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MFI.TO - Q1 2015 Maple Leaf Foods Inc Earnings Call

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PRESENTATION

Operator

Good afternoon ladies and gentlemen. Welcome to the Maple Leaf Foods first-quarter 2015 results conference call hosted by Mr. Michael McCain. Please be advised that this call is being recorded.

(Operator Instructions)

I would now like to turn the meeting over to Mr. Michael McCain. Please go ahead, sir.

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

Thank you very much and good afternoon everyone. Thank you for joining us.

On today's webcast we will review Maple Leaf Foods financial and operating results for the first-quarter of 2015. The news release and today's webcast presentation are available at Mapleleaffoods.com under the investors section.

Some of the statements made on this call may constitute forward-looking statements and future results may differ materially from what we discussed. Please refer to our 2014 annual MD&A and other information on our website for a broader description of operations and risk factors that could affect the Company's performance.

As is normally the case I will begin with an operating review and then expect to turn the call over to Debbie Simpson, our Chief Financial Officer to provide other financial information. We will then open up the phone lines to analysts for questions.

So if I could begin on page 2 of the presentation. Certainly this was a good quarter where we made considerable progress in closing the gap to our strategic EBITDA margin target and realized some very good commercial momentum.

Here are some of the key points from the quarter. Maple Leaf returned to profitability and adjusted EPS earning CAD0.05 a share. Our EBITDA margin was 4.7%, a considerable improvement over last year's negative 1.1% and this is the best first-quarter performance we've seen in the last five years.

We closed our Kitchener facility at the end of February and we achieved a very important milestone today with a final production run at our legacy plant in Toronto. As a result of this we have eliminated the last component of the duplicate network and we are now in the final phase of transformation. As of tomorrow 100% of our production will occur or be completed in our new plant network.

The remaining path to our 10% EBITDA margin target is exclusively in optimizing our operations in the new scale plants and mostly in the Hamilton facility. At the same time we're in the early stages of defining our growth agenda as we transition from fixing the business and our cost structure to profitably growing our business.

As part of this the Board of Directors is carefully considering the appropriate capital allocation strategy and I'd like to explore all of these points in more detail. If I could turn your attention to slide number 3, this slide shows the progression towards our EBITDA margin target. You can see in the fourth quarter of 2014 at a low of negative 4.3% to the first quarter of 2015 at 4.7% had a very significant trend line, delivered a significant improvement in our financial results as adjusted operating earnings improved to CAD10.4 million, a CAD40 million turnaround from the first quarter of 2014 on a sales increase to CAD780 million which is up 8.5% from the same period last year.

Our adjusted EBITDA margin for the quarter was 4.7%. This represents a significant improvement from year ago and from the prior quarter at 1.5%. The results of all this was adjusted EPS of CAD0.05 per share compared to a loss of CAD0.24 per share in the prior year.

Turning to slide number 4 this provides some additional color on our CAD40 million year-over-year improvement in adjusted operating earnings from a loss of CAD30 million a year ago to CAD10 million of earnings this year. The first green bar represents margin and cost improvements. This incorporates the contributions of last year's price increase in Q2 which restored some historical margins in the business along with the benefit of the reduced cost from the closure of our legacy plants.

The second bar illustrates an CAD11 million improvement in protein market conditions from the prior year. Most of this is attributable to hog production economics and improved poultry markets. Gains here were partially offset by industry pork processing margins which while lower than last year were consistent with the five-year industry average.

The red bar shows the quarter-over-quarter impact of volume which despite its color is actually an encouraging story. We saw very good trend lines in our prepared meats volume during the first quarter consistent with what we had described and discussed at our last visit in February. So we're tracking in the right direction but obviously have a little more work to do.

The other bar primarily represents the contribution of strong pork results driven by an improvement in our Japanese chilled business where we realize better margins and volumes. Canadian retail margins in fresh pork were also up.

Turning to slide number 5, we're very happy with the commercial momentum in the business in total. You will recall in the last few quarters that we discussed volume performance as a material concern. At our last quarterly review we spoke of an emerging recovery and that has played out very positively.

