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MFI.TO - Q1 2016 Maple Leaf Foods Inc Earnings Call

EVENT DATE/TIME: MAY 04, 2016 / 6:30PM GMT

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CORPORATE PARTICIPANTS

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

Debbie Simpson *Maple Leaf Foods Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

George Doumet *Scotiabank - Analyst*

Irene Nattel *RBC Capital Markets - Analyst*

Mark Petrie *CIBC World Markets - Analyst*

Derek Dley *Canaccord Genuity - Analyst*

Michael Van Aelst *TD Securities - Analyst*

Ken Zaslow *BMO Capital Markets - Analyst*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Welcome to the Maple Leaf Foods first-quarter 2016 results conference call hosted by Mr. Michael McCain. Please be advised that this call is being recorded. Please note that there will be a question and answer session following the formal remarks. In the question and answer session, instructions will be read after the presentation.

I will now like to turn the meeting over to Mr. Michael McCain. Please go ahead.

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

Thank you and good afternoon, everyone, and thank you for joining us this afternoon.

On today's webcast, we're going to review Maple Leaf Foods financial and operating results for the first quarter of 2016. 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 information, and future results may differ materially from what we discuss. Please refer to our 2015 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 normally is the case, I will begin with an operating review followed by Debbie Simpson, our Chief Financial Officer, who is here with me today, who is going to provide you with other financial highlights, and then we will open the call to your questions.

If I could begin by turning your attention, please, to page number 2 on the slide deck. Clearly the big news for the first quarter was delivering on our EBITDA margin goal of 10%. That is a five-year financial target that we set back in 2010. We committed to delivering that through executing one of the largest transformations in the North American food industry. Our goal, when we launched this strategy, was to make our Company a significant leaner, stronger, and more profitable organization, one that delivers higher margins, based on great brands, value-added innovation and products, and lower costs. I am proud of the fact that we took a longer-term view and we achieved our goal.

It has been a long road for the Company, for our people, our customers, our shareholders, so I want to take this opportunity, if I could, to recognize the perseverance of our people who never lost sight of this strategy over that period of time and what it would deliver. And I would like to thank many of you who are on the call today who have invested in this Company with a shared belief in the value that we can create on this journey.

Turning to slide number 3, let's briefly recap what we have accomplished. We have invested over CAD1 billion in capital to substantially lower our cost structure and improve our network efficiencies. We consolidated 11 prepared meats plants into four scale facilities and 19 centers of distribution into two. We converted multiple legacy information technology systems into one integrated SAP platform. We eliminated or reformulated over 1800 products to run in our longer, faster lines with new technologies. We sold several non-core businesses and strengthened our balance sheet in the process, and we streamlined our organization and the cost of running our business.

I believe now we have amongst the most modern and efficient prepared meats plants in the food industry, which are delivering a return on the investment that we set out.

Turning to slide number 4, we delivered record earnings in the quarter, reflecting the benefit of these years -- these many years of investment and change. These charts reinforce the negative financial impact that we experienced in 2013 and 2014 through the period of transformation and, also, the steady improvements that we made through 2015.

Our adjusted earnings per share for the quarter were CAD0.28 compared to CAD0.05 last year, and our adjusted operating earnings were CAD54 million, which is an increase of CAD44 million from the first quarter of the prior year.

Turning to slide number 5, you can see the steady margin progression expansion as we completed the closure of legacy plants through 2015, eliminated our duplicative supply chain and continued to reduce ramp-up costs in our new prepared meats network. We have structurally shifted our margin from what was an historic level of around 3.5% to the 10% level today. In the short term, we expect some fluctuations from quarter to quarter, of course, not unlike our peers in the consumer package goods industry. However, we fundamentally shifted our costs and migrated to a value-added portfolio to build structural margin expansion in the business.

Over a longer period of time, as I have said consistently for the last couple of years, we believe that this 10%, over time, is a floor, not a ceiling for our business.

Turning your attention to slide number 6, the primary drivers of improved earnings in the quarter were a combination of strong commercial and operating gains. During the quarter, we made very good progress in reducing the ramp-up costs at our new Hamilton facility, which contributed approximately 100 basis points in margin expansion. Our team has made excellent strides in increasing yields and productivity with more upside in front of us.

