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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Welcome to the Maple Leaf Foods fourth-quarter 2016 results conference call hosted by Mr. Michael McCain. Please be advised this call is being recorded. (Operator Instructions)

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

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

Thank you, John, and good afternoon, everyone. Thank you for joining us on our Q4 and year-end 2016 conference call. Both Debbie Simpson, our CFO, and I will provide commentary on various aspects of our business and then we will open up the call for your questions. The news release and today's webcast presentation are available at mapleleaffoods.com under the investor section.

As you are well aware, some of the statements made in this call may constitute forward-looking information, and future results may differ materially from what we discuss. Please refer to our 2016 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.

So beginning, if I could turn your attention to slide number 2 in the deck that has been circulated. Starting with a very high-level perspective on the quarter, we continue to gain traction from the strategic investments that we have made over several years to transform our business. We are very excited about both the quarter and our strategic progress.

In Q4, we delivered our fourth consecutive quarter of adjusted EBITDA margin above our strategic target of 10%. We achieved a 10.4% adjusted EBITDA margin for the fourth quarter, but importantly, it was 11.6% before the additional variable compensation expenses related to the overachievement of our performance targets, and Debbie will get into that in more detail momentarily.

Adjusted EPS for the quarter was CAD0.31 per share, an increase of 24% over the prior year. As a result of our continued strong financial performance, we have been in a position to return value to shareholders with a continued dividend increase and share repurchase program. We repurchased 2.1 million shares in the fourth quarter and the Board just approved a further 22% increase in our quarterly dividend.

As we will highlight in a moment, our organization, after completing a record year as we just have, is now focused on the building blocks to deliver further sustained profitable growth in the future.

So with that, I'm going to turn it over to Debbie now and she will discuss the financial highlights. And then I will provide some further comments before we open up the line to your questions. Debbie?

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

Thank you, Michael. Turning to slide 3, you can see our continued performance improvement in the quarter compared to last year. I draw your attention to the fact that comparable results are impacted by an extra week in 2015, which affects various line items.

We have illustrated the effect of the extra week on sales to help you better understand the year-over-year picture. Sales increased approximately 2% to CAD828 million, excluding the extra week in 2015. You can see on this chart a range of financial metrics, but I will call your attention to a few in particular.

Profitability increased significantly both in the fourth quarter and the full year. Fourth-quarter adjusted operating earnings were approximately CAD64 million, up an impressive 33%. For the full year, adjusted operating earnings more than doubled year over year to CAD239 million. Adjusted EPS grew 24% in the quarter to CAD0.31 per share, an increase by 112% in the full year compared to 2015.

We again delivered our strategic financial target of 10% adjusted EBITDA margin. In the fourth quarter, adjusted EBITDA margin was 10.4%, and 10.3% for the full year. It is important to note that we had a significant uptick in our SG&A in this quarter as a result of several of our variable compensation programs tied to achievement of a record year.

These positive results for 2016 affected several long- and short-term performance-based compensation programs applicable to over 1,400 people connected with this well-earned success. It resulted in quarterly additional expense of roughly CAD9.9 million in the fourth quarter, which we do not expect to continue.

If we exclude this charge, our EBITDA margin in the quarter would have been 11.6% and our SG&A would have been 9.6% of sales, fully in line with our 2016 run rate. Given how hard all of our teams across the business have worked over the past several years to deliver a record result, it was compensation that was well earned and drove significant shareholder value.

Moving to the balance sheet, we continued to generate increased cash flow during the quarter which contributed to substantial free cash flow of CAD244 million in 2016 versus CAD12 million last year. Cash on hand at the end of the quarter was CAD404 million.

In 2016, our capital expenditures were CAD113 million compared to CAD146 million in 2015, which included the final spend on our network transformation initiative. Our 2016 capital expenditures overall were lower than expected due to timing on a couple of large projects that will now show up in 2017.

This year, we estimate capital expenditures to be roughly CAD150 million, and this includes about CAD40 million in large projects, focused primarily on optimizing our fresh pork packaging capabilities and further improvements in our poultry operation.

Overall, we had an excellent quarter from a commercial and operating perspective. We are being awarded for our strategic investment in our supply chain over the past several years with significant improvements in our cost structure. Margins in prepared meats improved due to lower operating costs across the network. We are making continued efficiency gains at our large Heritage prepared meats facility.