The marketing and sales teams have been focusing hard on this ever since we took pricing action last year to manage high raw material costs and they have done an outstanding job and we were encouraged to see prepared meats volumes improving through the quarter. Volumes are still lower than Q1 in the prior year. However, the end-quarter trend line month by month has been excellent and we do not now see this as a material impediment to achieving our overall margin targets.

Managing the delicate balance between volume and margin is always important but we think we now have this in good shape overall. Our approach in the last six to nine months we believe has been very effective.

A contributing factor in our positive Q1 results although a smaller one was the performance of our fresh pork business. The key driver here was an improvement in our Japanese chilled pork business both in terms of margin and volume and our Canadian retail business. And finally there was a positive momentum in the overall environment that we operate in specifically with declining commodity values, lower energy prices and a lower Canadian dollar which is helpful over the longer term.

Turning to slide number 6, as you know this has been an extensive journey of investing in and commissioning new scale facilities, transferring production to them from a number of legacy plants and then closing those facilities. Our final production run at the last of those legacy plants is happening today.

This is an incredibly important milestone as we are no longer running a parallel supply chain as of tomorrow of new next to old plants and bearing these duplicative costs. Candidly this is the most important day in the past seven years and as of tomorrow this new plant network will be producing 100% of our production needs. I'm very proud of what the Maple Leaf team has accomplished in this regard.

By the end of the day we will have transferred over 1,000 SKUs during our network transition with each one being the equivalent of a new product launch that sees testing, adjusting and testing again and again and finally regulatory approval. It's a very complex and disruptive process but the one that as of tomorrow is behind us.

Turning to slide number 7, the path to 10% at this stage is exclusively in the optimization of the new facilities. Now that we've closed the last of those legacy plants the remaining path on our 10% margin lies in gaining the full process efficiencies from the new network and the large majority of that is in the new Heritage facility.

In the first quarter our EBITDA margin was 4.7%. The remaining 5.3% is made up of two components, the elimination of the duplicate overheads and simply dialing in the performance of the new plants. We can see that runway line by line, factor by factor in each one of the facilities which gives us the confidence in that final objective.

This comes in the form of optimizing labor utilization, line efficiencies, yields, line scheduling optimization and eliminating the final remnants of additional overhead required in start-up locations, mostly for the purpose of problem-solving supports. While we will close the remaining gap to the margin target this year it's not a linear progression and that's a very important point.

It is as of May 1 really when our operations team can focus 100% on the new network in this optimization task. So it's very important that you should not reasonably expect material change in the second quarter and most of this will be evident in the second half of 2015.

Turning to slide number 8 we are now concentrating on the work in process to define the growth path that delivers the highest returns for Maple Leaf and shareholders. This growth will be rooted in our insights into changing consumer behaviors and expectations. Today's consumers increasingly expect more from us.

They have less time, they want more value, they want more natural food, they want it raised from animals that have been treated humanely but with fewer antibiotics. They want enhanced nutritional benefits and as our society becomes more ethnically diverse they want more choice. We've started down the path of meeting all of these needs but there's a lot of opportunity in front of us and we have a lot of work to do.

Against these insights are a number of strategies that we can potentially pursue including but not limited to things like growth in value-added poultry, expanding our sustainable meat offering which involves more important considerations such as animal welfare, environmental sustainability and products such as our raised without antibiotic portfolio. Continuing to address the changing ethnic makeup of our country is an important opportunity. Broadening our protein snacking portfolio, potentially the alternative vegetable-based proteins which we have a small offering today but might consider expanding and finally artisanal meats.

The growth agenda will be as purposeful and defined as our cost fixing agenda was. The execution of the growth agenda will be focused on what is good for the business and good for shareholders and will likely be a mixture of organic growth and acquisitions.

So with that I'd like to turn the call over to our CFO, Debbie Simpson.

Debbie Simpson - *Maple Leaf Foods Inc. - CFO*

Thank you, Michael. Can I turn your attention to slide 9. This provides further information on cash flow and the balance sheet.

