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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Welcome to the Maple Leaf Foods Third Quarter 2017 Results Conference Call hosted by Mr. Michael McCain. Please be advised, this call is being recorded. (Operator Instructions) I would now like to turn the meeting over to Mr. Michael McCain. Please go ahead, sir.

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

Thank you, Anthony. Good afternoon, everyone. Thank you for joining us for our Q3 2017 conference call. Both Debbie Simpson, our CFO, and I will provide commentary on various aspects of the business and then open up the call for your questions. The news release today and also 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 our website for a broader description of operations and risk factors that could affect the company's performance.

Turning your attention to the introduction on Slide #3. We delivered a very satisfactory third quarter with excellent top line growth and Adjusted EBITDA margin of 10.6%, continuing our year-over-year improvement. This resulted in a 22% increase in our Adjusted earnings per share to $0.39. We're very pleased with the sales growth in every area of our business as you'll hear about in a moment. Excellent performance in our value-added fresh portfolio and great alternative protein results all contributed to this.

As we indicated last quarter, we anticipated that the spike in pork markets would result in margin compression in prepared meats in the quarter, and you can see how that played out, but our top line growth helped to mitigate this effect. Debbie will add some more color on this in a few moments.

We've realized 7 consecutive quarters now of adjusted EBITDA margin above 10%, our strategic target, which reflects the structural improvements that we've made in our business and our commercial gains as we increase our focus on accelerating growth.

I'll provide some additional perspectives on that after Debbie goes through the financial highlights, so Debbie, over to you.

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

Thank you, Michael. As summarized on Slide 4, we continued our sales momentum this quarter, with sales up 6.6% to $908 million with growth across our business. Our 10.6% Adjusted EBITDA margin is a 30 basis point increase versus the prior year. The strength of our balanced portfolio, coupled with the significant structural improvements we've implemented, provided us with relative stability this quarter despite volatile markets. We also realized strong growth in adjusted EPS for the quarter, which increased 22% to $0.39 per share, reflecting our underlying performance, combined with benefits from buying back our stock.

On the bottom right chart, you can see that we had healthy free cash flow of $154 million during the quarter, which contributed to cash on hand of approximately $210 million. Our cash on hand reflects $42 million of share buybacks during the quarter. And year-to-date, we've executed $154 million in share buybacks. Our strength in the operating performance has afforded us greater financial flexibility. In turn, we're investing further in accelerating growth and rewarding shareholders.

Slide 5 provides a little more color on commercial performance across our business. We continued to drive sales and volume growth in our prepared meats portfolio, contributing to our overall growth, which we were very pleased to see. Our fresh value-added portfolio also performed very well during the quarter with commercial success in both pork and poultry. Alternative protein continues to be a rapidly growing area for us. During the quarter, our alternative protein business benefited from double-digit category growth and higher consumer demand. Leveraging these dynamics and expanding distribution, resulted in excellent sales and earnings contribution from Lightlife, which we acquired earlier this year and is exceeding our expectations.

We're starting to see the benefits of our targeted growth in the U.S. with progress in penetrating the market. We drove double-digit growth year-over-year in the U.S., excluding the additional contribution from Lightlife, largely driven by increased prepared meat sales. We have been developing and building on our U.S. capabilities in a disciplined fashion for some time. We bring unique capabilities to this market, particularly in sustainable meat, which provides tremendous commercial opportunity.

We're also very excited about work we commenced in the last year on our core brands Maple Leaf and Schneiders. Leveraging unique insights about how consumers purchase and consume food, we've undertaken comprehensive and far-reaching brand strategy work to capitalize on those insights. Our flagship brands, which have leading market positions across our core categories, will be well positioned to meet these consumer demands in new and exciting ways. This is the most comprehensive and impactful work we have ever undertaken in support of our brands, and we look forward to elaborating on this at our investor conference in a couple of weeks.