While we have realized steady improvements over the past year, the final leg of eliminating remaining variances is often the most complicated and exacting and is going to continue to take a little bit of time, but it moves into a much smaller zone and largely won't affect our business in total.

Turning to slide number 7, this highlights some of our commercial gains in the quarter. One of the leaders was continued market expansion in sustainable meat or, more specifically, pork that is 100% raised without antibiotics, amongst other sustainability practices in our supply chain.

In a recent Canadian market survey, a shocking statistic, over 80% of the people stated that they are concerned about antibiotics in meat, the most important concern they share after food safety. Consumers prioritize eliminating hormones and antibiotics in meat production and particularly think it is important to eliminate or reduce antibiotic use in animals. Maple Leaf is now one of the largest processors of pork from animals raised without antibiotics in North America, and sustainable meat continues to be a core area of growth for this Company. We are also the largest in this genre of products in Canadian poultry.

Maple Leaf has the leading brands of chicken in our markets, including the Prime brand, Maple Leaf brand, and the Mina Halal brand. In the quarter, we drove increased volumes across all of these platforms, which increased our earnings from this business.

We also increased margins from the sale of our value-added pork products, both in the Canadian retail sector and in export markets.

Our prepared meats business also contributed to a margin expansion in the quarter. We grew our market leadership in packaged meats and in several key categories, including wieners, bacon, sausages, and canned meats. We did exit some lower margin business that took a broad price increase in February to manage higher costs and the impact of currency, which is having a short-term impact on volume. Price always has a corresponding transitory effect on demand, always has and likely always will, and we expect some continuing demand in the second quarter from that. Some continuing impact, I should say.

Turning to slide number 8, what we have done is laid the foundation for Maple Leaf to be a globally competitive and highly profitable company well into the future. We believe that that foundation is based on a driven culture of highly talented people. We have leading brands and market shares and a low cost structure today.

But what we have built is just that foundation. We have given ourselves the tools to realize more potential ahead. There are two themes that we see going forward. The first is maintaining the momentum of our cost culture and investing in our assets, and the second is driving strategic profitable growth.

I would like to go into a little more detail on both of those, please.

Turning to slide number 9, as many of you know, that a high performing growth-oriented food company today recognizes that a low cost culture provides the fuel for that growth. Now, here is where we would expect to find those opportunities.

First, we have adopted materially more aggressive cost planning and review methods throughout the Company to identify any inefficient spend and support ongoing reduction in overhead and SG&A. Identifying these cost reductions every day isn't just about growing the bottom line. We expect that a material portion of savings that we find in our overhead structure and our SG&A will, in fact, be reinvested in growth. That includes brand building, product innovation, and sustainability, all of which we would expect to drive further success in the very near future. This is exactly what we have done in 2016 and illustrated in the first quarter to supercharge our marketing and promotional activities.

We also see more opportunity to drive further productivity and efficiency gains, lowering our cost of the supply chain from our assets, particularly in our poultry operations. You should know this will involve capital spending, selective capital spending, but we expect very attractive returns attached to that.

Turning to slide number 10, as we pivot the Maple Leaf organization towards accelerating sustainable growth, 2016 will see us execute our most ambitious innovation and marketing plans ever. We are supporting our core business portfolio by investing in our leading brands, by executing on our robust innovation pipeline, and concentrating on three platforms -- sustainable meat, healthy protein snacking, and alternative proteins.

Turning to slide number 11, our first priority this year was the rejuvenation of the Schneiders brand. This is a leading brand in the packaged meats market in Canada. It is an iconic brand with 126-year-old history known for quality and craftsmanship. We know from talking to consumers across the country that Schneiders has been a huge part of Canadian traditions, big and small, from coast to coast, and the Schneiders relaunch, which includes everything from new packaging and new logo, new products, in-store promotions and marketing, and advertising, reinforces that brand's role in creating memorable traditions and its place in our social fabric.

Turning to slide number 12, an important component of our marketing push is enhancing how we engage with consumers. We launched several in-store television and social media promotions in the first quarter, including some very exciting relationships with Kevin Pillar of the Toronto Blue Jays and the Schneiders brand.