Our significantly lower cost base positions us well compared to North American peers in the pork and prepared meats components of our business. Commercially, we realized continued improvement in our prepared meats volumes as the year progressed. There was significant volatility in fresh belly and bacon markets in the quarter, but we benefited from positive fresh pork market conditions.

Overall, we had strong performance in our fresh business, which benefited from value-added Canadian retail and export sales. As we continue to respond to consumers and market trends, we are increasingly refocusing our brand and marketing efforts on core renovation to enhance our performance.

Now if I can turn your attention to slide 5, as Michael referenced, this is our fourth successive quarter where we exceeded our strategic EBITDA margin target of 10% that we established back in 2010. This quarter, we delivered an EBITDA margin of 10.4%, including the additional variable compensation costs discussed earlier.

We are very pleased with the consistency demonstrated in 2016, although we do expect some variation from time to time. As we have noted in the past, we feel that normal structural movement quarter to quarter of EBITDA margins should be expressed in a plus or minus 100-point range, which is in line with most of our peers.

Turning to the next slide, slide 6, you will see that we've improved our financial performance. We've also been able to return significant value to our shareholders through dividends and share buybacks. Over the last 2 years, we have steadily increased the annual dividend from CAD0.16 per share in 2014 to CAD0.36 per share in 2016.

The Maple Leaf Board has approved a further 22% increase in the quarterly dividend to CAD0.11 per share or CAD0.44 per share per annum, effective in the first quarter of 2017. With this increase, our dividend has a compound growth rate of 36% over the last 3 years.

As part of our normal course issuer bid, we continued our share repurchase program in 2016 with the buyback of 2.6 million shares for CAD72.4 million. Over the last 2 years, we have invested CAD255 million in repurchasing 10.8 million shares. In addition, in the first 50 days of 2017, we purchased a further 2 million shares.

I will now turn the call back over to Michael to discuss our path forward.

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

Thank you, Debbie. A remarkable year and we're very proud of those results. I would turn your attention now please to slide number 7.

With 2016 behind us, we are now focused on the building blocks to future profitable growth, and we are spending considerable time fine-tuning our strategies and the execution. As good as 2016 was, we are highly confident that we can do considerably better in the future. Our results are outstanding compared to five years ago, but they are decidedly not best in class in North America and we are committed to getting them there over the next five years.

We see four primary building blocks that will deliver on that. The first and most compelling is our leadership in sustainability. This is an extraordinary story of creating shared value, building a competitive advantage, and business opportunities for Maple Leaf through addressing social and environmental needs. This is directly connected to our growth, several brand strategies, and our product portfolio.

For example, the Greenfield brand, our new lead brand in the sustainable meats segment, went on to become the top-selling new brand from the universe of all new brands that launched in the Canadian grocery retail channels last year in 2016. We're very, very pleased about this. And, the products from animals that are raised without antibiotics are an increasing part of our portfolio.

The second building block is investing capital to reduce the operating costs of our poultry supply chain, much like we have done over the past decade in our pork business. We currently operate five primary processing facilities and two further processed poultry plants.

Achieving scale in our fresh chicken plants is important to our continued pursuit of efficiency across our manufacturing footprint, and the returns look attractive. We began executing this strategy with a decision to close our subscale turkey processing facility in Ontario and entering into a supply agreement with a third party. Maple Leaf is the Canadian leader in branded value-added chicken. We intend to support that market leadership with very strong, competitive, low-cost assets.

Third, we believe that we can improve the performance of our core branded packaged meat portfolio through innovation and investments in our brands. In 2017, as Debbie referenced, our concentrated effort is on renovating that core portfolio of products. SKU by SKU, this initiative is examining everything from taste profiles, health and nutrition profiles, to packaging, all the way through to the core brand strategies that are relevant and current to consumers today. And we think this has tremendous opportunity to accelerate our growth and our margins.

Maple Leaf has the leading brand portfolio in the Canadian fresh and prepared meats market, which provides an ideal platform to work from.

Finally, we feel there are opportunities for additional cost reduction throughout our business, both in the supply chain and in SG&A. We have embedded a cost culture at Maple Leaf, and again, there's room for improvement, not the least of which is ongoing efficiency gains in our Heritage facility in Hamilton, Ontario.

I would now like to turn your attention please to slide number 8 and our acquisition of Lightlife Foods in the US. Of our three strategic growth platforms, alternative protein is where we are currently least developed.