Turning to Slide 6. During the quarter, our prepared meats sales showed continued strength, although margins were materially compressed by a sharp spike in pork belly prices, which were up nearly 60% compared to the same period last year. This dynamic particularly affected bacon margins, a core category for us. The strength of our balanced portfolio mitigated the impact, as favorable fresh markets helped to offset this margin compression in our prepared meats portfolio. We implemented targeted pricing action at the end of the third quarter, the impact of which will be felt during Q4.

Value-added fresh pork has been an ongoing contributor to our overall success, and we've had very healthy commercial results again this quarter. In addition, consumer demand for chicken continues to grow, and we are well positioned to benefit from that trend with our fresh value-added and branded poultry portfolio, where we saw exceptional sales and volume growth this quarter. From a cost perspective, our deeply embedded cost culture continues to serve as fuel for growth. We are progressively reducing costs year-over-year in our prepared meats network, a testament to the focus of our team in driving out unnecessary costs.

Overall, our commercial performance during the third quarter reinforces our ability to advance opportunities for growth.

I will now turn the call back to Michael to provide some additional perspectives and to wrap up our commentary.

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

Thank you, Debbie. Turning to Slide #7. I will take you back to last quarter, where I spoke about defining Maple Leaf's path forward as a purpose-led organization and about our vision to become the most sustainable protein company on earth. We believe with deep conviction that in addition to creating social value, our approach to sustainability differentiates us and creates significant commercial opportunity to accelerate our profitable growth. This path is not new to Maple Leaf. It's a strategic platform that we've been building for years and years. Organized into 4 broad market-facing themes of better food, better care, better communities and a better planet, we have a series of far-reaching goals and initiatives in each of these areas to build or extend our leadership and points of competitive difference. We'll be elaborating on this at our upcoming Investor Day in November.

I would highlight 2 recent successes in commercializing our leadership in sustainable meat, beginning on Slide 8. Our Greenfield Natural Meat Company brand is an important commercial face of our investments and efforts to lead in sustainability. Since we launched Greenfield in late 2015, we've been consistently driving high double-digit growth in the brand, and we're seeing that growth in Canada and the U.S. We continue to increase retail listing coverage in Canada and more strategically, in the U.S. market where we are building the brand, along with our relationships with most leading retailers in that country. Offering consumers products with animals raised without antibiotics is a core Greenfield claim. Our Greenfield brand also, though, offers a broad suite of claims that include leading animal care practices, reduction in environmental footprint and social impact investing.

The breadth of these claims and our ability to bring scale to the market are key Greenfield differentiators. We put Canadian media support behind the brand in this country and continue to work with our retail partners in the U.S. to develop it locally in their markets. We built a very compelling and broad Greenfield assortment with the opportunity to meet scale demand for major U.S. retailers and foodservice customers. We're very excited about the opportunities in the U.S. and the runway that this provides us for continued profitable growth in sustainable meat.

Secondly, turning to Slide #9, we've made significant progress across all of our pillars of our sustainability strategy. But our Raised Without Antibiotics, or RWA, portfolio is currently one of the most advanced and commercially tangible drivers in our business. We've been making strategic investments in this area for several years, resulting in North American RWA market leadership in pork and Canadian RWA leadership in poultry. The depth of our RWA platform has enabled us to make a very big step to convert our entire flagship poultry brand, Maple Leaf Prime, to a fully Raised Without Antibiotics offering in a staged rollout across the country.

With Maple Leaf Prime RWA, we are responding to consumer needs and the critical importance of reducing antibiotic use in animal production. It also provides an ongoing path to growth for what is now, and clearly, the #1 national brand of chicken. We know that consumer demand for chicken continues to accelerate, and consumers are choosing this option at a very high rate. We also know that more than 2/3 of consumers are aware of RWA or Raised Without Antibiotics products and are seeking that choice. Our phased launch will continue to roll out in the fourth quarter, and we expect very favorable consumer responses.