We also drew on the support of five-time Olympic medalist, Haley Wickenheiser, as an ambassador of our Protinis healthy meat snacks. Our promotional videos have been viewed more times in the first quarter of 2016, more times in the first quarter than in the entire year in 2015. Over 6.8 million views on social media channels alone.

We have rethought our entire approach to our media buy, which includes balancing strong television advertising with an increased investment in social media in order to reach consumers on their laptops, their tablets, and certainly their smartphone screens.

Turning to slide number 13, we have always been an innovation leader in our categories and markets, and meeting consumers' needs in these categories is increasingly all things natural. We launched our naturals line of prepared meats six years ago, and since then, sales have climbed to almost CAD250 million. An astonishing number.

The launch of Maple Leaf Canadian Craft, we believe, takes this to a whole new level. This new brand in a line of craft meats is designed to leverage the strong reputation of Maple Leaf to create a distinctive line of artisanal premium products that have wide consumer appeal.

Our goal is to make these artisanal products more accessible. It takes the nationalist credentials of Maple Leaf and puts Canadian right in the name, drawing on iconic foods from across the country to inspire the recipes. They truly are fantastic products. Products like Atlantic Sea Salt Prosciutto, Quebec Maple Ham, and Canadian Whiskey and Apple Bacon. They are all made with simpler, natural ingredients, and I think they are amongst the best tasting products we have ever adopted or developed.

We expect a very strong consumer response to Canadian Craft, which is being unveiled in retail stores across the country over the coming weeks, and the early indications are extraordinarily positive.

Turning to slide number 14, we are also innovating to meet the growing demand for wholesome turkey products, and we see this as a platform that is poised for growth. We have expanded our Maple Leaf Prime turkey line, a fully cooked portfolio, with some exciting new products. These include Prime turkey bacon, wieners, and sausages that lean, high-protein, and flavorful foods made from 100% Canadian-raised turkeys.

Very exciting growth platform for us and opportunity on slide number 15, going forward, is the sustainable platform that we are developing and the genre of products which we classify as sustainable meat. We have a leading North American share in raised-without-antibiotic pork. We believe this is a competitive advantage for us and will drive sales in Canada and targeted US expansion.

In addition, we are the largest source of RWA poultry in this country. Sustainable meat is a premium growth area in the marketplace, and we are not only seeing increased volume across our fresh pork and poultry platforms, but we are also transitioning this into a full line of prepared meats.

In addition, this is supported by our advanced animal care practices and environmental commitment and practices as part of this commitment. With that, I would like to turn over the call to Debbie Simpson, our Chief Financial Officer, to provide some additional color and financial information.

Debbie, would you take it away, please?

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

Thank you, Michael. Turning to slide 16, you can see the impact of the transformation on our income statement. We have increased our structural gross margin from 11% of sales in Q1 2015 to 16.4% in Q1 2016. Selling, general, and administrative expenses for the first quarter increased by 3% to CAD77.3 million or 9.7% of sales compared to CAD75 million last year. Core SG&A expenses have decreased significantly as a result of efficiencies realized by the reduction of nonstrategic costs. Offsetting this was a higher investment in advertising and promotional activities as the Company invests in market growth.

Turning to slide 17, I would like to provide a little more detail on our cash flow position and recent capital allocation initiatives. Cash flow from operations was CAD45 million in Q1 2016 versus negative CAD35 million in Q1 2015. Correspondingly, free cash flow was CAD25 million in Q1 2016 versus negative CAD61 million last year, an CAD86 million change. Cash on hand at the end of the quarter was CAD291 million.

As mentioned on our last call, we completed purchases up to the limit of the 2015 NCIB during the first quarter. In aggregate, we acquired 8.65 million shares over 10 months for a cumulative investment of CAD195 million at a volume weighted average price of CAD22.48 per share. Approximately CAD12 million of this was invested to acquire 500,000 shares in this program during the quarter.

We also announced an increase in the regular quarterly dividend by 12.5% to CAD0.09 per share. This follows a substantial dividend increase made earlier in 2015. Our capital expenditures in the quarter were CAD20 million compared to CAD26 million last year. We still expect to be in line with our estimate of CAD175 million for the year.

