Operator

Good afternoon, ladies and gentlemen. Welcome to the Maple Leaf Foods Second Quarter 2017 Results Conference Call hosted by Mr. Michael McCain. Please be advised that this call is being recorded. (Operator Instructions)

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

Michael H. McCain - Maple Leaf Foods Inc. - CEO, President and Director

Thank you very much, operator. Good afternoon, everyone, and thank you for joining us for our second quarter 2017 conference call. Both Debbie Simpson, our CFO, and I will provide commentary on various aspects of our business and then open the call to your questions. 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 2016 Annual MD&A and other information on the website for a broader description of operations and risk factors that could affect the company’s performance.

Now turning your attention, please, to the third slide. The second quarter was very strong for us with year-over-year sales, volume and earnings growth. We’re very pleased with our overall results in a period that had a fair amount of market volatility. Robust sales and volume growth across our portfolio contributed to the strong quarter, as well as strong commercial performance in our value-added portfolio of fresh pork. Lightlife Foods, which we acquired in March of this year, also contributed to both our sales and earnings growth.

While rising markets were a net benefit to the value-added pork business and, to a lesser extent, fresh poultry, they caused margin compression in our prepared meats business. We think this is another quarter of demonstrating the positive impact of a balanced portfolio. It won’t be perfect all the time, but it has afforded us a high level of relative stability.

Our performance resulted in sales growth of 8.3% and an Adjusted EBITDA margin of 11.2% for the quarter and Adjusted earnings per share of $0.41, up 28%. We’re very pleased with this overall performance and the underlying strength of the business. What’s even more gratifying is our clarity on the spots where we feel we can do even better, which gives us great confidence in continuous improvement and our future.

I will come back to some additional perspectives on the quarter and future growth after Debbie provides some financial highlights. Debbie?
Deborah K. Simpson - Maple Leaf Foods Inc. - CFO

Thank you, Michael. If I can turn your attention to Slide 4, I’ll take you through some of the financial highlights for the quarter.

As Michael mentioned, sales grew by 8.3% to $926 million. The largest factor driving this performance was increased volume across our business: prepared meats, pork and poultry. In addition, our first quarter of Lightlife results contributed to the increase in sales year-over-year. We delivered an Adjusted EBITDA margin of 11.2%, a 90 basis point increase versus the prior year. Excellent commercial performance in value-added fresh pork contributed to this result, partially offset by margin compression in our prepared meats portfolio driven by the timing of rising meat costs. We also realized strong growth in adjusted EPS for the quarter, which grew 28% to $0.41 per share, reflecting the strength of our performance combined with the leverage in EPS from buying back our stock.

On the bottom right chart on this slide, you can see that we continued to generate positive cash flow during the quarter, which contributed to cash on hand of approximately $105 million at the end of the quarter. Recall that in the year, we’ve spent about $200 million on acquisitions primarily for Lightlife Foods. We also had $172 million of share buybacks in the last year.

Our free cash flow was $15.2 million at the end of the second quarter. This is largely down from recent quarters as we made investments in working capital to support customer service levels and pension contributions, which are timing related.

Turning to Slide 5. We had a very positive quarter from a commercial perspective, tied to strong sales and volume growth in prepared meats and in value-added fresh pork. Value-added fresh pork sales growth was very strong in both domestic and export markets, particularly in the RWA space. This was a volatile quarter from an underlying markets perspective, and this affects our relatively balanced portfolio in different ways.

In Q2, we experienced strong performance in pork markets, but this also resulted in significant margin compression in our prepared meats portfolio.

In response to the increase in raw material costs, we are implementing targeted pricing actions during the third quarter. However, there will be a lag in timing to fully benefit from these actions, along with some potential transitory volume impact that may affect results in the short term.

Our strong results were also mitigated by some non-routine operating costs in the quarter, including our efforts to manage the current porcine epidemic diarrhea virus situation in Manitoba, known by short form of PEDv. For emphasis, this has no impact on human health or product quality, but it does impact productivity and mortality in hog operations, which can be costly to manage in the short term. Our team is doing a fabulous job of further tightening bio security protocols and implementing risk mitigation measures, including securing alternative supply as needed. We expect the PEDv situation will continue to affect us in the back half of the year, although the disease is more readily controlled in Canada than in the U.S., where viruses are much more geographically concentrated.