So wrapping things up, we delivered a very solid third quarter result with continued year-over-year sales volume and earnings growth. We had strong top line growth across all of our business platforms contributing to this positive result in the quarter. The operating and commercial strength of our business and our balanced portfolio, we believe, provides us with relative stability in the wake of the sharp increase in raw material costs, which we saw in the quarter and have addressed through targeted pricing action. The advances that we've made with our sustainable meat portfolio are an exciting path to future growth. In most areas, we have first-mover advantage and strategic edge. And as we accelerate our leadership, we have tremendous confidence in our ability to create shared value for all stakeholders; an important positive impact for society and enhanced prosperity for our business. We've an exciting vision of creating shared value through our vision to be the most sustainable protein company on earth. This vision is consistent with who we are. It reflects years and years and years of work and investment to position us to lead in sustainability in all of our markets.

We're looking forward to connecting with our investors and our analysts at our upcoming Investor Day on November 8. More information on this will be found on our website.

With that, I'd like to open up the call for your questions. Anthony, over to you.

QUESTIONS AND ANSWERS

Operator

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

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

Michael, I was very interested in your commentary around the increased penetration that you're enjoying in the U.S. market. Can you provide us with a little bit more color around sort of what categories, what products, what channels and how you see this evolving as we move through the next year, 2, 3?

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

The most important thing in our sustainability, or our sustainable meat platform, Irene, is to develop strategic relationships with individual customers. We found that it's more of a strategic sell than an item sell. And once we get that alignment with an individual customer, then they're more inclined to allocate the shelf space in the appropriate position and support the entire portfolio of our products. One of the most important differentiators that we bring to the table is that we don't have a narrow scope of assortment in sustainable meat. We have a very broad line of fresh offerings and processed meat offerings in all of our categories. And that's very attractive because as a scale player in the industry, that's very unique. And when we have that strategic conversation, we can get not only brand alignment, but also offer enough scale and penetration across the assortment to get presence on the shelf. So that's been our strategy. It's worked well. We have some great distribution and some great relationships, and we're really seeing that accelerate. So we're very happy with it. Now the cautioning point is that these things -- any type of growth is a game of inches in the marketplace, and it's not something where you gain miles every month that passes. But we are continuing to progress, Irene, in that fashion. I don't know if that answers your question, but that's really the advantage in the platform that we have and why it's working well for us. We have clear advantage in this space and leadership in this space in the market.

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

That's great. And presumably, this approach also, Michael, enables you to increase your raw material supply, which is critical to being able to increase your volume. You can do it in lockstep? Is that a fair assessment?

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

Yes. It is important that we grow through the value chain in relative balance because you don't want to have too much raw material available before the demand signal catches up to that, because then you're selling individual components of the carcass out of balance, and that's a bad thing. Equally, you don't want to create too much demand at a pace that you can't keep up with raw material supply. So throttling that across the value chain is important. We invested a long, long time ago to develop our competency, all the way back to the barn, actually right back to the genetics that we used, and that gives us advantage in producing antibiotic-free pork. So we are continuing to grow that. But the upstream portions of it, we work hard to sell, in some measure of balance. Because again, as we discussed in the past, carcass utilization is really, really important here.

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

Absolutely. And thinking about Prime, so by the end of Q4, you will have rolled RWA Prime out across Canada. Is that it? Or it will be all of your production?

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

No, it's in the East.

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

It's in the East. Okay.

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

It's in the East, yes, not in the West. So we will have 100% in the East, and we're developing strategies for Western rollouts in the future.

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

Okay. That's very helpful. And just finally, one more question of a more short-term nature. What was the magnitude of the price increase that you took late in the quarter? And what are you seeing to date in terms of the volume reaction?

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

The price increase was in the 2% to 2.5% range. But at the end of the day, we're only 30 days into that. So there's typically, in these things, Irene, you know there's always a demand signal response in the short term. That's always the case. I don't think that we see a a significant demand contraction at this point. But I don't think that story will be told for another 2 or 3 months. I would also point out, Irene, that the pricing that we took was not list pricing. When we speak of pricing action, we always speak of it in the context of the multiple levers that we have available to us in order to take price. We can take list price changes. We can have feature price movement. We can change the depth and duration of feature activity, product portfolio or mix changes and focusing our mix changes can generate pricing or revenue improvements, all the way through to, in some cases, although it's a last resort, downsizing. So we have multiple levers at our disposal, as all packaged goods companies do. In this particular case, the pricing action that we took in September, I would point out, I think we discussed this at the last call, was all feature price-oriented, not list price.