This acquisition provides us an outstanding platform in a fast-growing, profitable market segment. It has been almost three years since we sold our position in Canada Bread, resulting in a pristine balance sheet and cash generation.

We've taken our time to develop growth strategies that will yield the greatest return, and we have held true to a very patient and disciplined approach to M&A activity. Lightlife fits squarely into our plans and we believe satisfies several important objectives.

Let me start with the basics of the deal. The purchase price is approximately $140 million net of fees. Lightlife has sales of just over $40 million. The deal will be financed through cash on hand, and we expect to close it in March, subject to customary US regulatory reviews. Based on their performance, we expect the deal will be accretive to our financial profile, benefiting our top-line growth, earnings, and margin in 2017.

This transaction is not about synergies, it's about growth. And growth that establishes a strong US platform for Maple Leaf in alternative proteins. The segment is one of our strategic growth priorities and Lightlife participates in a high-growth food category within the broader plant-based protein market. The transaction also enhances our branded value-added portfolio mix.

Turning to slide number 9, Lightlife Foods is the leading brand in the US refrigerated plant-based protein category with a 38% market share. They participate as market leader in a rapidly growing $110 million category, and they are focused to grow at a double-digit pace.

Driving this is a continued shift towards balancing meat consumption with nonmeat proteins. Maple Leaf has been investing in this category and its skill base for over two years, including consumer knowledge, technology in the category, and product design. We fully expect this will be useful to support Lightlife's growth as part of our portfolio.

Part of the attraction to Lightlife is its ability to drive growth in the overall category. With such a strong market position and a well-established brand, they are able to support and work with retail customers across North America to bring new innovations of the market, supported by a diverse portfolio of over 30 products. They also have a manufacturing and distribution base that enables this growth.

Lightlife will continue to be led by their current management team. We're very enthused about the new platform that this gives us in the US market and in the refrigerated plant protein category and the value it can create for Maple Leaf shareholders.

Turning to slide number 10, one of our most important building blocks in the future is our vision of becoming the leader in the world in sustainability. Lightlife supports this focus, but is one of several strategies we are pursuing to advance that leadership.

Consumer interest in their food and how it is made has never been higher. The desire for more natural, less-processed foods from animals that are raised humanely in a way that dramatically reduces environmental impacts are all becoming important differentiators. We have an ambitious sustainability platform which is driving change across our entire Company. We have made great strides, but we still have a long way to go.

One area of competitive advantage is meat from animals raised without antibiotics. Several years ago, we started a very complex process of transitioning our supply chain to eliminate the use of antibiotics at Maple Leaf. Today Maple Leaf is a North American leader in this market.

We are continuing to convert our animals and expand our sales capabilities to increase supply and accelerate that growth.

We're also very proud of the fact that late last year, we launched the Maple Leaf Center for Action on Food Security, the culmination of several years of research and planning. Approximately 4 million Canadians a shocking statistic face food insecurity. A daunting one in six of children in Canada.

As Canada's largest protein company, we are committed to going beyond conventional philanthropy and product donations to advance sustainable food security. The center will be a cornerstone of our culture, and we intend to leverage our national profile to reach and rally the public towards collective action on this critical social issue.

Lastly, Maple Leaf is pursuing an aggressive goal to reduce our environmental footprint by 50% by 2025. This will cut our energy and water use, our impact on climate change, and transform our packaging to reduce waste, which in turn will lower costs. We have developed a detailed roadmap in how to achieve that goal. These are some of the critical initiatives on many fronts that will drive social, environmental, and business benefit connected with our commitment to sustainability in our industry.

In closing, I am very pleased to deliver another strong quarter in a record year. We are now focused on the next horizon for Maple Leaf, building on the strategic pillars of leading in sustainability, driving innovation and growth, investing in our assets, relentlessly reducing our costs, and expanding our geographic footprint. Our strong balance sheet will support this growth and provide the opportunity for us to use a variety of capital allocation levers to increase shareholder value.

Now lastly, before I open up the call for questions, there is one individual I would like to acknowledge this quarter. Many of you on the call are involved in our investor relations activity as either analysts or shareholders, and this is the one and only Nick Boland, our VP of Investor Relations.

This is his last quarter participating in this call, as he is graciously retiring from Maple Leaf with extraordinary sadness from all of his colleagues. We would like to congratulate him and thank him for his extraordinary effort in investor relations at Maple Leaf for many, many years. So thank you, Nick, for everything you've done for us.