Lightlife Foods, as mentioned earlier, contributed to our sales growth as a full quarter of their sales is reflected in our results for the first time. We’re extremely pleased with this acquisition and the strong platform it has provided in the fast-growing plant-based protein market.

I will now turn the call back over to Michael to provide some perspective on current initiatives and to wrap up our commentary.

Michael H. McCain - Maple Leaf Foods Inc. - CEO, President and Director

Thank you very much, Debbie. So if I might start with a high-level view. I personally view our history as a company in episodic chapters. We restructured our business to singularly focus our resources on growth in value-added branded protein. We emerged with significant financial resources and flexibility from that investment and transformational process. Along with the completion of our network transformation, we have a cost-competitive manufacturing network and a cost culture that’s firmly in place, and we’ve created a tremendous foundation to further profitably grow our business.

As we transformed our business, we continued to invest in our leading brands and commercial strategies across the portfolio. By focusing exclusively on protein and leveraging our new cost-competitive manufacturing base, we changed the financial trajectory of the business. We have achieved
our previous long-term Adjusted EBITDA margin target of 10%, and last quarter, we outlined our new long-term goal of 14% to 16% in Adjusted EBITDA margins within the next 5 years.

One important result of strengthened operating performance is greater financial flexibility, allowing us to further invest in accelerating growth and rewarding shareholders in different ways. We have a deep conviction that we are now at the pivot point with compelling growth platforms and opportunities that will allow us to meet our goals. Our growth platforms increasingly intersect with society’s needs as we respond to critical social and environmental issues that also present compelling business opportunities for Maple Leaf.

During our recent annual meeting, I discussed our vision at Maple Leaf to become the most sustainable protein company on earth. By any measure, that’s a very large, big ambitious goal, but it’s authentic to who we are and consistent with investments that we’ve been making and changes that have been underway across our business for several years. This is not new for Maple Leaf. It’s the essence of what we’ve been leading for over 5 years. However, we’ve now brought greater clarity and greater focus to this aspiration. What gives me tremendous optimism and confidence is that our vision intersects directly with what society needs and where we can create business value, an exciting example of creating shared value. Society and consumers are clearly looking for more from their food today and from the food companies they do business with. They’re demanding better transparency, cleaner, simpler ingredients and materially less impact on the environment. They want animals that are in our care to be treated humanely. They want less antibiotic use in their food chain, and they expect companies to be involved in creating good in our society.

At Maple Leaf, we’ve been working diligently for many years to deeply embed this broad view of sustainability in our business at every level. By elevating it now to its highest purpose, we believe there’s tremendous commercial benefit by creating points of difference for us in all aspects of our enterprise while also leading extraordinary change in an industry that needs it.

Our ambition has been expressed succinctly. The expression of all this at its highest level, is to raise the good in food. Yes, our goals are bold, but we feel that over a very long period of time, we are uniquely positioned to accomplish them. First, in North America, we are small and agile enough to make this kind of leadership impact in the industry, but large enough to do so with scale economics, making it accessible. Second, our culture is one of boldness. We have a history of executing big, bold ideas very well. Third, the anatomy of the Canadian industry versus the U.S. is uniquely positioned for competitive advantage in this space - we can do it better here. And fourth, because we have been executing these things for so long now, we have executional IP that is, quite frankly, advantageous.

There are 6 well-defined strategies that will underpin our execution. These are leading in sustainability, defined broadly as it should be; investing in our people, the enduring advantage at Maple Leaf; making great food, which is translating our vision into unique propositions for consumers brand by brand; broadening our reach, which has both a category dimension, specifically moving into alternative proteins, and a geographic dimension as we expand outside of Canada; building a digital future where technology will always be a cornerstone of a sustainable enterprise; and critically, the elimination of waste, which is any unnecessary resource or cost in our business. Our organization has enormous excitement and alignment around this direction. It provides a clarity of purpose and direction that will guide our business for many, many years to come.