Operator

The next question is from Michael Van Aelst of TD Securities.

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

I just wanted to continue along the pricing discussion first. First of all, the price action you took, was it across a broad range of products? Or was it specifically tied to categories that were most affected?

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

I would say broad range, but obviously, it's disproportionate. It was not necessarily equal across that range and obviously, more affected by the categories that were specifically connected to the raw material cost increases. I'd say the 3 that were most affected, although there were others, would be products, obviously, bellies and bacon, followed by trim, anything that was touched by pork trim through the summer and any of the categories that were impacted by trim costs relative to expectations. And finally, in poultry, in further processed poultry products. Those would be the 3 most significant of the categories in the portfolio that were affected. But obviously, when you're talking trim, Michael, it has a broad range of categories that it touches.

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

Okay. And so can you just walk us through a little bit how the adjustments are made and how quickly they're made? Because you raised them with some delay, but then we've seen a swing back down in a lot of these, in the pork bellies and the hog overall. And so how quickly do you adjust back the other way and start ramping up some of the feature pricing again?

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

So that's a very category-specific response to that, Michael. And your reference is very specifically to bellies and bacon. And our pricing rhythms on bellies and bacon have a much shorter window. In fact, over the course of the last year, because of the volatility, we've actually taken steps to dramatically shorten that window in the marketplace from where it was 2 years ago, 1 and 2 years ago. Largely driven by the fact that it has the volatility of that particular segment. But if you set that aside, Michael, which has got 30 to 60 days, and it depends, again, because list price versus feature price can be different. Typically, on bellies and bacon, you're dealing with 30- to 60-day window. All of the other categories have much longer windows of pricing action. For example, most of the summer-based trim products, you set pricing based on expectations early in the year for an entire summer merchandising sequence at all the big weekend dates and events that occur during barbecue season all summer long. And you're just not going to be changing any of those prices until that merchandising season is certainly behind us. So in those ones, it's a much longer window. There are other items where you get into different channels, Michael, where it's affected. So what I'm describing is the retail channel. Foodservice and private label are very different. Foodservice tends to be contract-based. They tend to have longer contract windows, and you have to wait until the next contract cycle is up before you move pricing. And then private label has a similar dynamic, where they're either in one case on a formula, and each one of those formulas can be a little bit unique, all the way through to some contract base. All of which is to say there's no single answer to your question, Michael. It depends on the portfolio.

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

Are you comfortable now that your pricing as of the end of Q3, is sufficient to cover the cost increases?

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

Yes, I am for the most part. Also our expectation is we're going to take pricing again. We have to somewhere around the first quarter of 2018, but it's not raw materials related. We have an underlying, as all packaged goods companies do, have an underlying inflationary factor. Labor, overhead, utilities, all of the elements of value-add that have absolutely nothing to do with markets or movements and so on and so forth, that we have to price on a regular rhythm. And it's not necessarily just price. It can be downsizing. It can be offsetting it through some obvious cost opportunity. There can be lots of different levers that we have to pull, but we can't get around the fact that there's some underlying inflation. So we did describe to our customer partners the expectation of doing this in responsible steps that matched movements in our cost base, starting with feature pricing changes in 2017 and the potential for list price changes in early 2018. This is all part of responsible pricing action. In short, your question was, are we satisfied that we've restored the margins? Yes, we're on a track to do that coming into the fourth quarter. The only wild card is, to Irene's point, is the volume response. I would tell you, Michael, there's never been a single pricing action by any packaged goods company that didn't have some short-term, near-term volume response in some way. It's just universal in packaged goods. All categories, all channels. So there's always some measure of that, and that we won't be able to get a good beat on that for a month or 2 yet.

Operator

Your next question is from Derek Dley of Canaccord Genuity.

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

Can you guys talk about some of the products which experienced the outsized volume growth? It sounds like RWA was up 10% in Canada and the U.S. How about Lightlife? Is that still tracking in the low to mid-teens in terms of sales growth?