Now I would like to open up call for all your questions please. John, over to you.

QUESTION AND ANSWER

Operator

(Operator Instructions) Michael Van Aelst.

Michael Van Aelst - ***TD Securities - Analyst***

Congratulations on a strong quarter.

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

Thank you.

Michael Van Aelst - ***TD Securities - Analyst***

So earlier in the first nine months of the year, I think most of the time you were talking about market conditions that were basically neutral to your profitability. How would you describe it for Q4 and the year as a whole?

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

So there's a lot of puts and takes in that. It was basically neutral because there were so many moving parts in the quarter. Definitely in the quarter, Michael, it was a help. It was not neutral. It was a help in the quarter.

It is a very difficult thing to get an exact read on, but if I was to give you some directional number, we think it's probably in and around 50 basis points of help in the quarter. It is important to recognize, there are many positives and negatives that are attached to that.

So it's a very positive performance in primary pork processing. There were very robust markets in primary processing. But equally very negative in hog production, as we had like a 17% reduction in the value of hogs in the quarter. So quarter over quarter.

So the net of all that, while it has been neutral in the first, second, and third quarter, was probably 50 basis points in the fourth quarter, and for a year, that might be 10 basis points to 15 basis points for the year maybe.

Michael Van Aelst - ***TD Securities - Analyst***

Okay. And it's obviously tough to look out for all of 2017, but for Q1, we're starting to see some normalization of the processing spreads. Still above average, though, well above average. I guess can you comment on how you see it so far in Q1, including the surge in pork bellies and how that's affecting you?

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

So the Q1 number, no, I can't give you direction in terms of Q1. We work hard to stay away from that, Michael, as I'm sure you can understand, but I think you see the underlying dynamics.

Of course, the fresh market and primary processing margin has moved back to more normal conditions, but there are offsets in the other direction in the balance of our portfolio. We really don't see a huge change in the overall impact of market influence in our portfolio, which is really indicative of the fact that we've got very good balance embedded in there.

Having said that, the one story in the first quarter, which you can easily see in the marketplace, is that there was between early December through the end of January something like an 80% increase in the value of bellies, which is a primary raw material for us. And obviously that is something that is ours to manage in the marketplace.

But it was a rapidly rising raw material cost. In fact, I think you would say unprecedented. But I think on balance, we don't see an enormous impact in terms of the overall market influence coming into 2017 at this stage.

Michael Van Aelst *- TD Securities - Analyst*

Okay, great. And then if we look at the volume performance on the prepared meats business over the past year since your increases last February, have you gotten back to where you want to be or where you were before in those volumes? Or are you still trying to recover?

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

The short answer is no. It was an improving trend line, so there's definitely improvement. But we finished the year considerably better, but not satisfied that we are all the way back to where we want to be.

One of the important observations I'd make is drawing your attention to our comments, both Debbie's and mine, around core renovation. We think that there is a lot that we can do to our core portfolio in all respects to enhance the performance of the portfolio and reignite growth in some of those categories.

You see the numbers, Michael, as well as we do. There are some selected categories that we are facing very small amounts of decline, but decline in consumption nonetheless. And that is ours to own and we are trying to address that proactively.

Michael Van Aelst *- TD Securities - Analyst*

All right. I will get back in the queue. Thank you.

Operator

Derek Dley.

Derek Dley *- Canaccord Genuity - Analyst*

I was wondering if you could just update us on some of your growth capital initiatives and some of the areas where you are going to be investing some more of that growth capital in 2017. Obviously it sounds like poultry is going to be one of those areas, but just wondering if you could give us some colour on some additional initiatives.

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

We have had some initiatives that carried over from 2016 into 2017. I would highlight some of the bacon investments in the Winnipeg facility. We expect to invest in some significant productivity-enhancing packaging technologies at our Brandon facility. That would be number two.

Debbie, what am I missing? Oh yes, we have a large investment in live receiving at our Edmonton facility in poultry. That is one of the poultry projects. Those would probably be the three largest. And all of them have very attractive returns.

Derek Dley *- Canaccord Genuity - Analyst*

Okay, no, that's great. In terms of just following up on Michael's questions on the volumes, were volume in prepared meats and based on your commentary, it sounds like they were still down modestly Q4. Is that correct?

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

They were. It was small, but yes, they were down. Improving trend line, but they were still down.

