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Maple Leaf Foods, Inc. (MFI.CA)

Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen. Thank you for standing by. Welcome to Maple Leaf's Fourth Quarter and Fiscal Year 2024 Financial Results Conference Call. As a reminder, this conference call is being broadcast live on the Internet and recorded. All lines have been placed on mute to prevent any background noise.

Please note that there will be a question-and-answer session following the formal remarks. We will go over the instructions for the question-and-answer session following the conclusion of the formal presentation.

I would now like to turn the conference over to Janet Craig, Investor Relations at Maple Leaf Foods. Please go ahead.

Janet Craig
Vice President, Investor Relations, Maple Leaf Foods, Inc.

Thank you, Ludi, and good morning, everyone. Speaking on the call this morning will be Curtis Frank, President and Chief Executive Officer; Dave Smales, Chief Financial Officer; and Dennis Organ, President, Pork Complex and incoming CEO of Canada Packers.

Before we begin, I would like to remind you that some statements made on today's call may constitute forward-looking information, and our future results may differ materially from what we discuss. Please refer to our fourth quarter and fiscal year 2024 MD&A and financial statements and other information on our website for a broader description of operations and Risk Factors that could affect the company's performance. We have uploaded our fourth quarter investor deck to our website, which includes support material for the quarter and year. As always, the Investor Relations team will be available after the call for any follow-up questions you may have.

And now, I'll turn the call over to Curtis.

Curtis E. Frank

President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

Thank you, Janet, and good morning, everyone. It's a pleasure to be with you here today as we review our fourth quarter and full year 2024 results and look ahead to what promises to be an exciting year in 2025. Joining me on the call today are David Smales, our CFO of Maple Leaf Foods and Dennis Organ, President of our Pork Complex and incoming CEO of Canada Packers.

As we highlighted in our supporting materials and press releases that were recently issued, we have plenty of positive news to share with you here today. The headline is that, we closed out 2024 with strong momentum, setting the stage for what we are describing as a transformational year ahead.

With that, I'll start by reflecting on our 2024 performance and summarizing our fourth quarter results, before handing it over to David for a deeper dive into our financials. Before the end of the call, I'll come back to reiterate our outlook for 2025, and of course, we'll leave time for your questions.

Looking back at 2024, I feel an enormous sense of pride in what our team has accomplished. Through resilience and the relentless execution of the Maple Leaf blueprint, we have made meaningful strides toward achieving our vision of becoming the most sustainable protein company on earth. We delivered significant financial improvement in what continued to be a challenging condition in the market and positioned ourselves for success in 2025 and beyond.

Here are just a few highlights from our year. We successfully adapted our brand strategies to the evolving consumer environment, leveraging our portfolio of leading brands to deliver consolidated sales growth of 1.1%, driven by 3.9% growth in our CPG Prepared Foods business and prepared meats business. We completed the play on the highly successful startup of over CAD 1 billion in major capital projects at London Poultry and the Bacon Centre of Excellence, where both projects achieved full business case benefits in Q4.

We completed the first phase of our Fuel for Growth initiative, advancing our playbook to sharpen our cost focus and our competitive edge, delivering supply chain savings, and SG&A reductions exiting 2024. We met our commitment to significantly expand our adjusted EBITDA margin in 2024, delivering a 250 basis point improvement for the year and reaching 12.5% in the fourth quarter.

Our adjusted EBITDA grew by CAD 125 million or nearly 30% from CAD 428 million in 2023 to CAD 553 million in 2024. We increased our annual dividend for the 10th consecutive year. We demonstrated our ability to outperform our peers in both top and bottom-line performance.

Through a combination of disciplined capital expenditures and the improved profitability of the business, we rapidly deleverage the balance sheet as we said we would, deliver a CAD 385 million in free cash flow in 2024, CAD 296 million improvement from 2023, while exiting 2024 with a net debt to adjusted EBITDA of 2.7x, comfortably within our target range.

We announced our plans to unlock value as a purpose-driven consumer packaged goods company by unleashing our world leading pork company, Canada Packers, through a tax-free spin-off. And last and perhaps most importantly, we have put the right team of incredible Maple Leaf leaders in place to lead us well into the future.

With that as context for the full year of 2024, I'll briefly offer a few comments on our fourth quarter of the year. Our Q4 sales growth accelerated to 4.3% year-over-year with prepared meats growth of 6.5%. We were, obviously, pleased with the performance on the top-line, which was driven through the continued execution of our proven growth strategies as we continued to have success in leveraging our portfolio of leading brands, accelerating the pace of impactful innovation, leveraging our leadership in sustainable meats, expanding our reach into the US market, and plugging our unique capabilities into our customer strategies.

We made meaningful progress in Q4 with prepared meats sales and volume growing in both the retail channel and the food service channel, supported by double-digit sales growth in our sustainable meats portfolio and in our US platform.

On the innovation front, our new Schneiders frozen breakfast portfolio has been very well received by our customers and consumers, delivering strong initial sales and winning the BrandSpark 2025 Best New Product Award.

In addition to driving sales growth, we also took meaningful steps to improve our cost structure. We have now completed the first phase of our Fuel for Growth initiative, aimed at reducing cost, increasing efficiency and in the case of our strategic manufacturing review, looking to unlock future opportunities to boost capacity utilization. In Q4, we completed an SG&A reorganization in our commercial and operations functions, as well as, in our plant protein business, reducing overall head count.