We know that the question of capital allocation is important to our shareholders. Let me assure you that optimizing use of capital is top of mind for management and the board. The board evaluates this on an ongoing basis with a view to opportunities for organic growth investments, a competitive dividend, bolt-on M&A to supplement the growth strategy, and potential return of capital to shareholders.

I will now turn the call back to Michael for summary comments.

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

Thank you, Debbie. The theme of my remarks today at the annual meeting were around building a sustainable future. Increasingly creating value for the longer term depends on addressing social and environmental issues, which also unlocks significant business opportunities. We have embedded sustainability in this triple bottom-line approach to our business, focusing on four broad areas of health and nutrition: people and communities, animal care and environmental sustainability.

Today, our 2015 sustainability report goes live, and I have to tell you that I am deeply proud of the commitments, the progress, and the transparent reporting that guides this report. We are following the GRI reporting standards, which is a global best practice, and I would encourage you to view this report, the videos, and other materials that are attached to it by going to mapleleafsustainability.com.

In closing, it was a very good quarter. We reached an important milestone for this Company, and we are taking enough time to celebrate that. Our results are driven by the benefits of our network strategy, which has been in the making and execution for many, many years, and by solid commercial performance as we continue to expand our brand leadership through investing in innovation and marketing, and the early contribution from some market expansion into sustainable protein. We've built the foundation to deliver a higher level of profitability over time, supported by maintaining a very strong cost culture, and we are taking a very disciplined approach to capital allocation.

We are excited about the years ahead and the opportunities ahead, and mostly we are committed to making sure that the next chapter is as lucrative as the last.

With that, we would like to open up the call to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) George Doumet, Scotiabank.

George Doumet - *Scotiabank - Analyst*

Congratulations on a great quarter.

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

Thank you, George.

George Doumet - *Scotiabank - Analyst*

At this point, I guess thinking of the 10% EBITDA margin as a potential longer-term floor, can you guys provide some color on the specific initiatives that you can do to further improve efficiencies? I believe you guys mentioned non-strategic SG&A rightsizing in the past.

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

Yes. So, George, there really are two themes. The first is maintaining cost reduction as a focus of the organization. We think there are two components of that. We believe that there is more cost reduction opportunities in our supply chain, particularly in our poultry operations. That prudent capital spending we can get at, and we intend to launch projects that support that over the course of the next few years. And, secondly, we believe that there are opportunities to reduce our costs in the supply chain through better and more efficient operations. That is something that you continue to look under every stone, looking for opportunities and finding ways to optimize your cost structure and your factory overheads and SG&A structures. We have been very aggressive in that over the course of the last several years, but we think there is more and we will continue to drive that going forward. So cost reduction will continue to be a major theme going forward, both in asset investments and in operating costs reductions.

Secondly, driving profitable and strategic growth. We believe we can margin up our business through innovation and growth. We think there are opportunities in the areas, particularly that we have highlighted in many occasions in the past. The three platforms that are most important to us, namely our strategic advantage and sustainable meat, healthy snacking, and emerging category in non-animal proteins.

So finding the balance between continued cost reduction and strategic profitable growth, we believe, will drive a further expansion of our margin performance over time.

George Doumet - *Scotiabank - Analyst*

Thanks, Michael. That's really helpful. We have seen also a material move in the Canadian dollar in the last quarter. Can you maybe comment on the attractiveness of the current export opportunity and US-based competition? Has it changed at all? Is there a certain level that we should be looking out for?

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

We build all our strategic plans around parity in the dollar, and all of our capital investments have been made. And we typically review our investments on the basis of being currency agnostic - i.e. in and around parity. Obviously, the fact that it is materially lower than parity is a long-term benefit for us. Although, in the short term, I would tell you, George, that we have a relatively balanced portfolio. So it is one of those paradoxes of our business that short-term we are balanced and not impacted by currency, but with the passage of some lag factor, some passage of time, it is a strategic positive for us. And so generally speaking, the lower Canadian dollar is good for our business over time, but neutral for our business in the short term.

George Doumet - *Scotiabank - Analyst*

Appreciate it. And one last one, if I may. We have attained our 10% EBITDA margin target. How should we think about capital deployment to shareholders and just wondering if you guys will renew your NCIB?