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

Yes. We had volume growth across every platform, so that, I think, is the headline. And it was not a one-trick pony, which is, I think, very satisfying for us because we're migrating the karma of the organization towards profitable growth. And where do we experience it the most? I would say clearly, in sustainable meat, which includes RWA. I would remind you that it's not just RWA. It's RWA and a series of many other attributes of our sustainable meat offering. And that class of products certainly generated double-digit growth. But also in alternative proteins, yes, to your point, Lightlife is exceeding our expectations for growth, which we're very happy with. And honestly, we're just really thrilled with our leadership in that category. We've invested in it for years in terms of our knowledge and engagement with that category and having just recently, in the last 6 months, put some material capital behind it. The early signs are exceeding our expectations, including in growth rates, which are well into the double digits. So that's positive. But we're also seeing growth on many other value-added platforms. As I described, our value-added fresh business, which is everything from sustainable meat in our pork offerings, to our poultry-branded RWA, and our Mina brand in an ethnic offering. The entire suite of products in our fresh business; value-added, fresh-branded, fresh are growing. We're very happy with that. Geographically, we've seen growth in Canada and the United States. Certainly, higher levels of growth in the U.S. marketplace, largely because it's been a focus of effort for us in the past few years. And as that occurs, we see that accelerating actually because we've invested in infrastructure, and in people and customer relationships and so on and so forth. So over time, we see that accelerating as well, so it's pretty broad-based from our perspective, Derek.

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

Okay. That's great. I appreciate the color. And Debbie, maybe just one for you. I saw a big working capital gain here in Q3. And if we look to last year in Q4, it came off just a little bit, yet a slight decline in working, or a slight usage of working capital in Q4. Should we expect something similar this year?

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

I wouldn't be surprised, Derek, in Q4. It tends to be a bit of a seasonal low where we build up going in, and then we have a bit of a use-up where we release them going into the Christmas period. So it's not unusual for that to happen in Q4.

Operator

The next question is from Peter Sklar, BMO Capital Markets.

Peter Sklar - *BMO Capital Markets Equity Research - Analyst*

I'd just like to understand a little bit more about the competitive backdrop when you're into this type of environment where you're raising prices. So when you cut back on the amount of dollars you're committing to features, how do your grocery customers react to that? Do they go shopping around to your competitors to see if they're offering more feature dollars? Or is just the shelf placement kind of entrenched, so it's difficult for them to move things around on short order? And who has the price leadership? Do you anticipate, were you the first mover? And do you anticipate that your competitors will follow suit? Or have they followed suit in terms of the price increases?

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

A great question, Peter. We are the brand leader and the market share leader in the categories across virtually every segment. So the category and pricing leadership has to come from us, and that's been the case for decades. Clearly, we have to be competitive in the marketplace. That doesn't mean that we're price competitive. It typically means that we are gap competitive, i.e., we trade for, because of our premium brands and our premium positions, we trade for substantiated consumer-validated premiums in the marketplace for what we offer. But having said that, we have to trade typically in competitive gaps in the marketplace, gaps to private label, gaps to second-tier brands and so on and so forth. Obviously, our experience is that if those gaps increase, then over time, we would probably lose some market share, not everything, but we would lose some market share. And if those gaps contracted, we would probably increase some market share. But these are all dynamics that are very normal, and you'd see this across any packaged goods category in the store. As far as our retail partners are concerned, they want us and they demand from us that we demonstrate responsible pricing. We have to always be mindful that responsible pricing isn't about margining up. Our pricing action was about recovering margin loss actually, not margining up. So we were recovering raw material cost that was clearly demonstrated in the marketplace. It's easy to see the compression that would go with that. And so that points to the responsible pricing that we have to demonstrate to our customers. Having said that, if we do that, most customers accept that we have to earn a profit, and they want to support that in the marketplace, primarily because our brands are bigger draws. They're bigger draws in their business than any other brand in the marketplace. So a single merchandising event of Schneiders Red Hots, for example, can outdraw any other brand on a feature by maybe 3:1. So the retailers have a keen interest to make sure that we stay in the game with our flagship brands just because consumers want those brands, and they draw better than the alternative. Having said that, in the spirit of completeness to answer your question, there are segments of our business where it's less so. For example, in contract negotiations in a foodservice segment or a private label segment that tends to be more contract or price-based, then you count on situation-by-situation competitiveness within the marketplace and retailers will test that in price discovery. And that's not uncommon. It's natural. That's the way they always do it, and we fully expect that. The good news is that our competitors are all feeling exactly the same motivations as us. So this is not unique to Maple Leaf. Everybody in the North American protein industry has felt the same raw material cost increases, and therefore, have the same motivations as these things come to market. Pricing action is just something that occurs. It's natural that it occurs in packaged goods, and it's never just oh, here's your price now and here's your price tomorrow. There's 1 of 6 or 8 different pricing levers as I referred to previously, and it's our job to figure out what is the right mix of pricing levers to apply to any given situation. And in some cases, we rely on pricing through downsizing our mix where consumers don't experience a shift in price point. So there's all kinds of components in that, but generally speaking, it being in a branded business like ours with leadership, it gives us a relative measure of revenue management control. Does that answer your question, Peter?