We also wrapped up our procurement project that focused in on leveraging our scale purchases to drive cost efficiency. This work, combined with the improvement in pork market conditions, the full benefit of our large capital projects and growth in our prepared meats business, resulted in an adjusted EBITDA margin of 12.5%, a 240 basis point improvement from the same quarter last year, and an adjusted EBITDA that grew by nearly 30% to CAD 155 million within the quarter. This strong business performance in turn generated substantial free cash flow, increasing CAD 66 million year-over-year for the quarter.

All said, we are entering 2025 with momentum in results that when combined with the completion of the spin-off of Canada Packers, sets the stage for our transformational year ahead.

I'll come back to close the call, but before I do, I wanted to pass things over to Dennis to discuss the Pork Complex and then to Dave to review our detailed financial results. So, Dennis?

Dennis Pat Rick Organ

President-Pork Complex, Maple Leaf Foods, Inc.

In our Pork Complex, we continue to see strong improvements in financial performance. Our premium value-added sales mix is driving meaningful revenue growth, input costs have stabilized and we remain focused on operational excellence to enhance both top and bottom line results. While revenue isn't the primary metric for the Pork Complex, we delivered a 3.5% increase in sales compared to Q4 last year.

This growth was fueled by higher processing volumes and favorable foreign exchange impacts from a stronger US dollar.

Adjusted EBITDA margins have improved in both Q4 and on a full year basis versus 2023. Looking ahead, we expect input cost to remain within a stable range supporting continued margin consistency. Our Pork Complex, soon to be Canada Packers, operates with a well-defined intangible business model, underpinned by a vertically integrated pork production value chain.

We have a diversified and resilient business mix and we continue to leverage our competitive edge in sustainable premium pork products. This strategic foundation positions us for long-term growth and leadership in high-quality protein production.

As we move toward the closure of this transformational transaction, our team remains laser-focused on maximizing the value of our premium sales mix, driving efficiency through cost discipline and growing through increased capacity utilization. We have been disciplined and methodical in building best pure play pork business in North America, and we will carry the same rigor into the next chapter of Canada Packers' historic Legacy. Now is the time for Canada Packers.

Thank you, everyone, for being with us today. And I'll now turn it over to Dave for his comments.

David Smales

Chief Financial Officer, Maple Leaf Foods, Inc.

Thanks, Dennis, and good morning, everyone. Turning to our results, I'll comment on the company's consolidated results for the quarter and for the full year before addressing the balance sheet and discussing the overall outlook for 2025.

Overall, one of the key takeaways from the year is, how the step up in financial performance and improving profitability of the business throughout 2024 generated a substantial increase in free cash flow and delivered a significant improvement to our balance sheet, delivering on the priorities and outlook we set coming into the year, all of which I'll expand on.

Total sales in the fourth quarter were CAD 1.24 billion, an increase of 4.3% compared to last year. For the full year, total sales were CAD 4.9 billion, an increase of 1.1% over 2023. In the fourth quarter, adjusted EBITDA increased by 29% to CAD 155 million, with an adjusted EBITDA margin of 12.5% compared to 10.1% in Q4 last year. Adjusted EBITDA for the full year also increased by 29% to CAD 553 million, representing a margin of 11.3%, an increase of 250 basis points over 2023.

Earnings for the quarter were CAD 53.5 million or CAD 0.43 per basic share, compared to a loss of CAD 9.3 million or CAD 0.08 per share last year. Earnings for the full year were CAD 96.6 million or CAD 0.79 per basic share, compared to a loss of CAD 125 million or CAD 1.03 per share in 2023.

After removing the impact to the non-cash fair value changes in biological assets and derivative contracts, startup costs and restructuring costs, adjusted earnings were CAD 0.38 per share for the quarter compared to CAD 0.08 per share in the fourth quarter of 2023.

Full year adjusted earnings was CAD 0.78 per share compared to CAD 0.09 per share in 2023. The 4.3% sales growth in the fourth quarter compared to 2023 was driven by Prepared Foods, where sales were up 4.6% over the prior period. We saw an increase in sales in prepared meats of 6.5% and poultry of 1.8%, which was partially offset by a decline in plant protein at 10.3%.

For the full year, our 1.1% sales growth was driven by Prepared Foods where sales were up 1.8% compared to 2023. We saw an increase in sales in prepared meats of 3.9%, which was partially offset by declines in poultry of 2.6% and plant protein of 4.3%. Prepared meats in the fourth quarter saw higher volumes in foodservice and retail, along with improved category mix and similar trends drove our full year sales performance.

In plant protein, fourth quarter sales were negatively impacted by volume declines, which were driven by performance of the overall US refrigerated category, with a similar story reflected in full year sales.

In poultry, sales for the quarter were up due to improved channel mix with growth in retail volume and reduced industrial sales. For full year sales, the New London Poultry facility has allowed us to improve our mix by increasing our tray pack capacity, replacing third-party sourced tray packs, allowing us to reduce lower value and volatile industrial channel volume, resulting in a declining poultry sales year-over-year that improved mix and margin performance.

Pork sales in the fourth quarter increased 3.5% due to volume growth from an additional 38,000 hogs that were processed in the quarter, as well as favorable movements in foreign exchange. For the full year, pork sales were down due to lower resale activity and unfavorable product mix, which was partly offset by favorable pricing.

As I previously mentioned, adjusted EBITDA continued to grow, landing at CAD 155 million for the fourth quarter, a 29% increase compared to the fourth quarter of 2023. The full year results were equally impressive, also improving 29% to CAD 553 million. For the fourth quarter, within Prepared Foods, increased profitability was primarily driven by prepared meats and poultry, which were partly offset by plant protein.

