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Q4 2018 Maple Leaf Foods Inc Earnings Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Maple Leaf Foods Fourth Quarter 2018 Results Conference Call hosted by Mr. Michael McCain. My name is Joanna, and I will be your conference operator today. Please be advised that this call is being recorded. (Operator Instructions) Mr. McCain, you may begin your conference.

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

Good morning, everyone, and thank you for joining our Q4 2018 earnings call. Both Debbie Simpson, our CFO, and I will provide some commentary on various aspects of our business and then open up the call for your questions.

The news release and today's webcast presentation are available at mapleleaffoods.com under the Investor section.

Before we begin, let me preface, as we always do, preface the discussion by turning to Slide 2.

Some of the statements that are made today may constitute forward-looking information, and the future results may differ materially from what we discuss.

I'd ask you to please refer to our 2018 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.

So let's start with Slide #3, please. I would conclude that our business delivered a very solid performance in the fourth quarter of 2018, notwithstanding a headline that we read in the media this morning, that is driven exclusively by a one-time restructuring charge connected to our poultry investment in London, Ontario, which is a good thing, not a bad thing. But, obviously, when we exclude that one-time charge connected with that investment, we concluded the year that had very important progress against all of the strategic initiatives at Maple Leaf.

Without a doubt, 2018 was a challenging year for global trading relationships. And that saw unprecedented volatility that reverberated across the pork complex. But in this turbulent environment marked by a performance in the hog production and pork value chain that we actually hadn't seen since 2009. In fact, our sales were essentially flat for the year. And the EBITDA margins compressed 90 basis points when combined with the start-up costs of our food and brand renovation, 90 basis points on the year considering the environment that we had.

Now, of course, a down year is never what we want. But we also know that we're going to have them occasionally, and not many people value rose-colored glasses. But considering that, when you think of these crazy markets and the one-time cost of our brand renovation, we actually feel that only 90 basis points of margin compression is a very strong testament to the value of our portfolio and the many other initiatives that we have in execution.

What's important is that these short-term headwinds have absolutely no bearing on our longer-term opportunities and the path that we're on to deliver high levels of value creation. We delivered an EBITDA margin of 9.9% for the year, and three of the four quarters were over 10% and well within the normal bandwidth of variability in our business considering these market conditions.

More important, we made excellent progress on these strategic initiatives that are absolutely core to delivering structural margin expansion in the business. With a high confidence in our strategy and what we intend to deliver combined with a very disciplined approach to capital allocation, our Board of Directors approved an 11.5% increase in our quarterly dividend. This represents the fifth consecutive year of double-digit dividend growth.

Now turning to Slide #4. With all of the short term-ism of the markets aside, we feel 2018 was, in fact, an important year because we actually accomplished a great deal, all in service of advancing our vision and our financial goals. And let me highlight some of those achievements.

We advanced our sustainability leadership, including growth in our Raised Without Antibiotics meat portfolio and implementing leading standards of animal care that are integral to our unique sustainable meats platform. We successfully renovated our flagship Maple Leaf, Schneiders and Swift brands. This initiative represented the single most comprehensive food renovation in our history, with the goal of reigniting long-term growth in the prepared meats category and our leadership in that category.

In the span of 12 short months, we completed three strategic acquisitions, each with a rock-solid business case strategically and financially. These included the Field Roast Grain Mean Co., one of the top brands in the U.S. plant protein market; Cericola Farms, a leading Canadian provider of organic and RWA chicken; and VIAU Foods, which advances our capabilities in the growing market for Italian and cured charcuterie meats. These consumed $410 million of investment capital in the year, and we expect the returns over decades to be very rewarding.

We announced the construction of a world-class game-changing poultry facility, the culmination of years of careful planning. That's the investment that drove the $42 million restructuring charge in the quarter, a one-time experience. This new facility will enable us to reduce costs by consolidating three subscale plants into one efficient scale facility and expand margins through increased value-added processing capacity and capabilities.

And finally, we advanced our leadership in the burgeoning plant protein market. Supporting this very exciting growth platform, we launched Greenleaf Foods, a wholly-owned subsidiary that houses our plant protein business. We are increasing our organizational and operational capacity and pace of innovation to expand the role of plant proteins in our portfolio. So you can see we have very clear strategies in the highest growth segments of the North American protein market, and we made exceptional progress over the course of 2018, which set us up incredibly well for accelerated growth and value creation well into the future.