As you will note from Slide 9, this is both an excellent commercial place to be, and we are advancing our execution rapidly. According to a very compelling study completed by the Boston Consulting Group, products with attributes of responsible consumption such as natural and environmentally responsible are no longer niche categories. They represent about 15% of all U.S. retail trade. What is even more compelling, however, is that these products have been growing at high single-digit annual growth rates for several years and account now for 70% of all retail chain growth. Let me say that again. Products with attributes of responsible consumption are 70% of all U.S. retail chain growth.

Now in our most recent example of execution at Maple Leaf, I would highlight that we’ve become one of North America’s largest producers of pork raised without antibiotics and the largest in Canadian poultry. Our Greenfield brand, which is our leading packaged meat offering in this category, was the top-selling new brand in Canadian grocery last year and continues to grow in both the U.S. and Canada.

We have one of the most comprehensive animal care commitments in the industry, with detailed strategy and implementation well underway. This includes everything from expansive training to open sow housing, pioneering remote video auditing and environmental enrichment.
Like our vision, we have bold aspirations when it comes to environmental sustainability. Our goal is to reduce our footprint by 50% by 2025. No one else that we know of in our industry can claim this. We are tracking ahead of schedule today. And to illustrate our progress, we reduced greenhouse gas emissions by more than 33% since 2015, the significant cost benefit over the next several years to environmental conservation and related efficiency gains.

Our teams are deeply engaged in core brand renovation connecting to our vision, as I referenced last quarter, and we have a very exciting work stream underway in this area, all focused on taste, nutrition, exciting recipes, craftsmanship and clearly lined up behind our flagship brands.

And finally, our signature community investment strategy, launched in the form of the Maple Leaf Foods Centre for Action on Food Security, is making absolutely tremendous progress since its launch. The center’s focus is on finding innovation that can be scaled to increase impact and advance food security, which is a daunting and shameful societal problem in both Canada and the U.S.

Collectively, these initiatives highlight and demonstrate the comprehensive and substantive nature of our commitments and capabilities and reflect the intense efforts that are underway at Maple Leaf.

So to wrap things up, we are very proud of our second quarter results, which were highlighted by strong sales, volume and earnings growth. The market volatility was more pronounced this past quarter, which benefited part of our business but impacted others negatively. We’re taking steps to manage those rising raw material costs. Our continued financial progress in earnings growth has allowed us to return cash to shareholders while providing the foundation to effectively deploy capital in growth initiatives and strategic acquisitions. We’re energized by the opportunities in front of us to advance our leadership in sustainable protein, which is a very exciting path for future growth.

With that, we’d like to open up the call to any questions that you may have. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Irene Nattel from RBC Capital Markets.

Irene Ora Nattel - RBC Capital Markets, LLC, Research Division - MD of Global Equity Research

Michael, you’ve just spent a fair chunk of the call talking about Maple Leaf’s vision and your commitment to sustainability, and we all recognize how important that is. Breaking that sort of back to the more mundane things that we sometimes are concerned with, how should we expect this to play out on the P&L? What should we be expecting in terms of new product introductions, in terms of acquisitions and in terms of the evolution of the business?

Michael H. McCain - Maple Leaf Foods Inc. - CEO, President and Director

How this will play out in a nutshell, Irene, is profitable growth. We see that manifesting itself across the whole spectrum of our business. We would expect, for example, to tap into higher levels of growth in the sustainable meat platform in the marketplace, both in Canada and in the United States. It gives us, for example, a point of difference to enter and expand in the U.S., but just walking in the door as a plain old commodity meat or branded meat seller is very difficult to do. But we now have, we think, a very distinctive point of difference in the North American marketplace that’s attractive and high growth. So it should play out in our growth rates over the next number of years. It plays out in margin enhancement because these higher levels of growth do offer some margin accretion. So we expect it will be margin accretive. We see it playing out in how we operate our business, for example. We think that the path to sustainability and shared value is also a great platform to reduce costs in our business. The reality of a great sustainability initiative, particularly environmental sustainability, is that it’s a path to reducing costs at the same time. And we see it playing out in our culture and the type of people that we represent. The future leadership of this business deeply cares about a sustainable
enterprise, a different kind of meat company, a different kind of company period, and that it’s a highly attractive proposition in terms of our people and culture. So we think it will show up in other ancillary parts of our business, the role that animal care, for example, plays in our portfolio, particularly more so in our food service business today, but the balance shows up in terms of our leadership in animal care and how that creates alignment with some of our key food service customers. I want to say it’s the type of ambition, Irene, in our business, that is so pervasive in how it can define who we are, what we do and how we win in the marketplace and how we show up in the marketplace 10 and 20 years from now, it’s absolutely compelling for us.