Prepared meats performance benefit from higher retail and foodservice volumes, as well as the Bacon Centre of Excellence project, which reached its full business case contribution during the quarter. Increased trade investment to support volume growth was a partial offset. Improved poultry profitability in the fourth quarter was largely driven by the London poultry facility, reaching its full business case benefits.

Pork markets were also a tailwind to our fourth quarter results, reflecting a significant improvement in the vertically integrated spread compared to the fourth quarter 2023, partly offset by a slight decline in the package spread.

For the full year, within Prepared Foods, profitability improved across prepared meats, poultry, and plant protein. The drivers of prepared meats and poultry performance were similar to the quarter. For plant protein, efforts to drive cost out of the business throughout the year led to improved profitability.

Pork markets were also a significant contributor on a full year basis, with both the vertically integrated spread and package spread improving compared to 2023. SG&A was relatively flat in the fourth quarter versus the prior year. Compared to 2023, full year SG&A was up CAD 32 million in large part due to the impact of variable compensation.

For the fourth quarter, adjusted EBITDA margin came in at 12.5%, up 240 basis points from Q4 in the previous year. This improvement contributed to the 250 basis point increase in our full year adjusted EBITDA margin of 11.3% compared to the 8.8% we recorded in 2023.

In total, during the quarter, we invested CAD 29 million in capital expenditures compared to CAD 42 million in Q4 last year. During the year, we invested CAD 96 million compared to CAD 197 million in 2023. Decrease in both periods is largely due to the completion of our large capital projects.

Looking ahead to capital expenditures for 2025, we expect to invest between CAD 175 million to CAD 200 million, primarily focused on maintenance capital with growth capital related to cost efficiency and support for profitable growth initiatives. In the fourth quarter, free cash flow improved to CAD 130 million, up CAD 66 million from the same quarter last year, contributing to the full year free cash flow of CAD 385 million, an increase of CAD 296 million compared to 2023. Improved earnings after the removal of non-cash items and lower restructuring payments drove the increase.

On the balance sheet, net debt ended the year down CAD 231 million to approximately CAD 1.5 billion and down from a peak level of CAD 1.8 billion during our large capital project investment phase.

In line with our stated priorities, we saw a significant improvement in leverage ratio over the past four quarters, with a net debt to trailing 12-month adjusted EBITDA ratio of 2.7 times at the end of the year, compared to 3.1 times at the end of the third quarter of 2024 and 4.1 times at the end of 2023.

As we move into 2025, we previously announced an increase in our annual dividend of approximately 9% to CAD 0.96 per share, the 10th consecutive year of annual dividend increase. And we also announced the elimination of the discount on the dividend reinvestment program. We will continue to focus on strengthening the balance sheet and maintaining leverage in an investment grade range. As we progress our strategic initiatives and deliver on our performance objectives, we'll continue to examine all capital allocation options. We remain on track to deliver the 2025 outlook we shared in early January.

We continue to expect mid-single digit sales growth and significant improvements in adjusted EBITDA, which we forecast will meet or exceed CAD 634 million, making progress toward our 14% to 16% adjusted EBITDA margin strategic target.

Our outlook reflects our current expectations and in that context, we've had a number of questions with respect to the potential for tariffs and the related impact. Well, there's still a lot of uncertainty around whether tariffs will be applied, to what extent, when and for how long, bottom line is tariffs are not an existential threat to our business, but there could be an impact to a relatively small percentage of our total sales, with roughly 7.5% of our sales being products exported from Canada into the US.

The other uncertainty, which could be supportive of mitigating the impact of tariffs is exactly what the Canadian government response to US tariffs might be. At the same time, we have seen a lot of activity already among customers and consumers in Canada focused on buying Canadian products and seeking out security of high quality Canadian supply. We will continue to monitor the situation and as a company are prepared to execute on a range of mitigation strategies.

Before handing it back to Curtis, I wanted to reiterate our expectations around the spin-off of Canada Packers. As we move to our expected close in the second half of 2025, we intend to hold the shareholder vote in June with the management information circular being filed in early May. This would set us up for closing the transaction in the second half of 2025 once we have the ruling from CRA on the tax-free nature of the spin-out.

As recently announced, the initial leverage ratio of Canada Packers is expected to be in the range of 2.5 to 3 times. In addition, the current intention is for the initial combined dividends of Maple Leaf Foods and Canada Packers to not be less than Maple Leaf Foods' annual dividend immediately prior to completion of the spin-out.

I'll now turn the call back to Curtis.

Curtis E. Frank

President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

Okay. Thank you, David. As I mentioned in my opening remarks today, 2024 was clearly a pivotal year for Maple Leaf Foods in many ways. And we're entering 2025 with momentum, laying the foundation for what we will continue to describe as our transformational year ahead.

The outlook we issued in January best captures our excitement for the future and we expect that in 2025, we will, firstly, deliver mid-single digit sales growth driven by the continued execution of our proven growth strategies. Secondly, deliver a third consecutive year of significant adjusted EBITDA improvement where we expect to meet or exceed CAD 634 million, which was the analyst consensus at the time when we released our 2025 outlook back in January. Third, to maintain an investor-friendly balance sheet and disciplined capital allocation, ensuring we stay within our investment-grade leverage target while also making strategic investments to modernize, sustain and grow our business. And finally, to complete the spin-off of Canada Packers in the second half of the year, unlocking significant value and unleashing both Maple Leaf Foods and Canada Packers to pursue their exciting and independent growth strategies.