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

So, as Debbie pointed out, George, that is obviously a very topical and important question, and I would tell you that it is a question that is constantly reviewed by management and the board. And I can tell you the optimal use of capital is top of mind for everybody.

We evaluate it on an ongoing basis, as Debbie stated, and we will fully expect to continue to do that. We would prioritize the opportunities for the use of capital as basically organic growth investments, competitive dividend, which we have increased our dividend materially over the course of the last year, and expect to progressively continue to increase our dividend, bolt-on M&A opportunities to supplement our growth strategy, which we think there are many opportunities throughout North America to investigate and explore, obviously, at appropriate value, and then, at the end of the day, if it is deemed appropriate, potentially returning capital to shareholders.

It is a delicate balance. The board looks at it continuously, but there is nothing specific beyond that directional feedback that we have to offer today.

Operator

Irene Nattel, RBC Capital Markets.

Irene Nattel - *RBC Capital Markets - Analyst*

Michael, both in your speech this morning at the AGM and in the presentation that you just walked through, it seems to me that effectively what you have done is laid out the broad brush strokes of a blueprint for where we should expect Maple Leaf to go over the next five years, let's say. Is that a fair statement?

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

Clearly, yes. Our remarks today at the shareholders meeting, Irene, were one part describing the accomplishments of the last five-plus years and bringing closure to that chapter in our history and two parts excitement and enthusiasm about the foundations for growth that we have built for the next chapter of profitable growth in this Company. And we are as excited about the next chapter in that blueprint that you describe as the last and think it can be as or more lucrative than the last one.

Irene Nattel - *RBC Capital Markets - Analyst*

Thank you. That is very helpful. So, again, if we -- if I listen to what you say and I read what you said this morning, you repeatedly message -- messaging globally competitive in the US market. And if we look back last year, about 20% of your revenues were generated outside of Canada, let's say 6% in the US, 9% in Japan. If we look ahead five years, where do you think that number is, and how do you get there and how much capital is required?

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

I can't answer those questions with specificity. I can give you directional answers and say to you that very clearly the US market is a big opportunity for growth for Maple Leaf. We believe that our competitive advantages in sustainable meat will underpin that growth, and it is a market that is ready and open for such opportunities.

We also believe that there are possibilities for M&A activity to provide a platform -- as an enhancement to our platform for growth in the US, and if those opportunities came along and they were appropriately valued, then that is an important consideration, obviously, then we would actively consider that as well.

Irene Nattel - *RBC Capital Markets - Analyst*

Okay. So to tie this in with the last question, if you have, let's call it, CAD290 million on your balance sheet at quarter end and the CapEx for this year is CAD175 million, and you are generating substantial free cash flow, how -- why wouldn't you renew the NCIB unless there is something that you are looking at in the near term?

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

Well, there are many levers in capital allocation and, without providing specificity as to which lever is prioritized in any moment in time, I would tell you that the board and management collaboratively look at all of those constantly and continue to, and we just don't -- and, yes, they are all in the radar screen and they are all under consideration, and we just don't have anything to add in the short term that would be specific to discuss today.

Operator

Mark Petrie, CIBC World Markets.

Mark Petrie - *CIBC World Markets - Analyst*

I guess I would like to start with the competitive environment and wondering if you could just sort of talk about that broadly and maybe just contrast the relative activity from your Canadian competitors with your US-based competitors?

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

Sure. We operate in the food industry, which is perennially a competitive. It is always competitive. Always has been and I suspect always will be. I don't think there is anything fundamentally changed in that competitive architecture today. The retail landscape continues to evolve, but our task is to always evolve with that and collaboratively with that and bring tools to the table to our customers to participate in any kind of market condition.

The relative competitiveness between Canada and the United States is an important question. It was probably more intense with US competitors when the dollar was at parity than it is today. And I think that is a good thing. But we are taking -- we will certainly take advantage of that, more so in the United States, and our ability to attract new business opportunities in that market than the Canadian marketplace. But I don't think it is a big shift in the changing competitiveness in our categories over the recent past, and I don't anticipate that in the near future.

Mark Petrie - *CIBC World Markets - Analyst*

And just in terms of the recent price increase, did everyone participate on a relatively equal basis?