Derek Dley *- Canaccord Genuity - Analyst*

Okay. And just moving towards the acquisition you guys announced yesterday, can you just comment on your view of the growth potential for that plant-based protein market? Where it has come from over the last three years and where you see it going?

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

Tell me that question again. You cut out a little bit there.

Derek Dley *- Canaccord Genuity - Analyst*

Sorry. I was just wondering if you could comment on the growth potential of the plant-based protein market. Where the growth has come from predominantly over the last three years, and in your view, where you see that going in the future.

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

So in the United States, these are rough numbers. It's $110 million to $120 million market in refrigerated plant meat alternatives and meat substitutes. If you include the frozen segment, it's probably in the $600 million range. The refrigerated business is growing at a faster pace than frozen. I think this space has a natural inclination to refrigerated products.

The underlying systemic growth in plant-based proteins is indisputable. There is a significant consumer trend to not eat less meat, but to increase protein consumption in a more balanced way between meat and protein consumption.

It is really about consumer's choice, not one or the other. It is typically both and finding the right balance between meat proteins and plant proteins. And there is just tremendous consumer research and evidence and insights that would underpin that, Derek.

The conclusion of all that in the segment that we have acquired a position in with Lightlife Foods, who have a 38% market share and the leading brand in the refrigerated plant protein segment in the United States. That segment is growing at a clip of around 11%.

So that is in and of itself just as a baseline double-digit category growth is very rare in the grocery store. And we and most other industry observers would conclude that that is likely going to continue well into if not the foreseeable future.

Having said that, our belief is given the investments we've made in product technology, product design, Maple Leaf's sales and marketing skills as a core competence of this organization, our willingness to invest capital to support that growth, we believe that we can accelerate that to some level above category growth rates. I think it's yet to be determined how much above that, but we are optimistic that we can accelerate that growth rate above the double-digit category growth that exists broadly in the segment.

So this is all about growth. And there is a range of both product and marketing strategies that will be applied to this business to drive that growth. Does that answer your question, Derek?

Derek Dley *- Canaccord Genuity - Analyst*

Great, appreciate it. That does, very, very much so. Appreciate the colour.

Operator

Irene Nattel.

Irene Nattel *- RBC Capital Markets - Analyst*

Thanks and good afternoon. Just building on that your answer to that last question, Michael. When you look at the evolution of Lightlife, do you think that they have been capital-constrained at all? Do you see a greater demand than what they can supply from a production basis? How do you see the evolution of their portfolio and what do you see might be their needs on a go-forward basis from a capital perspective?

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

I think the capital requirements to support the business will be relatively modest in the scheme of things. If you look at the history of Lightlife, it was taken over by a private equity firm, a very profitable and successful private equity firm.

And they installed a management team that did an extraordinary job of turning around a business that maybe had lost its way a little bit in a large company portfolio. And they did an exceptional job of turning it around and driving the growth of this category. It has been demonstrated and is expected to continue.

So I think if your question is from a modeling perspective: are we going to have to have to apply significant additional capital to this? The answer is unlikely. But we think there's just an opportunity to achieve double-digit growth rates with relatively modest capital investments.

Irene Nattel *- RBC Capital Markets - Analyst*

That's pretty helpful, Michael. I think I was also trying to get at where you see the greatest opportunities to help drive that growth. Because often, smaller stand-alone companies that are supported by private equity may not have the reach, the scope, the experience that you may have.

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

No, well, they are a very competent management team. So I don't want to bring any hubris to the table that suggests that they haven't done an extraordinary job. They have. In all respects, they have done a great job with this business and positioned it well for growth and have really accelerated the growth rates that they've experienced more recently as well above category growth rates.

And I think they have done a phenomenal job of positioning the business. Do I think can we enhance that? The answer is yes. We do have the capital availability to support that growth if it's required. And there will be some modest capital investments that are required and we'll take a very long-term view with respect to that.

We also can enhance that growth rate through some of the technology that we've been investing in, internally. We have been concentrating on building our skill set, knowledge base, technology base, product design for over two years. We've been investing in this, and I think that will enhance their opportunities for product line extensions, distribution extensions, new channel opportunities.

We think that we will be inclined to invest in the long term through the accelerations in the advertising and promotional investments that are made. There's just many, many levers that we can bring to bear, of which capital is just one of them, to accelerate the growth rates beyond the excellent job they've already done.