As a purpose-driven Canadian food company, Maple Leaf stands today uniquely positioned to meet the growing global demand for sustainably produced protein. And we have the right strategy, the right blueprint, and the right people in place to make it happen.

Before we move on to questions, I want to take a moment to express my heartfelt gratitude to the entire Maple Leaf team. I'm incredibly fortunate to work alongside such talented and passionate people. Our success would not be possible without each of you.

With that, operator, we can now open the call for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. And ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] And your first question comes from the line of Irene Nattel. Please go ahead.

Irene Nattel
Analyst, RBC Dominion Securities, Inc.

Q

Thanks and good morning, everyone. Congratulations on a great quarter. Now that you've achieved the 12.5% in Q4 and you've reiterated the 14% to 16% target, can you walk us through the building blocks of, I guess, number one, how sustainable the current run rate is and then how you get from where we are today to the 14% to 16%?

Curtis E. Frank
President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

Good morning, Irene. Thanks for your question. So, let's start with the outlook and guidance we provided for 2025 in the area of mid-single digit growth and to meet or exceed CAD 634 million of adjusted EBITDA. That puts us, I think, if you go back into the math, somewhere in the mid-12s range in terms of adjusted EBITDA margin as an outlook for the year. That's in line with what we delivered here in the fourth quarter. So, we continue to have high level of confidence in our ability to meet our outlook. So, that's number one.

There are four things that I think are important contributors in terms of our ability to meet the outlook next year. We should start with those. That's, first, harvesting the full year benefits of our large capital projects at London

Poultry and the Bacon Centre of Excellence. I'm very pleased with how we exited in Q4, right on plan as we expected and had communicated. And we, obviously get the full year of benefit from those projects.

The second comes from a full year benefit of more normalized pork market conditions. We're, obviously, operating in a more normal range today and continue to be confident that that will set the stage for the year ahead.

Now the third comes from the important work that we're doing, mostly around the consumer, what I would describe as kind of executing our brand management and our revenue management plans to drive profitable growth in our CPG business. And I felt the team did a pretty darn good job there in the fourth quarter in terms of balancing our volumetric growth, our sales growth, and our mix within the business. And obviously, there's more work to do in 2025.

Also pleased with the innovation in our portfolio. I think, we launched over 50 items in 2024 and also have a pretty robust pipeline in 2025. And then, the last component comes from our Fuel for Growth initiative that we've started to talk about and provide a little more detail around with the first phase being completed, which was the SG&A reorganization in our commercial and our operations functions. We actually reduced, Irene, the top two levels in the commercial and operating functions by 22% in terms of work design. And that made some pretty significant changes there. And also completed the supply chain sourcing initiative in the back part of the year that will be supportive to next year as well.

So, those are the things that give us confidence in our ability to deliver our year and the outlook we've provided. 14% to 16% continues to be our North Star in terms of strategic margin target. So your question is, where do we go beyond 12.5-ish-percent or where we are today in terms of the building blocks to get to 14% to 16%. There too, there are maybe three or four important factors that I would point to. The first is the continued execution of our profitable growth strategies made significant progress in 2024 and I think well positioned for 2025.

And the third is the consumer element and the pace of the consumer environment recovery. Our outlook suggests progress in 2024, but not perfection in terms of the volatility of the consumer environment we're dealing with today. There continues to be a consumer that's under stress. We've embedded that in our – the impact, the best we can in our current outlook. But we would certainly expect an improving consumer environment to contribute to our ability to achieve 14% to 16%.

There's more work to do in our pork strategic playbook for the future. And then, of course, the Fuel for Growth initiative will continue to pay dividends from a cost reduction focus beyond 2025. So, those would be the, I think, foundational elements in terms of how we go from where we are today to operating within our 14% to 16% range.

Irene Nattel
Analyst, RBC Dominion Securities, Inc.

Q

That's really helpful. Thank you. And just a couple of follow ups, please. So, on the consumer environment, can you talk about how you exit the year in terms of the nature of demand? And are we still in a market where RWA is kind of a little bit – or let me rephrase that, where consumers are focused on value and so sales of RWA are still below where they need to be?

Curtis E. Frank
President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

Yeah. I would describe the consumer environment, Irene, as stable, not a material change quarter-to-quarter but still dealing with the effects of a consumer that's under stress, flight to value to a certain degree and mix impacts in sustainable meats versus our conventional portfolio. That continues and played out, again, in the fourth quarter.

It's a really interesting time from a consumer point of view, because on one hand, we're dealing with the environment where the consumer continues to be under stress. And I think, things are moderating. On the other hand, the Buy Canadian movement really seems to be taking hold. The duration of that emotion and energy in the market, I think, is a bit of a, to be determined. But, you know, so there's a lot going on from the consumer point of view in the market today.

Irene Nattel
Analyst, RBC Dominion Securities, Inc.
Q

Thank you.

Operator: Your next question comes from the line of Mark Petrie. Please go ahead.

Mark Petrie
Analyst, CIBC World Markets, Inc.
Q

Yeah. Thanks. Good morning. Just a follow up on a couple of those things, I guess. First, in poultry, I think, you've said and I think you just said, product mix is still a headwind sort of value versus premium, but is channel mix back to normal or where does that stand exactly?