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

Yes. Underline relatively equal basis. Timing is always a big thing. This is very normal in packaged goods as brands lead, typically private-label lag in those factors, but the same cost pressures of currency and other inflationary factors that exist in the private-label and food service arenas as they do to the brands. And so there can be some flex around timing, but for the most part, yes, there has been good follower shift in the marketplace.

Mark Petrie - *CIBC World Markets - Analyst*

Okay. Thanks. And then, on the RWA business, I just wanted to ask you with the production side of that, I mean how much of your RWA product is from your own hog production, and how is that changing or how do you expect that to change over the next couple of years?

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

It is over 90% our own production, and I suspect that that percentage will stay -- will go higher, actually. It is predominantly our own production.

Mark Petrie - *CIBC World Markets - Analyst*

And what is involved in flipping that over?

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

It is a massive operational effort, and I would underline massive. There is capital involved in it, and there is animal husbandry techniques and practices that are critical to success to be able to effectively raise animals without antibiotics. We have been building our skill set, our competitive skill set and operating knowledge around that practice, and those animal production techniques for over five years. I believe we have competitive advantage in that field where we can do it and not just do it but do it at scale.

We also are not just raising animals without antibiotics, but, in the case of pork, we are doing it and migrating towards gestation crate free. There is a timeline attached to that, which we have been very public about, but doing those in combination is fundamentally a competitive advantage and skill set of our organization.

Mark Petrie - *CIBC World Markets - Analyst*

Okay. Thanks. That's helpful. So I guess, obviously, it is more expensive to produce. I'm just curious how the utilization of each hog is affected when you go to RWA. I mean, obviously, certain cuts are going to be more popular at a premium price point. How do you see that evolving over the course of time in terms of utilization of the animal?

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

That is an incredibly insightful question. It is probably the most single most important factor in migrating to RWA animals and meat production. Because this is a business that absolutely defines success and something we describe as balance, which in that balance means selling the entire supply of meat that is available in balance across all of the cuts.

One of the things that is another strategic advantage of the Maple Leaf organization is we are a company that not only has expertise upstream in the animal husbandry and efficient production of sustainable meat, but also has the downstream capabilities to produce a very wide array of products of all classes and all forms, using the maximum supply of meat from the animals that are raised without antibiotics and sustainable meat. So that gives us the ability to go to a customer and offer them programs in balance with a full array of products. Of course, it is never perfectly in balance, and utilization is a key metric in our performance in that class of product, but we are very happy with the utilization today and it continues to improve month over month.

Operator

Derek Dley, Canaccord Genuity.

Derek Dley - *Canaccord Genuity - Analyst*

Just following up on some of Mark's questions there. In terms of your internal capacity for RWA, would it be fair to say that the hog farm that you purchased in 2012 from Puratone is now something that you would consider core incidentally to supply that RWA?

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

Yes. We have an integrated system that has really focused its attention on value-added production and, in this case, it is animals that are raised without antibiotics, that are raised gestation crate free, that we practice all of the animal husbandry connected to our animal welfare strategy, which is leading edge and highlighting the five freedoms of animal welfare. So yes, I would say, Derek, that those are very much an integral part of our strategy going forward.

Derek Dley - *Canaccord Genuity - Analyst*

And in terms of the increase in advertising and promotional spending, can you quantify or at least directionally how much of that was put towards some of the new brand initiatives in relaunching the Schneiders brand and how much of it will be put towards RWA?

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

No. I can't really give you a segmentation to that. I would tell you that we have had a very broad promotional support initiative over the course of the first quarter. We have got such an incredibly robust pipeline of innovation coming out in the marketplace. Actually, at the start of the second quarter in April, which was our biggest portfolio of new item launches, I think, in our history in the month of April.

So between the promotional efforts in the first quarter, which included things like off-season promotions -- we called it the great indoors program, which was very effective -- the relaunch of the Schneiders brand with packaging some new products and new promotional efforts, a whole new advertising campaign. Connected to that, we have done some tremendous things in the hot dog category, particularly connected to everybody's household favorite, the Toronto Blue Jays. So we have a really robust portfolio, but it covers the whole span of products, including RWA initiatives and our core portfolio.

