	92.24	90.04	0.27	90.31	5.00%
EBITDA DCF	204.54	183.21	40.38	223.59	5.00%
Comparable Peers	22.53	(33.11)	77.44	44.33	5.00%
Internal Rate of Return	84.66	82.60	(0.00)	82.60	30.00%
Dividend Discount	39.12	37.45	3.39	40.84	55.00%
Target Price	62.88	57.39	7.77	65.15	100.00%

Current Stock Price versus Scenarios

	Current	Bear	Base	Bull	
Stock Price	58.67	57.39	62.88	65.15	
Upside (Downside)		(1.28)	4.21	6.48	
Upside (Downside) %		-2.19%	7.17%	11.05%	

Effect on the Portfolio

Cash Portfolio
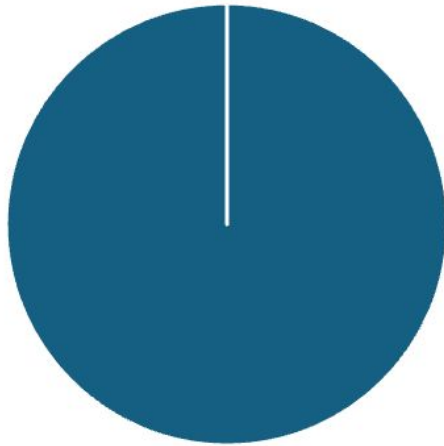
Portfolio with Tyson Food's

■ Cash 98%   ■ Tyson Foods 2%
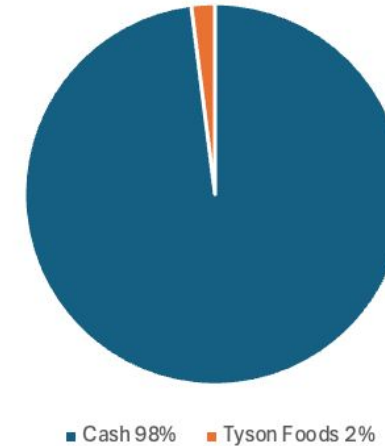
Portfolio	Exp. Return	St. Dev*	Beta*	Sharpe Ratio*	Idio. Risk*	Info. Ratio*
Existing	-	-	-	-	-	-
Adjusted	11.05%	0.53%	0.0154	3.20	0.34	-14.66

Institute of Advanced Investment Management
THE UNIVERSITY OF UTAH

Conclusion

- Substantiate Thesis with key findings from:
  - Business Model
    - Tyson Foods operates as a vertically integrated meat processor, focusing on chicken, beef, pork, and value-added protein products.
    - It maintains competitive pricing and reliable supply to retailers through operational efficiency and strategic acquisitions.
    - Key growth drivers include value-added and plant-based products, automation investments, and sustainability initiatives.
  - Industry Analysis
    - Competitive Advantage: Dominates through scale, integration, and an extensive distribution network. Strategic acquisitions help expand its market share.
    - Cyclicality: Experiences seasonal fluctuations in demand and commodity costs, but a diversified product portfolio helps hedge against volatility.
    - Regulatory Environment: Tyson operates under strict USDA and FDA regulations, focusing on food safety and environmental compliance.
  - Performance History
    - Tyson reported over $52 billion in revenue in 2023, indicating strong market leadership.
    - Key operational strengths include advanced automation, efficient operations, and a presence in over 400 facilities with 137,000 employees.
    - The company has expanded into high-growth international markets like the Asia-Pacific region and invested in branded and prepared foods to capture higher margins.

Conclusion

- **Risk & Growth**
  - International expansion and growth in emerging markets.
  - Expansion of plant-based and value-added products.
  - Increasing competition and shifting consumer preferences toward alternative proteins.
  - Commodity price volatility and high regulatory compliance costs.
- **Governance**
  - Tyson's governance reflects a focus on sustainability and compliance to align with consumer and regulatory expectations.
  - They invest in sustainable food solutions and emphasize ESG principles.

Recommendation: Buy $20,000 of TSN at current price of $58.67 by 10/27/2024

Sources

- Fidelity Investments
- S&P Global Market Intelligence
- Mclean Equity Research
- Bloomberg

Key Terms

Performance Metrics

- **Alpha (α)**: Measures a strategy's performance relative to a benchmark. Positive alpha indicates outperformance.

- **Sharpe Ratio**: Risk-adjusted return based on total risk (Return - Risk-Free Rate) / Standard Deviation.

- **Sortino Ratio**: Similar to Sharpe, but only considers downside risk, ignoring positive volatility.

- **Information Ratio**: Measures returns above a benchmark relative to the tracking error.

- **Treynor Ratio**: Risk-adjusted performance based on beta (Return - Risk-Free Rate) / Beta.

Parameters

- **Market Cap**: Total value of a company's shares (Share Price × Total Shares Outstanding).

- **P/E Ratio**: Price-to-Earnings Ratio. Measures how much investors pay per dollar of earnings.

- **Rebalance**: Adjusting portfolio holdings to match the desired allocation (e.g., quarterly).

Risk Measures

- **Beta (β):** Measures sensitivity to market movements. A beta of 1 means the stock moves with the market.

- **Idiosyncratic Risk**: Risk unique to a specific asset, not due to market movements (e.g., company-specific events).

- **Systematic Risk**: Market-wide risk that affects all securities (e.g., interest rate changes).

- **Standard Deviation (σ)**: Measures volatility by showing how much returns deviate from the average.

- **Max Drawdown**: The maximum observed loss from peak to trough during a specific period.

- **SML (Small Minus Large)**: Measures the excess return of small-cap stocks over large-cap stocks.

- **HMB (High Minus Low)**: Measures the excess return of high book-to-market stocks over low book-to-market stocks