Curtis E. Frank
President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.
A

Channel mix – good morning, Mark, firstly, channel mix is improving and we did see retail sales growth that was pretty robust in the last quarter. I think close to 4% in the retail channel, which was very healthy and robust. So, we're getting the level of growth that we would expect. The mix within that growth particularly in the retail channel, we would still expect to move more of our sales mix to the sustainable meats portfolio. So, still some more work to do on the consumer side.

Things are, I would describe as improving, but not yet optimized in terms of the consumer behavior in poultry. So, you're exactly right to point that out. But, in terms of channel mix, very pleased with the 4% retail growth that we delivered in the last quarter.

Mark Petrie
Analyst, CIBC World Markets, Inc.
Q

And I guess, just maybe more specifically, like, is industrial for poultry, like is that back down to a normal level or is that still a place where you're ending up putting more product than you would otherwise want to because of imbalances in [indiscernible] (00:31:36)?

Curtis E. Frank
President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.
A

Yeah. I think you might be, you know, kind of honing in on the fact that earlier in the year, we had talked about the mismatch between supply and demand and the kind of the market dislocations in poultry and the impact that that had in our business. So, I would describe the supply demand environment is more balanced today more in line with a normalized balance. And it wouldn't have been a key contributor in the fourth quarter for certain.

Mark Petrie
Analyst, CIBC World Markets, Inc.
Q

Okay. Helpful. Thank you. I also want to follow-up on the sort of, cost control piece of it and – or Fuel for Growth, I guess. Can you just sort of help shape the relative impact of the different pieces of work you've undertaken, head count, supply chain, and procurement?

And then, I guess, the manufacturing review still to come. I know that's still underway. But can you just give us a sense of the magnitude of each of these buckets? And then, how much of that is reflected in Q4? Like, are we sort of seeing 20% of the sort of benefits that you think will accrue or is it more like over half? Like just any kind of sense to sort of bring some magnitude into this?

Curtis E. Frank
President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

Well, I'll give you some color on them, Mark. On the Fuel for Growth initiative, maybe more broadly first and then we can talk about the impact from a financial point of view. For our Fuel for Growth initiative essentially focuses in on three important workstreams, the three important workstreams. The first is optimizing our SG&A and the intention there is to improve our execution or continue to improve our execution through a leaner organizational structure. The second is leveraging our scale in supply chain purchases and we went through a pretty important procurement project to optimize our costs. And the third is, as you pointed out in completing a strategic manufacturing review to optimize our network utilization.

And I'll take those one at a time in terms of just some color. On the SG&A front, we completed the first phase of the work, which was really around reorganizing our commercial and operations of parts of our business. And the plant protein reorganization kind of another round of updates to size the shoe to fit, if you will, in the plant protein business.

We've reduced the number of roles in the top two layers. I think, I commented on this earlier this morning by over 20% in those functional areas, which is, pretty significant change. And the benefits showed up within – most of the benefits – most of those benefits, not all, most of those benefits showed up within the fourth quarter. We'll be doing a second part of that work. But that will come later in the year naturally aligned to the timing of the separation of Canada Packers because we have to take all of the enabling functions that support our businesses and separate them into two public companies, obviously.

The second component is the procurement work and that was fully embedded in the fourth quarter. So, we went through a very successful project from a procurement and supply chain point of view. And that will be supportive to our 2025 outlook, but that work was completed and embedded in the fourth quarter.

On the network optimization front, now the work's really just starting, I think, would be the best way to describe it. Some important context, we have to keep in mind that a lot has changed on the consumer behavior front over the past number of years, for lots of different reasons, and most of which you clearly understand. So, we're making certain that we step back and make sure that our assets are aligned to the most lucrative areas of consumer demand so that we could drive full utilization in our facilities.

So, it's important time for us to do that. So, we've recently kicked off a bit of a strategic review and the goal is really to help to accelerate our cost reduction focus, but really look at opportunities to boost capacity utilization. And most of those benefits, Mark, I would think of as 2026 and 2027, although I would give you one example that's more real time and that is the closure – actually, retirement is probably a more appropriate word. The retirement of our Brantford process poultry plant.

I'm comfortable talking about this one because we've announced it publicly. It's a 100-year-old facility, which is why I used the word retirement. And we have the opportunity to – which would require significant capital to continue to operate and that we have the opportunity to repatriate production from that facility into two other Maple Leaf plants that have existing capacity today and bank the overhead kind of cost savings that come with that and the efficiency benefits.

So, there's work to do more certainly on the network optimization front, a little bit work left on the SG&A component, and the procurement benefits are included in our fourth quarter. In terms of breaking out the relative kind of basis point improvement of each one of those, I don't think that would be helpful. But, what I would say is, all of those are supportive to, A, delivering on our outlook for 2025, which is CAD 634 million or better; and secondly, enabling us to deliver on our 14% to 16% strategic margin target.

Mark Petrie
Analyst, CIBC World Markets, Inc.

Q

Okay. Well, thank you for that comprehensive answer. I did want to ask one follow-up, which was on that Brantford or the Walker Road, I think, facility, if I'm getting the names all straight. When did that happen? And how much – can you give us some sense of the overall benefits? Like I'm assuming this is in a significantly smaller impact than, say, even the Winnipeg Bacon facility, which I think was a CAD 30 million EBITDA payoff. Can you give us some sense of the magnitude of that and then the timing?

Curtis E. Frank
President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

Yeah. The Walker Road investment, Mark was, yeah, significantly smaller than the Winnipeg Bacon Centre of Excellence capital investment with smaller returns, but important returns to the business. We basically added a cooked further process poultry line in our Walker Road facility to support a strategic partnership with one of our most important customers. And very pleased to do that as part of our strategy to plug into our customer strategies.