On the RWA product line, most of that was the launch of a new product line called the Greenfield Natural Meat Company, which we launched last summer, and most of the effort behind that line of products is through social media.

Derek Dley - *Canaccord Genuity - Analyst*

Okay. Great. And just one more, if I can. More of a housekeeping question, but, just to be clear, in terms of the Hamilton facility, would it be right to say there is still about 100 basis points of inefficiencies left in the plant? And, granted, it is going to take longer to drive these through than what we have seen with the first run of efficiencies, but is it still about 100 basis points left?

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

Yes. Yes, but we will make continued progress on that, but we fully expect to make continued progress, Derek. But, yes, in the first quarter, it was about 100 basis points.

Derek Dley - *Canaccord Genuity - Analyst*

And moving to Winnipeg, where I believe you guys are now operating ahead of what you targeting for design capacity or design productivity was five years ago, is that where we are going to see a lot of the margin enhancement capital allocated for this year you put towards in Winnipeg?

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

Yes. We discussed that at the last quarter where we have identified and are in the execution of some significant projects to enhance bacon manufacturing, and our profit enhancing capital in 2016, that is one of two major initiatives in the year.

Operator

Michael Van Aelst.

Michael Van Aelst - *TD Securities - Analyst*

Congratulations on achieving your targets. First question. Just getting back to the RWA and your efforts to get that into the states, you've talked about this for a little while now. It seems like you are starting to make some progress, but will it require or do you think you can get the penetration that you want without an acquisition of a platform of sales and distribution platform in the US or is that required?

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

I wouldn't say we couldn't without. I think an appropriate platform -- and I underline appropriate -- would certainly accelerate it.

Michael Van Aelst - *TD Securities - Analyst*

And what is appropriate to you? Is it size? Is it brands? Is it --?

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

Appropriate for -- what do you mean is it the size?

Michael Van Aelst - *TD Securities - Analyst*

When you say an appropriate platform, are you -- how would you define appropriate?

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

One that would be well-positioned to take advantage of our investments in sustainable meat. Certainly, the strategic advantage in that category is having the meat itself and a product portfolio that was well-positioned to take advantage of that meat supply and could leverage that in their own portfolio would probably be at the top of the list.

Michael Van Aelst - *TD Securities - Analyst*

Okay. And then, on the topic of the capital allocation, do you have a target payout yield or payout ratio or target dividend yield?

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

No, we don't have a dividend policy with a target dividend yield. I would tell you, today, it is running in the 1.5% range, somewhere in that, plus or minus a bit.

Michael Van Aelst - *TD Securities - Analyst*

Okay. But no -- I think when you originally double-digit, you had set some -- you had looked at some benchmarks and where you want it to be.

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

Yes. We had. And I think we are in the zone of where we want to be today, but I think, again, that is constantly reviewed by the board, and I don't think we are going to establish a formulaic policy around that. But today, we are in the range of packaged good peers and we will continue to review it. But I think we have made an adjustment.

If I understand you correctly -- your question correctly, Michael, is, are we going to offer up a specific formulaic range? And the answer is, probably not. We're going to review it on a constant basis.

Michael Van Aelst - *TD Securities - Analyst*

Okay. And then, a little more specifically, on the quarter -- so you hit your target or exceeded your target margin with still having that 100 basis points of inefficiency. So are you able to break down a little bit how much of that extra margin that you got in the quarter was tied to the above average spreads and how much was related to your own internal growth and mix improvements and things like that?

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

I would say it was all of the internal growth and mix improvements.

Michael Van Aelst - *TD Securities - Analyst*

So market factors were not?

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

No.

Michael Van Aelst - *TD Securities - Analyst*

Okay. So you would be suggesting that your 10% floor has been hit, and if you can get rid of that extra 100 basis points, we could see you go higher.

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

Yes.

Michael Van Aelst - *TD Securities - Analyst*

Okay. Excellent. Okay.

Operator

(Operator Instructions) Ken Zaslow, BMO Capital Markets.

Ken Zaslow - *BMO Capital Markets - Analyst*

A couple questions. One is, do you plan to outline another five-year plan for cost savings or margin opportunities going out, or is it kind of year by year, and how do you plan on tackling that?