In the first quarter the Company had positive free cash flow of CAD5 million reflecting improved earnings. This compared to negative free cash flow in Q1 of 2014 of CAD125 million.

We had cash on hand at the end of the quarter of CAD427 million, a decline of CAD69 million from Q4. This reduction is in line with the seasonal profile of the business and largely due to a CAD50 million investment in working capital to support higher prepared meat sales in the summer months. This investment in working capital will reverse later in the year.

Finally restructuring costs in the quarter were CAD11 million of which CAD7 million were cash. This compares to CAD22 million in restructuring costs last year of which CAD16 million was cash.

The CAD11 million is not representative of our run rate for the year. We anticipate with the timing of the closures that restructuring costs will be somewhat front-end loaded. We expect that our initial forecast of CAD13 million for the year to be a bit on the low side.

Turning to slide 10. The Board's initial decisions on capital allocation this quarter included doubling our dividend to bring it in line with CPG companies somewhat at the low-end and announcing the normal course issuer bid to offset the dilutive effects of our equity compensation program. The objective of the Board's ongoing review of capital allocation is to find the path forward that creates the most shareholder value long term looking at growth prospects for investment in the business or alternatively return of capital to shareholders. Of course, the priority continues to be one of conservatism and completing the full realization of all our strategies to boost profitability in the business first.

And once that is complete we have a wide array of growth prospects to assess our opportunity. At the right time we will also need to determine the optimal balance sheet in terms of risk appetite for debt.

We have made excellent steps forward in capital allocation but there is considerable more work to do and you should expect us manage it conservatively and analytically. But we don't have a defined timetable.

I'll turn the call back to Michael.

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

Thank you, Debbie. Let me wrap up on slide number 11 please, before opening the call to your questions.

First we have had a strong quarter with good margin progression and we've made meaningful gains towards delivering our 10% EBITDA strategic margin target. We've seen some real solid momentum in our commercial performance which we were able to maintain margins while growing the volume in critical areas through the quarter.

Our network transformation has reached a very meaningful milestone with the closure of the last two legacy plants and we're now in the final phase with a clear path to realizing our strategic targets. We're on track to reach them sometime this year and we're focused on total shareholder return long-term.

So with that I'd like to open the call to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Irene Nattel.

Irene Nattel - *RBC Capital Markets - Analyst*

Thanks and good afternoon everyone. Michael, your comments around the evolution of margins as we go through the year are really helpful. So thank you.

You did mention a number of factors that come into play in terms of taking the facilities, the new Hamilton facilities from where they are today to where they need to be to deliver that 10% margin. Can you walk us through sort of I guess the sequencing of these different elements and the relative importance of these different elements and how you're going to be judging the progress?

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

Yes. These are the very common economic drivers of factory performance that are normal and customary operating management for manufacturing business or a food manufacturing business like ours. They involve labor factors including labor utilization, crew size and line efficiency and raw material yields.

But there's also some overhead components attached to that which are mostly the remnants of additional overheads in each one of the plants that are in place mostly, Irene, for problem-solving support. Because in these final stages when you're dialing in the productivity levels and the efficiencies of the line it's mostly about a vast array of minute level micro level problem-solving. So you tend to need more people in overhead during the problem-solving support.

In terms of how do we look at what is so encouraging for us is that we have visibility to those variances not just line by line but SKU by SKU, factor by factor and I personally get reports daily every day for the prior day, week to date, period to date, etc., facility by facility, factor by factor. So the visibility from this stage is about as granular as you can managerially make it.

And the issue is that what creates the unpredictability of timing and we're still not able to give really precise timing levels. We tried to be directional in what that looks like. But the unpredictability is really about a slope of the curve in problem-solving.

So you have a micro number of hundreds of micro problems that need to be solved all with very visible solutions. But there's a problem-solving unpredictability to that factor that just creates some challenges in exactly nailing that down as to whether or not it's two or three months or four to six months. So hopefully that gives you some color Irene in terms of what we're seeing.

Irene Nattel - *RBC Capital Markets - Analyst*

That's really helpful, Michael. Thank you.