Irene Nattel *- RBC Capital Markets - Analyst*

Yes, thank you, Michael. That is very, very helpful. And just finally, just from a production capacity perspective. I guess couple questions. Number one, where are they?

Number two, and forgive me for not knowing this, are there any barriers to exporting from the US into Canada? And how would you categorize the opportunity for the Lightlife brands here in Canada?

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

There are no border restrictions to extending that business in the Canadian marketplace. So that's a relatively obvious opportunity for us. What was the first part of your question, Irene?

Irene Nattel - ***RBC Capital Markets - Analyst***

Where do they stand on current, in other words, how easier now would it be for you to just produce more and really leverage off your existing distribution footprint in Canada?

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

Easy to leverage off our distribution footprint in Canada. That's easy. They don't have oodles of excess capacity in their plant in the US, but they have enough to drive growth for the next few years. And we think, then after that, it would be prudent organic capital investments to support the growth.

The most highly valued asset here is the brand that has been around since 1979 and the 38% market position. That's what underpins an investment of $140 million. Modest investments in capital to increase production capacity in a facility or expand that capacity is really not that material to the overall returns calculus here.

Irene Nattel - ***RBC Capital Markets - Analyst***

Understood, thank you very much.

Operator

Mark Petrie.

Mark Petrie - ***CIBC World Markets - Analyst***

Just to follow-up on the Lightlife questions. The market share number of 38%. How has that tracked over the last few years?

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

I think it's grown, actually, over the course in the last 18 months, particularly because their growth rate has been higher than the category growth rate. So by definition, it has gone up a few percentage points.

Mark Petrie - ***CIBC World Markets - Analyst***

And I think you had said that you expect it to be accretive to Maple Leaf's margins overall. Can you give us a sense of the profitability of that business on that $40 million revenue?

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

We have not disclosed the profitability of that individual business, as we don't historically segment individual product categories that we operate in. So I'm sorry I can't address that question. But it is accretive to our margins and our overall margin portfolio. They have got well into double-digit margins in this category.

Mark Petrie - ***CIBC World Markets - Analyst***

Okay, that's great. And then the category of plant-based proteins is certainly evolving significantly and there's always new products emerging. Wonder if you could maybe just highlight what are the most important products in that portfolio. And have you had some big wins in terms of innovation over the last couple years, and what is the outlook for new products?

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

So that's a very broad question, and I will try and answer that by first segmenting the market for you to help you understand how we are approaching this. The first segmentation that I will point to is the consumers that are seeking meat alternatives versus meat substitutes.

So a meat alternative is a product in the portfolio that is meant to completely replicate the meat equivalent product, but be plant-based, not meat-based. An example of that would be veggie dogs. So it's meant to be a hot dog or wiener, but it's plant-based, not meat-based.

The meat substitutes are products that are not meant to replicate a meat product, they are completely different. So it can be a quinoa burger, for example, or a black bean burger. And they are not meant to replicate a meat product.

The second dimension of segmentation here, which is one I think is very relevant to the growth in this category, is, as I said earlier, this is really about choice for consumers. Choice. Historically, this category has been limited to the growth of vegetarianism.

And vegetarianism is a choice that some consumers make and we obviously respect that choice and recognize that that is for various reasons, a choice that some of the consuming public will make. But we don't think that is the significant growth opportunity in the future.

The most significant growth will come from a consumer base that would be best described as flexitarians. And they actually love their meat choices, but they want to expand their protein consumption in a more balanced way. And what they want they would eat a hamburger tonight and a veggie burger tomorrow night. And those flexitarians we see as the dominant growth profile going forward.

So of the product lines that we have and that we've been investing in, both in the 30-odd items that are in the current Lightlife portfolio, and we see moving forward an expansion of that portfolio, would address that full suite of products. Some of them will be meat alternatives, and the objective in a meat alternative is to improve the taste profiles so that they more closely replicate the meat that they are meant to be an alternative for.

But also in meat substitutes, where in the design of outstandingly delicious vegetable-based products, whether it's a falafel product, a black bean burger, or a quinoa item, would address the meat substitutes.

We also think that there's opportunities in what are described as fusion products, which is a combination of plant and meat-based products. And we see opportunities and have developed suites of product formulations and product portfolios that would be aligned with that segment.