Irene Ora Nattel - RBC Capital Markets, LLC, Research Division - MD of Global Equity Research

Understood. So, obviously, you’re already going down this road. You talked about your leadership in RWA, both in pork and poultry and with the acquisition. If we look at the Q1 results and the acceleration in top line performance as well as in margins, can you walk us through what the key factors were? If we look at your product mix, how much of it was price? How much of it was volume? How much of it was volume in these types of products and moving down that road?

Michael H. McCain - Maple Leaf Foods Inc. - CEO, President and Director

Directionally, I would tell you, Irene, that our growth in sustainable meat, particularly in RWA was a contributor, a material contributor to our growth. It was not the only factor. We had broad growth across all of our portfolio, which shouldn’t be a surprise really because we’ve had 7, 8 years involved in transforming our supply chain. Over the last 1.5 or 2 years, we’ve transitioned from fixing this business to growing it. And so some of that is a reflection of these strategies, but some of it also is just a reflection of the fact that we’re now really focused on growth, and profitable growth, I should say, as a key part of our business. So that shows up in the whole spectrum of our business. I would say that while the sustainable meat has contributed, to some degree, to the growth, we fully expect that that will accelerate over the course of the next few years.

Operator

Our following question is from Michael Van Aelst from TD Securities.

Michael Van Aelst - TD Securities Equity Research - Research Analyst

So you talked about having to take price increases to offset the commodity increases. Can you give us an idea of the magnitude and the timing of these price increases throughout the year, whether you’ve taken some already and what’s to come?

Michael H. McCain - Maple Leaf Foods Inc. - CEO, President and Director

Sure. Well, we have not taken any material price increases to date this year. Our plan is to work hard to not take price this year, although this would be an exception because it’s important to note that just due to inflationary factors, we expect that we would be in a position of putting inflationary -- modest inflationary price increases into the marketplace most years. But we didn’t this particular year. We did have rather unexpected volatility in the second quarter, which translated into, as Debbie was very clear on, translated into margin compression in our packaged meats business, and we’ve executed in the marketplace. We began execution of pricing action. But it’s important to understand the pricing action comes in many forms in our business. So for example, and this is very important, Michael, in the third quarter, we’re actually not raising our list prices other than on direct categories like bacon, for example, that moved more frequently. We are not raising our regular selling prices and just executing pricing action through management of our feature selling activity and feature selling prices. That’s in the third quarter. We expect some impact of that near the end of the third quarter but mostly in the fourth quarter. Obviously, there’s a volume question there that we’ll have to manage our way through. The ambition of all that, is that we really are working hard in the spirit of trying to maintain value in our portfolio, to hold off on the list price increases to the latest date possible. And we expect that we will be able to not have to take list price increases until early in the new year, and we can manage through feature price activity between now and then. So the important take away from that, Michael, is that we have many, many different levers of revenue management. And we did realize margin compression in the second quarter and we’re taking action beginning in the
third quarter and over the next few to offset that in a very responsible way, obviously holding off as much as we possibly can to maintain appropriate value in the marketplace.

Michael Van Aelst - TD Securities Equity Research - Research Analyst

So with the way you're going to the market with these pricing changes, or however you want to call them, as well as the current product mix, do you expect any different reaction in the market with respect to volume or margins?