Now as a second factor just returning to consumer spending patterns, you did note a recovery in volumes and that's wonderful. As we move into the key summer barbecue months and assuming that gas prices stay at around these levels do you see any kind of shift perhaps a little bit away from private label, a little bit into branded products as consumers have a little more pennies in their jeans?

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

It's possible. At the peak we did see some shift from branded to private label so I think it's certainly conceivable to see that migrate back but honestly our mix is in good shape today.

We don't see that being either a positive or negative. It probably tends to be positive but we're not counting on that coming into the summer.

I think the most important thing coming into the summer though is that we actually are in a really good position coming into the summer period from all dimensions of our business. The management team a year ago was in transition going from old Company to a focused protein Company so it was in a bit of transition, we had supply chain instability as Heritage was just opening up its doors.

We had service-level issues during that original somewhat chaotic state. The commodity values are lower today so I think you can see more consumer friendly opportunities in the marketplace as the summer unfolds which would be a good thing.

Our sales and marketing teams today are very excited about the executional plans that they have in place for the entire summer. So you can never guarantee all of the factors but right now I think the fundamentals on the commercial side of it look very good.

The single most important observation of this quarter is all of those commercial factors whether it's market conditions or volume or margin, all of those factors have largely melted away. And we now the path from here to our 10% target is basically in the remaining 5.3 percentage points of dialing in the new plant network which is 100% of our focus as of tomorrow. So we've made steady progress along that goal over the last year but I think we're in the final stages of optimization as of tomorrow.

Irene Nattel - *RBC Capital Markets - Analyst*

That's great. Thanks. I will hand it over to someone else.

Operator

Michael Van Aelst.

Michael Van Aelst - *TD Securities - Analyst*

Thanks, Irene covered a number of my questions but I wanted to touch on the market conditions right now with hog prices having fallen off so much. Can you talk about the behavior of your competitors in the industry right now and how pricing is acting?

Is it holding up? Are the price increases you took last year holding up in this environment and how is the promotional environment adjusting?

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

On balance we're very satisfied that it's holding up at our about where we expected to be, Michael. That's the headline answer but it's very different by category. Because there's a lot of moving parts in arriving at that conclusion.

Commodity values in our further processed business are way down but currency is down also which actually increases the cost of our raw material costs in Canada, in Canadian dollars so they have a bit of an offsetting effect in the marketplace. Having said that there are certain categories, good example being bacon where we have been responsive to lower cost of raw material in bellies but we protected our margins in doing that.

So there is a combination of all of those factors that are different category by category. But on balance the short answer to your question is the industry conduct has held up well and our volume and margin, the delicate balance between volume and margin is in line with where we would expect it to be strategically.

Michael Van Aelst - *TD Securities - Analyst*

All right, thank you. And on the volumes when you talked about in the past about getting recovering lost volumes both following the price increase but also some of the other products that you had let go during the transition for various reasons, how is the latter part of that coming in terms of I think a lot of it was reliant on getting product into the US. Are you making progress on that this year?

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

We're making progress. We expect more progress in the back half but on balance we've had historically a path to progression from where we've been to the 10% margin target quarter by quarter and the reason why we aren't reviewing that this quarter is because we are close enough where the puts and takes are not material in that delicate balance between margin, market conditions, volume. And so none of those individual factors are material.

The only material factor remaining in this path to 10% is dialing in the final stage of the operating performance of each of these new plants. With respect to the volume hole that we've described in a couple of occasions we have made some progress where we've dropped unprofitable volume not last year but basically over the last three to four years.

We've offset it in other areas, so it's not an obstacle to us achieving our 10%. But we also feel that we've got opportunities to overachieve that target in the latter part of 2015 and into 2016 because of currency, current commodity markets, our position in RWA meats and so on and so forth and selling that volume into places like the US as we've talked about often.

Michael Van Aelst - *TD Securities - Analyst*

Thank you.

Operator

(Operator Instructions) Derek Dley.