With that, I'll provide some additional color on key initiatives and go-forward plans right after Debbie reviews our financial and operating results for the quarter and the year. Debbie?

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

Thank you, Michael. As shown on Slide 5, our key metrics for the quarter included sales of $894 million, an increase of 2% or a decrease of 1.9% after adjusting for IFRS 15 and acquisitions. For the year, sales were $3.5 billion, which represented a decrease of 0.8% or 0.5 percentage points after these adjustments. For the quarter and the year, our core business delivered sales growth in prepared meats, sustainable meats and plant proteins, which were more than offset by declines in fresh market prices.

Turning to other financial metric. We delivered an adjusted EBITDA margin for the quarter of 10% and 9.9% for the year, reflecting challenging headwinds in pork markets and the strategic investments we absorbed to complete the launch of our food renovation and relaunch of our flagship brands.

Adjusted EPS for the quarter was $0.29 per share, while adjusted EPS for the year was $1.22. We closed the year in a net debt position of approximately $311 million after having funded 3 acquisitions, 2 of which we closed in Q4. We purchased shares and paid dividends to shareholders.

Turning to Slide 6. We are pleased with the continued momentum in the underlying commercial performance of the business in the quarter. We saw benefits from the strategic investment in the renovation of our flagship brands through favorable retail sales mix and the continuation of cost of volume trends in our retail business, which contributed to higher margin sales.

In addition, during the quarter, we completed the start-up activities and related expenses for our food renovation initiatives. We also continue to make significant progress across our other strategic value-creation platforms.

We realized ongoing double-digit growth in plant protein, which was mainly driven by higher demand and continued category growth; grew our foothold in U.S prepared meats market, largely through our sustainable meats offering; and growth and Raised Without Antibiotic fresh pork where we are market leaders, also contributed to higher sales mix in the quarter. As we discussed in our Q3 call, we took targeted pricing actions to offset inflation and distribution, packaging and ingredient costs. These actions coupled with lower input costs, primarily due to lower fresh market prices, also contributed positively to underlying business performance.

Slide 7 provides an illustration of the impact of market conditions in 2018. The effect on the pork complex compared to 5-year averages was approximately 130 basis points. Combined with approximately 50 basis points related to start-up costs from our food renovation, our adjusted EBITDA margin was affected by approximately 180 basis points in total for the year, what we regard as short-term noise.

Viewed in the context of our value-creation initiatives, these factors have no structural impact. In fact, the investments we made in our core food and brand renovation this year position us well to accelerate the growth of our brands and the prepared meats category itself.

We pursue value creation with a very disciplined approach to capital allocation.

Slide 8 provides a high-level summary of key areas of investment. In 2018, we invested $180 million in capital investments, which were predominantly focused on 2 of our key growth levers: sustainability and plant protein.

We returned $65 million to shareholders through dividends. We completed the acquisition of 3 companies: Field Roast, Cericola and VIAU. And we spent $167 million to repurchase shares through our normal course issuer bid.

For 2019, our current estimate for total capital is approximately $400 million, of which $250 million is dedicated to starting the construction of our previously announced world-class fresh value-added protein facility in London, Ontario.

We are committed to a disciplined approach to capital allocation, with a great deal of scrutiny by management and the board and an unwavering objective to maximize return to shareholders through all our investments.

I'll now turn the call back to Michael.

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

Thank you, Debbie. With all the noise aside, I'd like to turn your attention to the signal on Page 9, which is our path to our financial goals.

Now this year, we established our blueprint as we described it, our vision and core strategies on the page. It defines the strategic priorities that will advance our vision and create value over the next 5 years, delivering on our financial and social and environmental goals and commitments.

With this playbook in hand, our team is focused on achieving our target of 14% to 16% adjusted EBITDA margin by 2022. I would ask you to consider the 5 things that will drive this to the next step change: number one, our sustainability strategy is advancing quarter-after-quarter and in fact, is accelerating; number two, our poultry investment has been announced in 2018 and will deliver meaningful financial returns; number three, our food and brand renovation was launched in the year, and the effects of that will be felt for decades as we build on this framework; number four, we are leaders in the plant protein space in North America, which is growing at hyper levels; and number five, our cost culture is widening our margins bit by bit every year. So we feel this blueprint is a very rewarding one for all our stakeholders. And in 2018, we saw us in action.