Peter Sklar - *BMO Capital Markets Equity Research - Analyst*

Yes, that was very helpful. And Debbie, I just wanted to ask, I believe the tax rate for the quarter was lower than what you had been running at. Can you take us through what's going on there?

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

We just had some extra non-deductible expenses here. I don't think it affects your model. I think if I were you, I would stick with the 27% guidance that we've put out on modeling on an ongoing basis.

Operator

The next question is from George Doumet of Scotiabank.

George Doumet - *Scotiabank Global Banking and Markets, Research Division - Analyst*

I just wanted to talk a little bit about the extra capacity, the pork packing capacity coming online in the U.S. I think it's quite sizable, and it's expected to come online in 2019. Can you maybe talk a little bit about what you expect the supply-demand balance to be there and how that can ultimately impact your packing margins over the long term?

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

Well, first of all, it's coming online now, not in 2019. So you'll see that in the unseasonably high hog cost and cutout implications actually coming into the fourth quarter. We expected that. That was part of the dynamic that we expected coming into the second half, and we've talked about that a number of times, George. So it's occurring right now. I think the industry is comfortable that the hog supply will grow to accommodate that capacity, but what it does do, is it puts pressure on the marketplace in a very short-term environment on the commodity fresh side of our business, puts some pressure on that within a very short-term basis as there's a bit of rebalancing of which hogs go to which plants and which environment.

So with the passage of a very small amount of time, we don't see it as a structural concern, although there is a transitional risk as of right now and for the next probably 12 months as these plants come online. It's one of the benefits, we think, of our balanced portfolio. While that hurts us a little bit in our fresh business, it actually helps us a little bit in our hog production portfolio. So we have a bit of an offset, not a complete one, but we have a bit of an offset there. So anytime there's a material event like that, it can be a little bit destabilizing, but there's nothing structural that we're concerned about, George.

George Doumet - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Just one more, if I may. I think you mentioned quite a bit around the RWA in poultry and the positive mix shift that's happening there. But can you talk to anything else that we can do in terms of just general improvement, improving your efficiencies in poultry operations looking forward?

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

Yes. Look, we've been clear, George, that investing very heavily in our poultry assets is probably our single biggest cost-reduction opportunity that we have across the entire business. I would think of it this way. If you look at the last decade, Phase 1 of our investments of capital and cost reduction were in primary pork processing. That was, say, roughly speaking, 2007 through 2009, followed by the motherload of capital investment and restructuring, transformational restructuring from 2010 to 2015 in our prepared meats business. Call that Phase 2. We've not gone through that in our poultry assets. And our poultry assets across the industry are weak, generally speaking, but we have great people. They do amazing things with the assets that we have, but the age and technology and scale of the assets that we have on the ground today, in poultry across the entire industry, are not strong. And we are committed to investing in those assets significantly over the course of next 5 years. And we see very significant cost reduction opportunities as a result of those investments. You've seen the start of that as we consolidated out of turkey processing and the close of the Thamesford facility.