Derek Dley - *Canaccord Genuity - Analyst*

Yes, hi. Can you guys just comment on some of the industry dynamics that you're seeing from the weakening of the Canadian dollar? I know it's still early but have you seen some more market share come up in the US and vice versa, some of the US guys looking to let go of some of their Canadian share?

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

Yes, we've seen excellent early indicators, Derek. But in both those factors in terms of business coming north from the United States or opportunities going south into the United States there are very long business development cycles in those. While the early indications are very positive and that creates some sense of optimism for years ahead of us from a volume perspective it because of the lag factor in business development cycles. I wouldn't expect that to be something that affects our business in the next quarter or two.

Derek Dley - *Canaccord Genuity - Analyst*

Okay, understood. And can you give us an idea of the magnitude of duplicate cost that were recorded in the quarter? Was it in line with what we've seen in the last two or three quarters?

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

I believe it's in the charts, Derek. Of that 5.3% the remaining duplication in there is 0.9%.

Derek Dley - *Canaccord Genuity - Analyst*

Right, I that. I was just referring to Q1 actually, what were the duplicate costs recorded in Q1? I think in the last few quarters it was in the neighborhood of CAD24 million.

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

Yes, we made the decision not to calculate that number because the challenge from an accounting perspective is that once those duplicate overheads melt away there's a blurring line between what are start-up costs that were built into that number and what were operational inefficiencies. So the number from an accounting perspective had less and less integrity and so in an effort to simplify that, and many of the people reading our documentation in the past asked for simplification, we basically went down the path of just describing it in the context of our duplicate overhead and inefficiencies that we have between where we are today and our 10%. So I'm sorry if that's confusing but we have transitioned beyond the point where that number was meaningful because of the blurring line between what constitutes start-up and operational inefficiencies.

Derek Dley - *Canaccord Genuity - Analyst*

Okay, that's great for me. I will pass the line. Thank you.

Operator

Mark Petrie.

Mark Petrie - *CIBC World Markets - Analyst*

I just wanted to follow up actually on an earlier question with regards to the volume and I guess specifically the throughput at Brandon. Over what time frame do you think you could or plan to recover back to sort of the historical throughput level in that facility?

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

Honestly I wish I knew the answer to that, Mark. It's a great question. It's a question that we ask ourselves frequently here.

The challenge in getting from what is essentially 70,000 hogs a week to full utilization of the facility at 90,000 hogs a week is basically about pigs and people. The obstacles that we have are the supply of livestock and the availability of labor in that marketplace.

We think that we're making some progress in both but they are long-term initiatives. And neither one of them would be far enough along where we could establish a timetable attached to it.

So having said that in order to achieve our strategic margin targets of 10% we don't need to accomplish that goal. So that would be bonus points if you will.

Mark Petrie - *CIBC World Markets - Analyst*

Okay. And then I think just in terms of the prepared meat volumes I think you had said in Q3 it stabilized following the price increase, in Q3 it stabilized down 4% to 6% and then the recovery in Q4 and then continued recovery in Q1. So is it fair to say it's sort of down marginally or low single digits today?

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

Yes, I'd say it's down low single digits but the most important thing for us is that occurred almost exclusively in January and we saw progression through the month. We got almost neutral in February and we actually had growth in March. So we were very happy with the progression through the quarter. And it's looking like that's going to continue in the second quarter.

Mark Petrie - *CIBC World Markets - Analyst*

Okay, thanks. And then just with regards to the growth strategy from here and I know you're still sort of defining that but could you just talk a little bit, I know you have in the past, too, but talk again about your criteria around acquisitions. Does it need to be in the protein market specifically and what would be the specific sort of skills or qualities that Maple Leaf would be bringing to bear in an acquisition?

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

We spend a lot of time thinking about that. Our most important attribute here is that we are going to focus our growth strategy and the allocation of capital around opportunities that don't just enhance the IRR of the opportunity but they enhance the TSR. By that I mean the IRR hurdle suggests that an investment would have a satisfactory return to shareholders as a standalone investment.