As you can see on Slide #10, commercializing our sustainability initiatives is central to these efforts. Our vision is to be the most sustainable protein company in the world, and that vision is advancing operationally every day. But we're equally committed to finding ways that this prism of shared value is monetized for shareholders. Great examples of this are our growth rates in the Greenfield brand, which carries all of our sustainable meat claims progression and our advances in selling meat Raised Without Antibiotics, which was modestly margin accretive.

And RWA is a key point of difference fueling our expansion in the U.S. market. We've made significant inroads with our products now in more than 8,000 stores in America, including 12 of the top 15 retailers in the U.S. Our advantage lies in our ability to offer a broad range of fresh and prepared sustainable meats with unique points of difference, backed by an integrated supply chain that delivers scale, consistency and quality assurance.

Turning to Slide #11. The start-up of our food renovation is complete, and the marketing efforts to continuously drive these strategic positions into consumer awareness will be progressively ramped up. We will never take our foot off the gas pedal, and we'll continue to drive home messages that resonate with consumers, in line with each of the demand spaces that we've defined for our brands.

A great example of that is our I Can't Eat That spot that we launched in the Super Bowl weekend events. It's a brilliant ad. I hope you've seen it. It has generated more than 10 million impressions and resonates with any parent whose had a struggle to get their kids to eat good food, something I'm sure many of us can relate to. We saw improved sales mix in the quarter, resulting in stronger margins in that segment during the fourth quarter.

Turning to Slide #12. We are really, really jazzed up about this. Seizing on the rising demand of alternative proteins that look and taste like meat, we've launched our Lightlife Burger. It's the hero in our new pea-based product line of alternative proteins that includes the burger, grounds, bratwurst sausage and Italian sausage. Our innovation and culinary team have developed a line that, shall I say, goes beyond and delivers better taste, better texture, aroma and importantly, better, simpler nutritional profiles. It's a breakthrough that we think is the best plant burger in the largest and fastest-growing segment of the refrigerated market. And we're introducing the Lightlife Burger first to foodservice then retail in the U.S. The Canadian launch will follow later this spring.

Approximately 1/3 of North Americans eat meat alternatives with high growth rates expected to continue as people increasingly seek delicious protein options and as innovation drives more category choice and more category appeal. We'll continue to invest in this important platform to capitalize on the growth rates here.

So to sum up on Slide #13, we are a very purposeful, driven company with a commitment to creating shared value. We have a track record of developing and executing strategies that deliver exceptional results for shareholders. Our range of growth and cost-reduction initiatives are well underway. Successfully completing these core strategies will be very rewarding to share owners. In the process, we expect to divert significant capital to organic profit growth investments as we've demonstrated, with the largest to support growth in our value-added poultry business.

Our plan is to change the course of protein production and consumption by leading new production systems and commitments in animal proteins to meet sustainable goals while simultaneously driving growth in all plant alternative proteins. We are managing and delivering for the short term and relentlessly pursuing what matters for the long term. We will always encourage investors to focus on that long term as we are and to focus on the signal of Maple Leaf, not the noise. I look forward to providing you an update on the ongoing progress and any new developments as they arise.

So with that, I'll open it up to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first question is from George Doumet.

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

I know, Michael, this may not be the easiest one to answer, but I'm just wondering if you can maybe comment on the ongoing rapid spread of ASF, the impacts that could have on North American hog prices and maybe, ultimately, on [pork] margins.