We also utilized RWA raw materials in that case, and those raw materials are sourced from our London poultry plant. So, you think about, from processing to creating raw materials to using RWA raw materials to investing in a manufacturing line to support the growth and development of a customer who was really important to us.

It was roughly a CAD 60 million capital investment with roughly CAD 14 million or CAD 15 million of annualized returns. And again, that would be supportive to our 2025 outlook and one of the reasons why we continue to have a confidence in the business. But, I would think about that as embedded within our kind of our structural approach to capital deployment in terms of a maintenance and growth moving forward. Those are the types of smaller but important projects that we'll have moving forward.

Mark Petrie
Analyst, CIBC World Markets, Inc.

Q

Appreciate all the comments and all the best.

Curtis E. Frank
President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

Thank you, Mark.

Operator: And your next question comes from the line of Michael van Aelst. Please go ahead.

Michael van Aelst

Analyst, TD Cowen

Q

Good morning. Thank you. And good results. I wanted to first start on the US business. So, you said 7.5% of the product is exported from Canada into the US. Can you just split that between pork – fresh pork and prepared meats?

Curtis E. Frank

President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

Yeah. Yeah. Yeah. The way to think about the tariff discussion, Mike – and good morning – is, if you look at our disclosures today, our sales to the US market – our sales within the US market are about CAD 500 million – just over CAD 500 million in terms of revenue, which is about 10% of our business. A portion is, obviously, made and sold in the United States, which is our plant protein business and a little bit of prepared meats production, made and sold in the US. So, not impacted.

Of that CAD 500 million in revenue, about CAD 350 million to CAD 400 million is exported from Canada to the US. So, [indiscernible] (00:40:50) potentially be in scope. And to answer your question directly, that CAD 350 million to CAD 400 million is roughly split, roughly, half pork and half prepared meats, I think, would be the way to think about it, Mike.

And we're, obviously, we've got a team of people working on preparedness and a number of mitigation strategies that we could put in place. They're different, those mitigation strategies between prepared meats and pork. The pork business is very much a global market, as you know, and we would look to potentially if we were forced to repatriate sales to other markets. The prepared meats business would certainly be more impacted.

But again, as David noted in his opening comments, the implications of tariffs are really very much linked to what the Canadian response is and the counter tariff situation, which we're obviously watching and evolving closely. And I think the headline, David, provided is the right one. Tariffs are, you know, have the potential to place some noise in our results this year, which we would prefer to avoid for obvious reasons. But they are not an existential threat for Maple Leaf with a maximum of 7.5% of our portfolio impacted.

Michael van Aelst

Analyst, TD Cowen

Q

Yes. I do want to touch more on the US side, but just since you brought that up, how have you built in tariffs into that CAD 634 million EBITDA target, if at all?

Curtis E. Frank

President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

We haven't. We haven't, Mike. There's just too much uncertainty with how things might play out. And the situation for us, number one, a smaller percentage of our portfolio impacted and number two, as I said, depending on the Canadian response, the outcomes could be negative to neutral to even slightly positive if there were, you know, opportunities for us created in the Canadian market in a counter tariff situation. So, we have not baked that into our 2025 outlook. I think, it would be premature to do that just based on our lack of precision on knowledge and how things are going to play out.

Michael van Aelst

Analyst, TD Cowen

Q

And so, if half of those exports are prepared meats roughly and, most of that seems to be your RWA and primarily Greenfield Natural Meat, that's a high cost product to start with. Is it a product do you think that could keep some level of sales in the US while with a 25% lift in cost pass-through or tariff pass-through?

Curtis E. Frank
President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

Well, that's possible. I mean, the consumer at the end of the day will make that decision. We hope to give them the opportunity to make that decision and working with our customers. There would obviously need to be a pretty significant level of price inflation in that situation.

But, yeah, I'm optimistic that we will be able to sustain given the depth of the customer relationships, the strength of the brands and the performance of the products on shelf that we'll be able to sustain our level of distribution. And obviously, Mike, duration plays a role in this too. If we're in a tariff situation, which we don't know yet that we will be, if we're in a tariff situation, a duration also has a pretty significant impact on the outcome.

Michael van Aelst
Analyst, TD Cowen

Q

Okay. And then, just looking at slide 15 where you talk about the strength in your Greenfield Natural Meat and you show some big retailers like Walmart and Costco and Albertsons as current customers in sustainable meat. But then you also talked about new customers in the US in 2024, Costco and Trader Joe's, to name two. Were those RWA? And is there – the reason why it's shown separately is, are those more private label products?

Curtis E. Frank
President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

There isn't a reason why they're shown separately. So, I wouldn't kind of over-infer based on that. We are today – we do have distribution in the United States at each one of the Top 10 retailers, Mike. We support both in the RWA part of our business of the United States, we support and have a rapidly growing branded business in our Greenfield Natural Meat company portfolio, but also support premium private label in the US through RWA as well, which is proven to be a very compelling growth strategy on both fronts.

What you're seeing is – visually is, number one, a reflection of not only the size and breadth of the customers that we're doing business with today in the United States, but also where we're continuing to grow distribution of RWA products. I often reference the statistics. You walk into a Canadian grocery store, we have well over 100 items on shelf in any Canadian grocery store would be the average that you would see through Nielsen as an example. And in the United States and the combination of the plant and meat protein portfolio, we're in, every one of those Top 10 retailers and our average distribution of items is about 13.