So that's a bit of a landscape review. I hope that's helpful, but there's just a tremendous opportunity for us to take what we have built in skills and apply that to the Lightlife brand and just drive growth going forward.

Mark Petrie - ***CIBC World Markets - Analyst***

That's very helpful. Thank you. I guess one follow-up would just be you mentioned your view that the management there is of high quality. Could you just describe the retention plans and incentives?

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

They are excited to join the Maple Leaf organization. Obviously, I don't get into specific HR policies and practices, but I can tell you without any hesitation they are excited to join the Maple Leaf organization.

They are most impressed with first, our commitment to this category as a complementary adjacent category to our core meat business. And secondly, to our commitment to sustainability and the depth and breadth and commitment to our sustainability strategies as an organization.

So we obviously had lots of engagement with them during the process. We highlighted the Maple Leaf culture. Just recently, Maple Leaf was nominated for entry into the Culture Hall of Fame in Canada. And I think that's something we're very proud of.

That's a great attribute to communicate to new team members, like the Lightlife team, about the advantage and benefits of joining a great culture and organization like Maple Leaf. Along with our strategic support in supporting their growth. So in general, I can say they are very enthused and we're happy to have them on board.

Mark Petrie - ***CIBC World Markets - Analyst***

Okay, thank you very much. That's great.

Operator

Ken Zaslow.

Ken Zaslow - ***BMO Capital Markets - Analyst***

Just to follow up on Lightlife just one quick question. The timing I guess what are your priorities? Is it to get the distribution in the US and use your distribution there or bring this to Canada?

And is this something like three or four years should be two, three, four times the size of what it is? Do you expect to build on to the strategy? Just more on the strategic initiatives. Could you just talk about where this is going within your portfolio?

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

Sure. Clearly, priority number one is building the business as rapidly as we possibly can in the United States. 300 million people versus 35? I think that's a relatively simple calculus, Ken. So priority number one is driving growth in the United States as quickly as we can.

The ancillary to that is considering opportunities to enter the Canadian marketplace. But at the end of the day, we want to be very disciplined about how we do that. In Canada, it's a new launch. In the United States, they've got a fantastic platform to grow from and a very large and high-growth market. So that's the geographic profile.

The product profile is as I described. We would see broadening the product portfolio along the lines of what I just described a moment ago. With respect to the future again, I am going to resist putting an actual number out for two or three years from now. But I think you can calculate what those might look like, given double-digit growth rates.

As I said, the one factual statistic that's available in the public domain is the category growth rate currently of 11%. Most industry pundits believe that that is going to sustain itself for the foreseeable future in this category. It's a very high-growth market today, and brand positions like this are really important in that category. And we think we can accelerate it from there. You can do some calculus in terms of what you think that might be worth three to five years from now.

Ken Zaslow - ***BMO Capital Markets - Analyst***

Okay, great. And then just talking about your branded portfolio, can you talk about which part of the levers do you think are the most exciting for you guys? Is it the packaging, the SKU? Because you did a laundry list of issues. Can you talk about which one looks like would be the higher-priority issues? And kind of the return that you expect on those? And I will leave it there.

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

No, I think it would be very difficult for me to prioritize those. Because when you are dealing with a core renovation, you look at all of those levers, and they are all somewhat interrelated and interdependent. So I don't know that it can isolate one over the other.

It starts with brand strategies today that are the most appealing to consumers, today's consumers. We have got a significantly evolving consumer base in our core business. That is the important observation here. That evolution of the consumers' behavior in these categories requires some attention from us around the core strategies of the brand to appeal to the evolving needs of the consumer in these categories.

So we're starting from that proposition and then looking at what does the impact have on everything from the individual brand strategies -- and we have more than one. We have a Maple Leaf brand strategy, a Schneiders brand strategy, a Greenfield Natural Meat Company brand strategy, and various regional brand strategies, and looking at what the impact is on each one of those.

Then translating into what does that mean for the product, the product formulation, the product taste portfolio, the product performance at home or on a grill. All the way through to what do you do to your packaging to reflect that strategy, whether it's the benefits that we would highlight with respect to that product all the way to the functional packaging performance that we need to deliver on.

So core renovation is something that is a really important dimension of marketing. I think it probably has a much higher in fact, I know it has a much higher return on investment versus innovation.

I am very proud of what we've done from an innovation perspective over the last number of years. We have launched things like Maple Leaf Canadian Craft in the artisanal segment. We've launched the Greenfield Natural Meat Company. We have launched Devour in the snacking business. I'm very proud of those initiatives.