That's a first step, but it's only a first step, George. We've got some very significant plans under development in investing in our poultry assets, in the whole value chain, fresh and further processed to reduce our cost base there in the same way that we did in stage 1 in primary processing and stage 2 in prepared meats. So we're very optimistic and excited about the opportunities that that presents. Keep in mind that what I just mentioned, the Thamesford facility, that's a planned closure. It isn't closed yet. I think it's next spring is the expectation.

Operator

The next question is from Mark Petrie of CIBC.

Mark Robert Petrie - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Research Analyst*

Sorry, just a follow-up on that last answer. When you said plans are still under development, do you have a time line in terms of when you will be in position to communicate a more complete plan on the poultry side?

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

I'd say within the next 12 months.

Mark Robert Petrie - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Research Analyst*

Okay. Most of my questions have been answered, but I just wanted to touch base on the RWA side. Do you have the supply that you want in terms of RWA, either hogs or poultry?

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

The short answer is I would always want more. It's my nature to want more, so if you sat in one of our weekly, almost daily discussions around supply and demand in sustainable meat, my perspective is I have one foot, and it's on the accelerator. Having said that, the appropriate answer is we're growing rapidly, but in balance, which means that, as I mentioned earlier, making sure that the supply is available to match the demand signal and that the demand signal is growing to match the availability of supply. But we have very aggressive growth plans in that space over the course of next 5 years, frankly, the whole space is growing, and we're leaders in North America. We're the largest in North America in pork in this area, and our expectation is to maintain that position. So to do that, we have to continue to invest heavily in it. And the bigger and better we get, the more advantage we get in the marketplace.

Mark Robert Petrie - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Research Analyst*

Okay. And how much of your RWA supply is from your own production versus external?

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

In pork, it's not 100% from our own supply, but it's in excess of 95%. We have some small relationships. We suspect over time that we'll probably expand that outside horizon because our growth will be limited if we just keep it to our own internal supply. So we expect over time that we will have to develop more strategic relationships with our external partners to teach them some of our IP around RWA production in pork. In poultry, obviously, in a supply-managed world, we don't own any production assets. Poultry production operations, and so it's 100% in a contracted relationship with our producers.

Mark Robert Petrie - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Research Analyst*

Okay. And then on the hog side, have you seen supply of RWA hogs growing substantially outside of your own efforts?

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

Yes, it's continuing to grow. Yes. We're not the only ones who are growing in this, so we are seeing growth examples north and south of the border. But we're working hard to maintain our leadership.

Mark Robert Petrie - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Research Analyst*

Okay. And then you talked about carcass utilizations, it's a topic that's come up a bunch over the course of time. I guess, as demand improves, has that utilization improved for you guys? And where do you think you are in that spectrum? And is there still substantial future opportunity?

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

Yes, we've dramatically improved our utilization. We are materially better than we were a year ago and not where we need to be 1 and 2 years from now. So we've made great progress, but we're not perfect yet. There are 2 dimensions to that. First is the overall utilization, and the second is the utilization by cut. Because you can't have one single cut with full utilization and then be underutilized in the balance of the meat. So when you invest in the carcass, you have to try and grow your demand in balance across the portfolio. And that's actually one of the advantages that we have because we're one of the only players in the space that has the full range of product assortment able to utilize that carcass, where we have scale production capabilities in everything from fresh meat, which is the important capability for certain cuts, all the way through to bacon and sausage and wieners and processed meats. So we can offer a full end-to-end competitive brand offering to a customer in sustainable meat that not only is the final product, but also takes it right back to the farm. And that's very unique in the marketplace. We've got skills in operating IP and advantage along that entire chain. And that's very attractive to a big portion of our customer base.

Mark Robert Petrie - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Research Analyst*

Okay. That's helpful. And actually, just one last one if I could. I think about a 1.5 year ago, you said, I think around 15% of your production was RWA. What is it today, roughly?