Our perspective and the lens that we're laying on this as the additional component of not just an IRR but the total shareholder return ("TSR") view because we're very mindful of what that investment would do to our portfolio to enhance the multiples and the view of the business as a packaged goods company going forward. So that's a very important analytical lens for us is that it's not just IRR, it's TSR that's going to drive our investment approach.

They obviously would have to be strategically in line with our current business defined as protein which means to us that they would enhance our existing categories in some way. And there's lots of opportunities.

I listed some of them in my remarks. I'd be happy to go through them again if you'd like.

In each case the components that we think would have an appropriate IRR and be accretive in total shareholder return are investments that have strong brand propositions or opportunities, are accretive to our margin targets and have growth. Those are the factors that would be most coveted from a TSR perspective in addition to acquiring it at the right value so there's a good IRR in our hands.

So strategically aligned with our existing business, solid returns and accretive from a shareholder return perspective, a TSR perspective is probably the summary view of how we would approach those opportunities. Is that helpful, Mark?

Mark Petrie - *CIBC World Markets - Analyst*

That's very helpful. Thanks a lot.

Operator

Ken Zaslow.

Ken Zaslow - *BMO Capital Markets - Analyst*

Hey, good afternoon everyone. So my question is so you went through the process -- I guess the question that I have is what is the pipeline of opportunities in terms of acquisitions available?

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

We have nothing that we're prepared to discuss openly in that regard, Ken. You know obviously that's a work in process. The Board has a significant role to play in that.

There's a fair amount of analytical rigor that needs to take place and there will be lots of scrutiny at all the opportunities. Rest assured that we are looking at many opportunities but we would be remiss to try and describe any of them in any detail beyond what we have.

Most of the information attached to that are confidential. So I'm not sure what would be helpful for you.

Ken Zaslow - *BMO Capital Markets - Analyst*

I guess my question is I guess I've asked a lot of companies and my question really is is there a pipeline of available? And I ask you which ones they are. Because there's been varied answers across the group in terms of that there aren't a lot of assets that are available versus the assets that are available are very expensive.

So I'm trying to figure out how active is your pipeline. And I understand that you can't tell me well we're going to make this acquisition. I'm not looking for that -- well I would look for it but I understand that you can't give it to me.

But my question is how active -- is the pipeline very full, is it still like a work in progress, is it are the valuations where you think they are? And I guess that's kind of what I was getting at. I wasn't looking for the absolute acquisition rank today.

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

I appreciate the clarification and I absolutely understand where you're coming from. I would say the pipeline is under development, a work in progress is where we are at. And obviously as we do that you know my personal experience is there's always lots of opportunities in the marketplace.

In terms of the affordability of them we will not overpay for assets. That's just not in our DNA to do that. As I said in my earlier remark we would be focused on its TSR accretive value in addition to the returns.

But it's just work in process and we're very optimistic there will be a good portfolio of opportunities as this unfolds. So I'm not sure I can give you any more color than that at this moment.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay, that's fair. And then my next question is in terms of the input prices for your package meats business there's been a massive rolling over input prices. Is there a pricing, I guess when will we start to see the flowthrough but more importantly how much will you have to correspondingly cut your pricing for the consumer to come back or how do you think about that dynamic?

I know it's been asked in a lot of different ways but I guess what I'm just trying to figure out is we know that the input prices are rolling over. There's a matter of time in which you are going to enjoy that benefit.

Do you need to price it away? Do you get to keep it? And just give some color on that.

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

So there are two counter forces in that equation in our packaged meats business. Commodity values are going down and pushing raw material costs down. FX is actually pushing currency, FX is pushing raw material cost up in Canadian dollars in that component of our business.

So we have to price for the net Canadian dollar value of that raw material cost. On balance that is a net decline in raw material costs and so we are in fact giving back some pricing in selected categories where it's appropriate.

But as I said earlier it's very category specific. So for example in bacon we have to date and we will continue to be competitive in the marketplace while simultaneously protecting our strategic margin targets. So give back in pricing along with the decline in commodity markets doesn't mean a contraction in our margins.