So, our priority focus as a business is, obviously, closing the gap between 13 and 100 plus. And any progress we make on that gives us momentum in the growth trajectory. And keep in mind, we have a sales team in the US, an office in Chicago, a marketing team in the US, a distribution network that runs now and is a proven distribution network to all of those customers. So, we continue to feel good about the progress we're making, not only in the export business to the US, but also in our capabilities within the United States.

Michael van Aelst
Analyst, TD Cowen

Q

Excellent. Thank you.

Curtis E. Frank
President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

Thanks, Mike.

Operator: Thank you. And your next question comes from the line of Vishal Shreedhar. Please go ahead.

Vishal Shreedhar
Analyst, National Bank Financial, Inc.

Q

Hi. Thanks for taking my questions. Maybe this question is premature, but given your manufacturing view. But regarding operational capability, do you foresee any large capital spends in the future? And as I ask this question, I'm reflecting on the purpose of the tariffs, which is to draw more investment into the US for your US growth ambitions, which still seem to be very much on the fore.

Curtis E. Frank
President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

I know – good morning, Vishal. Thank you. It's an excellent question and I think an important one for us to clarify. We've been very disciplined in our approach to capital deployment here in the last little while and that will continue well into 2025 and beyond. To answer your question directly, no, there are no large scale capital projects planned from a manufacturing point of view.

And I think that's an important part – an important distinction. I mean, our last chapter was obviously marked by several years of construction startup and now delivering the returns on the London Poultry and Bacon Centre of Excellence assets. But that work is now fully behind us and we're more focused on a capital deployment directed at supporting the existing manufacturing network, driving out cost and supporting growth into the future. But there will be no large scale capital investments on the plan.

Vishal Shreedhar
Analyst, National Bank Financial, Inc.

Q

Thank you for that. I was hoping I could get your perspective on your internal capabilities on forecasting. In the past, and you can correct me if I've misspoken, but I believe you may have mentioned there was an opportunity to improve the organization's ability to forecast. And within your commentary, you suggested you foresee normalized market conditions for the variety of vectors that you look at. So, how confident are you in that assessment about the normalized pork market factors? And maybe what are some of the puts and takes around that which could cause that to deviate from your expectation?

Curtis E. Frank
President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

Sure. Sure. I think that's mostly a pork market question. I'll pass it over to Dennis and he can give you some context.

Dennis Pat Rick Organ
President-Pork Complex, Maple Leaf Foods, Inc.

A

Yeah. As far as forecasting pork, remember, we know an awful lot about the next six to eight month already, whether we – from a risk management perspective, we're buying ahead or are doing some hedging. There's also the markets that you can follow. So to the extent that you think the futures are a good indication of where the markets will shake out, then that's a good indication.

So, I guess, I would simply answer how confident are we for the [indiscernible (00:49:50), we're very confident. It's two to five years that you can get some of the market fluctuations and things that would be a larger impact.

Curtis E. Frank
President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

I think, Vishal, the only other context I would add is, we've commented in the past that our predictive capabilities in forecasting pork markets that were impaired, and that was through a time of very material disruption. The combination of global conflicts, the feed impact implications of, say, a war in Ukraine coupled with a pandemic and a post-pandemic economy. I mean, those things combined are wildly unusual, wildly unusual. And to happen all at the same time certainly impaired our predictive capability.

We will not be perfect at predicting the future. I don't want to leave you with the wrong impression. But in a more stable environment, the ability to look forward in futures markets based on everything we know today, we're entirely confident with our outlook that we've provided.

Vishal Shreedhar
Analyst, National Bank Financial, Inc.

Q

Okay. And with respect to the impact of the tariffs, you've commented very openly about the explicit nature of the portion of business, which is impacted via the US trade. But, [indiscernible] (00:51:10) secondary impacts on the consumer? The Bank of Canada has said that there could be significant consequences for the Canadian economy. And wondering how that was contemplated as you reflected on your outlook.

Curtis E. Frank
President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

Well, you heard me talk earlier, we're in a situation where, the consumer continues to be under stress. Aside from tariffs, I would have said that the situation is improving. Interest rates easing, inflation easing. We should be setting ourselves up for an improvement as we think about 2025.

The unknown impacts of the tariff situation certainly play a role. But, I also commented earlier on, the balance of the consumer environment on – consumer under stress, but at the same time so proud of the Buy Canadian movement. And, we'll be dealing in the case of the potential for tariffs with both of those situations, the consumer under stress and possibly some more inflation to a consumer who is tired on the inflation front, but at the same time motivated and inspired by Canadians. So, I think, personally that could have some portfolio opportunities for us. We've valuated them very, very carefully and we will continue to do that as things play out here.

Vishal Shreedhar
Analyst, National Bank Financial, Inc.

Q

Thank you. Congrats on the quarter.

Curtis E. Frank
President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

Yeah. Thank you very much.

Operator: Thank you. [Operator Instructions] And your next question comes from the line of Luke Hannan. Please go ahead.

Luke Hannan
Analyst, Canaccord Genuity Corp.

Q

Yeah. Thanks and good morning. Curtis, I want to go back to the line of questioning around the Fuel for Growth initiative. So, you've completed this initial phase of rightsizing and streamlining the business and then the second phase is going to kick off later this year. And as far as order of magnitude, I'm assuming the second phase will be a little bit smaller in scope versus the first phase. And will those benefits accrue more to one to either pro forma Maple Leaf or Canada Packers? Or will those benefits be roughly evenly split?