Michael H. McCain - Maple Leaf Foods Inc. - CEO, President and Director

No. Probably not. Pricing action, though I reiterate, Michael, pricing action is something that in one form or another should take place here every year. So it's not foreign to us. Will there be or can there be a volume response to this? As Debbie alluded to, the answer to that is unequivocally yes, there could be. We hope that we can manage through that as we have in the past. But yes, for sure, I think we would probably expect that more as a result of changes to the feature activity profiles in the short term. These are very short-term tactical kind of impacts. But a substantial portion of our volume actually occurs, as it does in all grocery, through feature pricing activity as opposed to list pricing. So that's pretty common in CPG. So yes, we would expect that. You asked about the magnitude of our realization through FSP changes, it depends, category by category. You have to exclude the impact of bacon because that has considerably more variability than the balance of the portfolio, but you're probably looking in the 2% to 3% range of realization through that feature pricing activity, not list selling prices.

Michael Van Aelst - TD Securities Equity Research - Research Analyst

Okay. And just the last question. Can you give us an update on how you're seeing the impact of the Canadian dollar affecting both your domestic and your export business in this environment?

Michael H. McCain - Maple Leaf Foods Inc. - CEO, President and Director

Well, as we've said, the way down is a reverse of the way up, Michael. In the short term, it doesn't have an impact on us. But over a period of time, it's a positive factor. And so going from $0.75 to $0.80, obviously, over time would be negative. A $0.05 move is not particularly significant. But it's, of course, negative, but it will not affect us in the short term. The answer is no, but simply because there are very long lag times. So a negative $0.05 move on the Canadian dollar would be something of a negative, not a particularly big one because it's not particularly a material move, but it will affect us years out.

Operator

Our following question is from Mark Petrie from CIBC.

Mark Robert Petrie - CIBC World Markets Inc., Research Division - Research Analyst

I just wanted to ask for a little bit more granularity in terms of the revenue growth and what drove that exactly. And maybe just give us a sense across your segments of the relative sort of volume move, and then how you were impacted by the rise in hog prices.

Michael H. McCain - Maple Leaf Foods Inc. - CEO, President and Director

Well, in fact, we grew in all segments of the business across the board. I don't think there's a single segment of our business that didn't show some growth in the quarter, both branded and private label, retail. Packaged meats demonstrated growth. Our food service business grew nicely. Our
fresh pork business grew well. We grew extensively in our sustainable meat portfolio, both fresh value-added and our packaged meats. Our poultry business grew in the quarter. So Mark, I’d have to tell you, it was quite broad across the entire portfolio. I hope that’s helpful.

Mark Robert Petrie - CIBC World Markets Inc., Research Division - Research Analyst
Yes. I guess I’m just trying to get a sense of if volume growth was the predominant driver or if there was sort of a tailwind from the higher commodity prices.

Michael H. McCain - Maple Leaf Foods Inc. - CEO, President and Director
Well, of course, yes, there was. But of course, there was, but we had low single-digit volume growth in the total portfolio, which has great leverage.

Deborah K. Simpson - Maple Leaf Foods Inc. - CFO
Yes. Mark, in order of magnitude, it would be volumetric growth. And then on sales dollars, it would be mix. And then it would be a little bit of contribution from the market. So the markets were the least of the contribution to our sales dollar growth.

Mark Robert Petrie - CIBC World Markets Inc., Research Division - Research Analyst
Okay. That’s great. That’s helpful. For Lightlife, I know it’s early, but could you just sort of comment on how you’re feeling about that business right now? And maybe give us a sense of the growth rate within Lightlife. I know you didn’t own it last year but year-over-year for that business?

Michael H. McCain - Maple Leaf Foods Inc. - CEO, President and Director
Yes. First of all, we’re exceptionally excited about the business and the prospects. They contributed to both top and bottom line growth. It was accretive to Maple Leaf in the very first quarter that we owned it, which is a very positive thing. And as we took over our ownership and operation of that business, we found nothing but great positives in the business and its future. So it’s a very positive story for us. In terms of growth rates, Mark, the category is growing at low double digits. And we are outpacing that category growth. And we believe that with the pipeline of new product development, people, some of our resources to support that growth and et cetera, that we can accelerate that further again. So I’d say this is a double-digit growth rate for us, that we are very excited about our initial investment and we hope to make further investments in this category.