In fact we are protecting or holding onto our margins in the process. There are other categories where raw material cost is quite frankly a much smaller component of that category and frankly we are able to hold onto our pricing.

So it's very category specific. What you should conclude is we're very confident that we can meet or exceed our total portfolio strategic margin target in the marketplace.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay. My last question is is there a risk, I know you guys have protected your marketshares in Canada exceedingly well against potential US competitors but with the steep fall in the input prices for the US companies that don't have to worry about the Canadian dollar as it affects them is there a fear that there would be an insurgence of new competition or do you think the market is protected enough that that would not be a risk?

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

Actually Ken to correct you that factor that you describe of currency adjustment actually works for us not against us. So when they sell their product into Canada their price realization in Canadian dollars has contracted at the same time. So in actual fact to a US based exporter into Canada because of the currency decline without pricing action they've had a dramatic reduction in their margins coming into this marketplace.

So in fact that whole dynamic works for us not against us. We see that as volume and marketshare opportunity not risk.

Ken Zaslow - *BMO Capital Markets - Analyst*

So I guess and that is my point -- I hear you -- I just think that there would be opportunity for you to expand your margins within Canada then. I'll take it off line but to me my first point is that I think given the lower input prices you should be able to capture a greater percentage of that margin is not worrying as much about your Canadian dollar impact

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Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

Over time that's possible. As I said before Ken there's a very long business development lead time before that occurs. I would also highlight that most of the currency benefit that you described to the extent that it's neutral in our packaged meats business most of the currency benefit that you describe is more in our upstream businesses.

Ken Zaslow - *BMO Capital Markets - Analyst*

Great, I appreciate it.

Operator

Michael Van Aelst.

Michael Van Aelst - *TD Securities - Analyst*

Most of them have been answered again after all that but just some accounting number questions. The depreciation, can you give us another update on that one? Does it fall off at all as the plants close or do you have more depreciation coming on as you ramp up Hamilton fully?

Debbie Simpson - *Maple Leaf Foods Inc. - CFO*

We're still sticking with our original estimate, Michael. I think we're around somewhere between CAD115 million and CAD120 million for the year.

Michael Van Aelst - *TD Securities - Analyst*

Okay so I think that would mean -- does that include the accelerated depreciation on the bakery IT?

Debbie Simpson - *Maple Leaf Foods Inc. - CFO*

Are you talking about the SAP asset that was associated with the bakery business?

Michael Van Aelst - *TD Securities - Analyst*

Yes.

Debbie Simpson - *Maple Leaf Foods Inc. - CFO*

It's separate. So it's about CAD40 million.

We recover about CAD10 million of that through our transitional service agreement and we're accelerating the balance of CAD30 million between now and the end of the agreement which we've pegged to be the end of this year. That's not to say that the agreement will end at the end of this year but that's how we peg the accounting and it actually flows through our other income line so it's separate from our depreciation line.

Michael Van Aelst - *TD Securities - Analyst*

Okay. And on the interest side it looks like some of your swaps and standby fees may have come down quite a bit. Is that the new run rate going forward on those lines?

Debbie Simpson - *Maple Leaf Foods Inc. - CFO*

Nothing has changed but we had a combination of interest cost, interest income and then a flowthrough of the impact of our swaps on three separate lines in our income statement. Starting this quarter and for the balance of the year we've actually merged them into one line. So there's no difference, it's just a combination of three numbers that are being moved onto one line.

Michael Van Aelst - *TD Securities - Analyst*

All right, I will follow up offline. Thank you.

Operator

Thank you. There are no further questions at this time. I'd like to turn the meeting back over to you Mr. McCain.

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

Okay. Thank you very much. We appreciate your support.

This has been a long journey. This is a pivotal year for Maple Leaf and we've had a great first quarter in that pivotal year.

We have more work to do but we're very happy with the progress we've made and very optimistic about the outcome of this very long journey. So thank you for your support over a long period of time and we look forward to updating you again at the next milestone. Thank you.

Operator

Thank you Mr. McCain. The conference has now ended. Please disconnect your lines at this time and we thank you for your participation.