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

We haven't decided that yet, Ken. I mean, we certainly do think in those types of horizons, probably even longer. Whether it is prudent or not to provide that kind of forward guidance or not is undecided. It was clearly important for us to do that in 2010 because we were asking the shareholders for CAD1 billion of capital, and it wasn't prudent to articulate why without -- why they should support that investment. Now that that is behind us, I don't know that the same case is there, but we are going to consider that and I just would say that that is a board's decision that has not yet been made. That doesn't mean that we are not looking in that horizon. Whether or not we are going to provide that kind of forward guidance is -- the decision is yet to be made.

Ken Zaslow - *BMO Capital Markets - Analyst*

The other question -- or another question I have is, is there a magnitude of cost savings -- so you said there is another 100 basis points out there. But, in addition to that, is there an order of magnitude that you see? A lot of companies say, hey, over the next three years, we have CAD150 million, CAD200 million, whatever it is. Is there some sense of cost savings opportunities that you can identify now?

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

Ken, I am sorry to get you to repeat, but maybe it is just me, but you are cutting out a bit in your questions. I'm sorry, but could you maybe try and restate that again because you were cutting out a bit.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay. My question is, in terms of the cost savings, is there a magnitude of cost savings that you might be able to give us in terms of like a three-year, four-year period of, we are looking to cut out ex CAD100 million of cost savings over a certain period of time? Is that something that you would consider doing as well? Or -- (multiple speakers)?

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

It is certainly something that we would consider, but that is not something that I can offer you today.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay. The comments that you said to the last question was none of the marketing conditions have really benefited your business model this quarter. We are in a somewhat of a favorable cost environment. Do you think that there is an opportunity for you to enjoy some of this lower input cost and benefit for your margin structure outside of just what you (inaudible)? Is there part of that that could be also assessed?

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

Well, we certainly would highlight it if market conditions had an impact on our business. In this particular quarter, it didn't. And overall, they were neutral to our Q1 earnings, and I say that in comparison to five-year averages. The pork and poultry markets in isolation were positive, but they are offset by byproducts. Hog production, obviously, as you well know, Ken, is very negative. It was negative for us, and you saw that in our numbers and the impact of very high belly markets, which compresses the bacon margins on the other end. So, in total, it was very negative. So it has not been a material factor for our business right now.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay. My very last question is, when I think about the outlook, is there (inaudible) or would we expect an ongoing sequential improvement in your margin structure? Or have they basically reached a level now and we work around that level, or do we expect to see, again, sequential improvement throughout the year to continue to go up? I just couldn't figure out the seasonality versus the sequential improvement, and I will leave it at that.

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

Well, the seasonality, Ken, typically seasonality is reasonably consistent, maybe slightly lower in the first quarter, slightly, but reasonably consistent throughout the year, and then we usually see we have a seasonal benefit in the fourth quarter. Just the nature of the business.

I think we have been progressing our margin expansion. I think it is our sixth consecutive quarter, and probably the average increased median I'm guessing a little bit that is probably somewhere around 130 basis points a quarter. I don't think you should expect that to continue at that pace. But, again, what we have achieved is a structural margin shift.

I think the volatility around that 10% as a baseline structural margin would be in line with other packaged goods companies and should be nothing different than what normal volatility would be for packaged group peers around that. But we will see more strategic growth in that margin over the course of the next several years as we drive these additional initiatives that I've referred to today and as Irene described as the blueprint for the next four or five years.

Operator

(Operator Instructions) There are no further questions registered at this time. I would like to turn everything back over to Mr. McCain.

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

Okay. Well, thank you very much. This has been a very long journey for us. I think, as I said this morning, the shareholders should be very happy, and our people should be very proud. We have come through a long journey over the course of the last five-plus years, and I want to say very clearly, between the shareholder community that invested in us and believed in us, especially those going back to 2010 and prior, as well as the analyst community and the capital markets community, it has been a long journey, and you persevered with us right alongside of the management team and the board. And we really appreciate that, and we look forward to having the same level of dialogue and interest as we embark on this next journey for the Maple Leaf organization. We have got a lot more to do, and this is a management team that just doesn't feel inclined to rest. So we are off onto the next chapter as we speak.

So, thank you for all your attention, your commitment, and we look forward to the next time. Thank you.

Operator

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