Mark Robert Petrie - CIBC World Markets Inc., Research Division - Research Analyst
Okay. And then I just wanted to ask about SG&A and how we should think about run rate as a percentage of sales going forward or at least for the back half of the year.

Michael H. McCain - Maple Leaf Foods Inc. - CEO, President and Director
Well, it was 9.6% for the quarter, right? I think that’s right.

Deborah K. Simpson - Maple Leaf Foods Inc. - CFO
Yes.
Michael H. McCain - Maple Leaf Foods Inc. - CEO, President and Director

So maybe, Debbie, you could comment on it.

Deborah K. Simpson - Maple Leaf Foods Inc. - CFO

Right where we indicated before, Mark, we said before on or around 9.5%. And I look at that as an annual number, not really an in-quarter number. I don’t see much difference. It goes up a little bit from quarter to quarter, but I think we’re right where we expect to be.

Mark Robert Petrie - CIBC World Markets Inc., Research Division - Research Analyst

Yes. And just one other model question. Working capital for the balance of the year, what's your expectation? I mean, you commented that you’d invested in inventory a little bit. What’s your outlook for the second half?

Deborah K. Simpson - Maple Leaf Foods Inc. - CFO

We really just see that as a timing issue for this quarter, not really an ongoing issue. So I would say it's right pretty much where it’s been. I don’t see any shift in the pattern.

Operator

Our following question is from Peter Sklar from BMO Capital Markets.

Peter Sklar - BMO Capital Markets Equity Research - Analyst

Can you explain a little bit more how rising raw material costs impact your overall margin? There seems to be a lot of moving parts. I would assume you have a hedging program. Your agribusiness would benefit, as well you’re discussing pricing. So how do those things all work through to impact your margin? There seems there’s some pluses and minuses.

Michael H. McCain - Maple Leaf Foods Inc. - CEO, President and Director

Yes, there are. We have basically 4 highly interdependent businesses that all have moving parts. And that’s why it’s very difficult for us to connect the dots on anything but the overall performance. But it is the benefit, Peter, of having a balanced portfolio because without that balanced portfolio, you might experience much greater volatility in the individual components and you think of them as links on a chain. In this particular case, the rising, volatile markets and what's occurring as a result of that in our fresh pork business was very positive in the quarter, but it resulted in raw material costs in our packaged meats business that compressed the margins. If we didn’t take pricing action in the packaged meats business, then we would ultimately find ourselves in a position of not having the benefit of that rising market in our fresh business and having to maintain the compressed margins in our packaged meats business. So the response to that is very rapidly and proactively raising revenue management or pricing action in the marketplace, as I described earlier. They’re very interdependent. The margin compression on one hand is largely connected to the rising, volatile markets on the other. So they’re very interdependent. But when you think of that continuum, what it means is that we have to take pricing action in packaged meats to sustain that going forward.

Peter Sklar - BMO Capital Markets Equity Research - Analyst

And how does the hedging program play into that? Does that cause a deferral of these net effects?
Michael H. McCain - Maple Leaf Foods Inc. - CEO, President and Director

We only hedge out very short window of time. We would hedge that raw material program out in many components 60, 90 days. So it's a very short window of time. If you hedge out beyond that, it's something I'd be happy to sit down and explain to someone. But if you go beyond that, you're actually inducing risk, not reducing it. We have a very, I think, well-functioning hedging program, but it only operates in very short-term windows of time. The biggest hedge that we have is our ability to price in the marketplace. And that sword cuts 2 ways. If we hedge our raw materials in the market when way down, then we would have induced risk and been offside in the marketplace with a fixed-cost raw material, right? So that's how we maintain steady performance in our business, in using those tools.

Peter Sklar - BMO Capital Markets Equity Research - Analyst

Okay. And then lastly, can you talk a little bit about where you're at now and the size of the opportunity in terms of the export potential to China and Japan for your fresh pork business? I understand you've had some good growth there.