But bluntly, what happens to the core Maple Leaf product line, what happens to the core Schneiders product line, and how that is optimally positioned for growth, and to drive category growth, not just bring growth, but category growth, is a much more lucrative focus of effort for us over the next few years at a minimum. And that is really where we are concentrating our attention today.

Ken Zaslow - ***BMO Capital Markets - Analyst***

Great, thank you.

Operator

George Doumet.

George Doumet - ***Scotiabank - Analyst***

Just a quick follow-up on the core business. Michael, I think in your earlier part of the Q&A, you mentioned 50 basis points of sequential improvement related to help. I guess just market conditions. That leaves about an 80-basis-points quarter-over-quarter sequential improvement. Can you maybe give us a sense of where that came from? Just maybe put them in key buckets, that would be really helpful.

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

The problem in answering that George, we compare that relative to five-year averages. So when I tell you that number 50 basis points, that is relative to a 5-year average in the same quarter.

There is a bit of a natural lift in the fourth quarter in our portfolio based on five-year averages. So you would typically see our fourth quarter would be slightly better than the first or the third quarter in any normal five-year average outcome.

I'm not sure I'm explaining that properly, so some portion of that 80 basis points that you refer to is just the normal fourth-quarter lift. The 50 basis points was a more robust fourth quarter than normal by the tune of about 50 basis points.

George Doumet - *Scotiabank - Analyst*

Thank you.

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

Did I explain that relatively simply, George?

George Doumet - *Scotiabank - Analyst*

Yes, that makes a lot of sense. Thank you.

Operator

Mark Petrie.

Mark Petrie - *CIBC World Markets - Analyst*

I just wanted to follow-up on the SG&A. And even outside the swing in incentive compensation, it was up reasonably materially. And I know you've been very active and intentional about reallocating how you spend cost savings into marketing, etc., but that is a bit of a bigger increase than we have seen through the rest of 2016. I wonder if you could just give a little bit of detail behind that. And then how should we think about SG&A for 2017.

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

Sure. It's a great question, Mark. I think what's important in looking at the SG&A number is the actual ratio in the fourth quarter was 10.8%. So it was CAD89 million worth of SG&A on CAD828 million of revenue. So it was 10.8%.

If you back out the CAD9.9 million nonrecurring adjustment that spans 3 different programs over multiple years, short and long term, and 1,400 people, if you back that CAD9.9 million out, the 10.8% becomes 9.6%. You follow my math?

Mark Petrie - *CIBC World Markets - Analyst*

Yes.

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

Now you look at the history in Q1 through Q4 this year. It's 9.7%, 9.3%, 9.2%, 9.6%. So it's basically flat to what it has been for the year. And if you look at the prior year, it was 9.6%, 9.8%, but then it went to 8.4%, 7.3%. You are comparing it when you look at the year-over-year number to a very low 7.3% in Q4 2015, which actually had the reverse effect. Because we actually had some variable compensation reduction in 2015 in the fourth quarter. So you are comparing it against a one-time hole last year.

The more relevant statistic is to look at the consistency of the pattern. This is Q1 through Q4 2016 as a percentage of sales. It's 9.7%, 9.3%, 9.2%, and 9.6% when you take that one-time adjustment out. And we've said consistently that the structural SG&A today is in and around 9.5%. That's what we have said consistently, and the fourth quarter here is no different than that. Are you tracking my math, Mark?

Mark Petrie - *CIBC World Markets - Analyst*

Yes, got it. That's helpful. Thanks.

Operator

Thank you. And Mr. McCain, there are no further questions, sir. Please go ahead.

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

Well, thank you very much. We are very excited about the results in the fourth quarter. When we look at the number -- prior to that one-time impact of CAD9.9 million, 11.6% in the quarter is a record high number for us on a quarterly result and we are very happy with that.

We're making great progress both in the operations of the business and strategically. And this is the first material acquisition that we've made since 2004, so we are very pleased with the discipline and the rigour that we've put behind this outcome. So in every respect, we are very pleased with where we are positioned for the future and are coming into 2017 with a high level of enthusiasm.

Thank you all for your support over the course of the last many, many years and particularly 2016. And we have now got our sleeves rolled up, working on the next five years to hit the next plateau. Thank you very much for your support. Look forward to seeing you the next quarter.

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