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

I don't know that I did describe that a year ago because we'd never disclose that, Mark. If I did, it was an error. That's something we've not put in the marketplace. I think I've described the market as generally in sustainable meat. It's very fuzzy measurement, but we would peg at probably in the 3% to 4% of category share, in that range, and we're significantly higher than that. But we haven't put a specific number in the market.

Operator

The next question is a follow-up from Mr. Michael Van Aelst.

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

Just on your balance sheet, your $400 million of net cash is looking quite high. You haven't talked about M&A prospects in a while. Are there types of businesses that you still feel that are need to have versus nice to have? And with the success that you're having expanding your customer base in the states, do you still feel you need to add to your distribution capabilities down there to achieve your targets?

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

First of all, our net cash position is $200 million, not $400 million, Michael.

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

Sorry about that.

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

So first of all, our strategies haven't changed. We've articulated them on many occasions, Michael. So our strategies haven't changed. I'd happy to add some color to that, if you'd like, for clarification. But our strategies haven't changed, and we are very focused on investing in M&A activity around the strategies that we've identified. That includes sustainable meat, includes alternative proteins, and includes geographic expansion in the United States. We have a very full pipeline, so we are very active in that pipeline with not just one dialogue, but several dialogues concurrently at any one moment. I would tell you that the biggest challenge in the M&A world is valuation. We are maniacally disciplined in our approach to ensuring that anything we do is properly valued. We're not just going to do something that's strategically attractive at any price.

We don't want to buy a bad business, but we equally don't want to pay too much for a good one. So we're very disciplined about that, which means that we're willing to walk away from deals. We'll do deals that work for us and are strategically on target, but we're also willing to walk away from deals just because they might be the best business in the world, but if they're overpriced, we're not going to do it. So I don't see anything. You said can we differentiate need to have versus nice to have. I don't think there is anything that we need to have. I will never look at something or I don't think I've ever looked at something where I need to do something. I don't want to be ever in a position where I need to do a transaction because it's a sure path to overpaying. And nice to have is kind of, feels like a lack of conviction, so I don't know that I would align with that word either. I just think we're very clear what we want, and we'll pursue what we want to do with conviction and discipline and analytics, but we're going to have a lot of rigor around making sure that we don't overpay.

So that's how we're approaching it. We've always got a pipeline of 2 to 5 different active projects that we look at and we're deep into, and I can assure you, we've closed transactions like Lightlife, that we've also lost things in auctions and walked away from things in discussions that don't meet our valuation criteria. So I think we're pretty disciplined about it. I don't know if that's helpful or not, Michael, but that's how we view it.

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

And just one follow-up. Last quarter, you talked about the PED virus getting into some of your barns. Is it contained? Fully contained? Has it expanded at all?

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

Well, I'm glad you raised that because that is an important subject in our business. I would remind you and everybody else on the call that the PEDv virus is a virus that impacts production in our barn facilities in very short window of time, 6 to 8 weeks or something like that in the barn. It has no impact on human health. So it's really an efficiency matter, not a health-related impact. We did see impact on that in the second quarter, very minimal in the third. We've seen some abatement of that in the last couple of months, which we're pleased with. But having said that, we're very much on guard because it's always a risk, particularly as we move into colder weather in the winter. So it's improved. We've got some time under our belt now of that improvement, but we're really, really on guard coming into the winter months as it relates to that.

Operator

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

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

Okay. Well, thank you very much. We appreciate your questions, all of your questions. George said, thank you for taking the questions. We really appreciate the fact that you're here and engaged in our business, and for asking the very important and very relevant questions that you have. They're all important to our business. The level of energy and enthusiasm that we have today for our growth story is really, really palpable across the organization, and we're hopeful that you share in that. I would hope that we'll see many of you here and on the line on November 8 at our Investor Day, and I'll look forward to personally engaging with all of you at that time. So thank you for your time. Thanks for your commitment, and we look forward to the next quarter.

Operator

This concludes the meeting for today. Please disconnect your line at this time, and we thank you for your participation.