Michael H. McCain - Maple Leaf Foods Inc. - CEO, President and Director

We had modest growth there. We had good performance in those markets but not necessarily significant growth in those markets. And let me explain that, Peter. Our business is not, we are not in the commodity pork business per se. We are only in the fresh meat business as a supply chain to our packaged meats business. It's raw material purchasing strategy, not business strategy. Having said that, in order to sell a balanced carcass of meat, in all of the cuts, we have to sell the remaining cuts that don't go into our primary channel of processed meats in other markets in order just to keep in balance. So for example, if we have 8 million loins, for example, to sell, we have 8 million loins, not 8.1 million and not 7.9 million, just 8 million. And so we'd sell those into the highest returning market where we can add the most value possible. And our job is not to grow in those markets but to continue to add value that enhances our bottom line as we balance the whole carcass from our supply chain. So frankly, we'll just go to wherever we can add value that enhances our bottom line. We've done a tremendous job, I believe, over the last number of years at steadily increasing our value-added fresh business. It shows up in our value-added retail branded fresh pork business, our branded poultry business. Our Japanese value-added business, which is a big part of that, operates under our shared brand in the Japanese marketplace, selling premium and value-added products, fresh products into the Chinese marketplace. And we continue to develop that mix and profile, but we're not really growing in that market, if you understand that whole strategy of how it's supply chain strategy, not product strategy.

Operator

Our following question is from Derek Dley from Canaccord Genuity.

Derek Dley - Canaccord Genuity Limited, Research Division - MD and Consumer Products Analyst

I'm just wondering if you could quantify or describe in some more color just what the non-routine operational costs you're recording were in the quarter.

Michael H. McCain - Maple Leaf Foods Inc. - CEO, President and Director

Sure. So what I would say, Derek, is that there's a shopping basket of items that are very non-routine, and we have those regularly. But the shopping basket, collectively, was larger, much larger this quarter than it normally would be. So that's the fundamental reason why we felt it was necessary to call it out. But the most important story in that shopping basket, the lead story in that shopping basket really is, as Debbie described, the costs attached to the PEDv outbreak in Manitoba. For clarity, I would say again for those on the line to clearly understand this, the PEDv virus has no human health issues or concerns and no product quality concerns. It's a virus that creates a flu-like symptom in the hogs that solely has a productivity impact on our operations, not a health or quality consideration. Our team is doing a fabulous job of further tightening the bio security, as Debbie
described, in our operations. And we're, I think, doing an excellent job of mitigating that risk, but there's a cost attached to it short term, and it's a very uncertain and volatile situation. There will undoubtedly be further costs attached to that in the next couple of quarters as well as it works its way through the system. So the shopping basket of a very broad number of items was larger than normal. The key driver of that was the PEDv component, and we thought it important that our shareholders understand that that's taking place in our business. We're on top of it. It's a very short-term impact, and I think it's being managed incredibly well, but it is having a short-term impact.

**Derek Dley** - Canaccord Genuity Limited, Research Division - MD and Consumer Products Analyst

Okay. That’s great color. And just one more. Just on the volume growth, recognizing you guys had seemingly high volume growth in most, if not all, of your product lines, did any area outperform others?

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

Yes, sustainable meat.

**Derek Dley** - Canaccord Genuity Limited, Research Division - MD and Consumer Products Analyst

Okay. Anything else?

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

That's the one we're focused on, Derek.

**Operator**

(Operator Instructions) We have no further questions registered at this time. Mr. McCain, back to you.

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

Okay. Well, thank you very much, operator, and thank you to all of you who joined in the call. Again, I reiterate it was an excellent quarter. We're very excited about the short-term results. We've got a few headwinds that we're dealing with, as is always the case, but in aggregate, we're very happy with where we're at. We're most excited about the long-term future of the business in our pursuit to become the most sustainable protein company on earth. That's a very noble and inspiring ambition for this organization and one that we're all connected to. So thank you very much for your support, and we look forward to chatting with you in the next quarter. Have a good day.

**Operator**

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