Curtis E. Frank
President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

David, maybe you want to take that one?

David Smales
Chief Financial Officer, Maple Leaf Foods, Inc.

A

Yeah. I think, we're obviously still going through that process right now. So, I don't want to quantify it, but there's certainly tangible benefits to be achieved from that process, not – probably not dissimilar to what we've already achieved in the commercial and operational side of the business, but still a work in progress.

The focus is, on the Canada Packers side, they're putting together their organization on a go-forward basis. On the Maple Leaf side, we're looking at what people transfer over to Canada Packers business and then how we right size our SG&A for the Maple Leaf business going forward after the split.

And so, in terms of savings per se, you're going to see those really in the Maple Leaf side of the business, because that's where we're looking at the right structure for a overall smaller business going forward. And so, when you look at enabling functions and the support functions, you would expect those areas to be smaller as they support the business post-split.

Luke Hannan
Analyst, Canaccord Genuity Corp.

Q

Okay. Thanks.

Curtis E. Frank
President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

The only thing I'd add, Luke is that the moving parts in terms of the implications are the benefits of the SG&A work that David described, the timing of variable compensation through the year, and how we think about the investments we make in advertising and promotion which will be agile with as the year progresses, so depending on the consumer environment. So, there's some important moving parts inside of that as well.

Luke Hannan
Analyst, Canaccord Genuity Corp.

Q

Okay. That's helpful. Thanks. And then, I wanted to ask also about, as mentioned, for the pork business during the quarter, that volume growth was a big factor for sales growth. And I know you guys think more about spreads than you do about sales growth. But, it was still an interesting call out to me.

So, Dennis, I wanted to ask. I know you've talked in the past by doing some of those smaller scale CapEx projects that help increase utilization. Was that reference made in reference, I guess, to those CapEx projects? And then, similarly, when you think about the year ahead from a volume growth perspective, I mean, I don't expect you to share the number of hogs that you expect to grow or process or that sort of thing. But can you help us think or just dimensionalize what the volume growth opportunity will be for Canada Packers in 2025?

Dennis Pat Rick Organ
President-Pork Complex, Maple Leaf Foods, Inc.

A

Yeah. So, our story for Canada Packers is a growth story. And primarily because of the latent capacity that we have today, we have a few different avenues to continue to procure more hogs to fill up that capacity. And so, I would think of low-single-digit consistent growth over a five-year span.

This didn't require any capital projects. We have some automation things that we can move forward. And just like Curtis and David have been describing, we have our version Fuel for Growth that we'll have to come out with. Most of it is we're going to grow on the top-line. We have some automation things that we can do. And we'll have to figure out our capital structure and all of the things that go into that dividends and debt. And when we start speaking, probably post circular and doing roadshows, we'll start publishing some of those things. But think of growth through capacity utilization and utilizing the existing sales mix, geographic sales mix that we have to be accretive to margin.

Luke Hannan
Analyst, Canaccord Genuity Corp.

Q

Great. Thanks. My last one here and then I'll pass the line. I wanted to ask about innovation. You talked about, Curtis, I think 50 SKUs that you introduced in 2024 and that's going to accelerate in 2025 as well. So, what specifically are you doing behind the scenes to help facilitate the acceleration of that innovation?

And then, can you help us think from a high level? I assume that's beneficial for price and mix and by extension margin as well. But, if there's anything maybe I've mischaracterized or misspoken about, you can clarify that.

Curtis E. Frank
President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

Yeah. No. Thank you. It's excellent question. I appreciate that. You know, the big thing that's changed – so what are you doing behind the scenes. I would describe that with one word and that is focus. We're making a very important transition from a multi-protein approach in the company to a singularly focused consumer packaged goods business, branded consumer packaged goods business, and innovation sits at the heart of that, as you know.

Our abilities from an innovation perspective were somewhat impaired through the pandemic and the post-pandemic experience, as was the case, I think for probably CPG across North America. So, the ability to get back to focusing on what matters the most in our business, which is the consumer at the heart of everything and offering consumer-focused solutions through an innovation platform that's meaningful to company is important and it's an area that we're now focused on.

That focus showed up last year in, you know, 50-plus SKUs being launched into the market, some receiving important recognition as I highlighted in my opening comments in terms of their success. And no question that will continue on in terms of our pipeline for 2025. We'll talk about those items as they roll out. I think that's more prudent. But that's essentially what's changed and sits at the heart of the business.

Again, those benefits embedded directly in our outlook. Mid-single-digit sales growth, I think you'll find exciting from a consumer packaged goods perspective in the context of kind of the North American market these days. So that shows up in our – both our top line outlook and our bottom line outlook as well.

Luke Hannan
Analyst, Canaccord Genuity Corp.

Q

Great. Thank you very much.

Curtis E. Frank
President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

Thank you.

Operator: Thank you. And I'm showing no further questions at this time. I would like to turn it back to Mr. Frank for closing remarks.

Curtis E. Frank
President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

Okay. Great. Thank you for joining us this morning. We're obviously pleased with what I would describe as a very solid quarter in Q4, pleased very much by the significant financial progress that we made within the year. The growth strategies are proving resilient, the improving profitability of the business, the discipline around our capital expenditures, the free cash flow generation, and the strengthening in our balance sheet are all setting us up for what we continue to describe as an exciting, positive and transformational year ahead.

So, thanks very much for joining today, and we look forward to talking to you at the end of our first quarter.

Operator: Thank you. And ladies and gentlemen, this concludes today's conference call. Thank you all for joining. You may now disconnect.