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

Oh boy, George, that is a tough one simply because it's a very volatile situation and difficult to forecast. I think we're pretty well positioned on balance. I'd say we're very well positioned for that event. For those on the line that aren't aware, in China, they've had a very difficult outbreak of the African swine fever, which has no impact on human health but does -- is highly virulent in affecting the health of the animal itself and ultimately, hog production. Again, there's no impact in human health here. It's just a -- it's a production issue. In the Chinese market, the data, George, would suggest, and I would caveat this that it's incredibly difficult to get accurate data. But today, I've seen pundits describe the impact as anywhere from 5% to a high of 20%. And to try and peg where it occurs in the middle of that is beyond, I think, anybody's pay grade to be able to accomplish that. Suffice to say that their response follows the normal pattern in these situations. The first stage of a pattern is what would be described as the liquidation phase. And the liquidation phase takes this production and actually accelerates the availability of meat in the Chinese marketplace where they're liquidating their own herds in response to that herd health issue. And that actually compresses pricing in the global market for a very short period of time during that liquidation phase. The follow-on to that though is a -- once that is complete is that they become net significant buyers on the pork markets. And I think most people would believe that that's going to occur in 2018 (sic) [2019] and will actually inflate the price of meat as 2018 (sic) 2019 unfolds certainly, in pork and probably in the other proteins. On balance, I think that, that will be good for us for people because we are -- participants were long generally in those markets just because of our life production system, but very difficult to say how positive that would be, if any. It depends on how it all plays out. I can point to events in the past where it was neutral, I can point to events where it was net positive. And because of the opaqueness of the data, it's really super difficult to peg exactly how that will play out, but I think we would probably see inflationary trends in the protein -- the animal protein complex in the back half of 2018 (sic) 2019 driven by this. The context is that China's the largest producing and consuming nation of the world of pork products.

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

Okay, that's helpful. I guess we have seen 2 cases of PED this year. They seem contained, but I guess, the flip side to that is -- just wondering your thoughts on ASF potentially reaching Canada.

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

Well, that would be -- I think that's on everybody's mind. And I think the Canadian government and industry, in sync with the U.S. industry is -- are taking extraordinary precautions to avoid that. The Canadian government is leading initiatives around border security, around bio security on farms across the country. They are taking action on everything from ingredients, inbound ingredients like feed ingredients to implementing fines at the border for meat crossing the border, in sync with the U.S. industry. So yes, I think, George, extraordinary steps are being taken to avoid that. But I think the world is coming to grips with the fact that this may become endemic worldwide. But who knows? Recognize importantly, this doesn't impact human health. It impacts just production levels.

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

Got it. And just one last one, if I may. Thanks for Slide 7. You guys provided some good color there. Just as it relates to that noise, I guess, the 130 basis points on a 5-year average, I'm just wondering how much of that relates to maybe the added capacity, 10% added capacity in the U.S. recently. Is there anything else in there? Or is that just mainly trade-related?

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

Well, the problem with that 130 basis points -- George, it's a great question. There are 3 drivers of that. I would personally believe and argue that the smallest of the 3 is actually the supply-demand situation in the U.S. with added processing capacity. I'd say that's the smallest of the 3, but it is a factor. But I don't believe it's the biggest one. I think the largest is the trade disruptions led by the trade disputes and volatility that I think everybody on the line is fully aware of, followed by the situation as it relates to ASF. The vast majority of that 130 basis points, I would remind everybody, is experienced not in primary processing but in hog production. You think of that as end-to-end margin in the upstream value chain from the barn through to primary processing, not value-added processing but primary processing. The vast majority of that was experienced in the barn in hog production, not in primary processing. But if you consider that as an end-to-end impact, these headwinds were -- we went back and look in history relative to 5-year average, it was the worst since 2009. So that's why we really try and differentiate noise versus signal here and say well, worst market since 2009, and we had -- if you combine the 50 basis points that are onetime costs attached to food renovation, in the year, we had 90 basis points of margin compression. Actually, I don't love it. Who could say they love it? But in that context, we're very satisfied with the overall performance of the business.

Operator

Your next question is from Peter Sklar.

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

I have to admit I'm a little confused about the margin issue. Like I think when you talked about the 3 reasons for the 130 basis points like you talked about that the largest factor was on hog pricing. So I take it downward pressure on hog pricing.

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

No, downward pressure on hog margins.

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

On hog margins. So...

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

Which -- hog margins. Hog margins, Peter, which doesn't show up in pricing, but it's in hog margins.

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

Okay. So maybe you could talk a little bit like what happened to your hog margins or like in the barn margins? And what happened to your primary pork processing margins? Like how did the both of those unfold through the quarter?

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

Relative to 5-year average? Relative to 5-year average, if you -- you could look at the primary pork processing margin based on the cutout was a quarter-over-quarter was down, I think, 17%. But this chart, Peter, is an annual one. The data I just gave you was the quarter-over-quarter. So the primary processing cutout, which is the spread between the cutout and the hog margin was down about, I think, 17% quarter-over-quarter. But -- so it's important to understand you're talking quarters or which quarter. But the macro story here, and I think that's why we can get obsessed with the noise here of a quarterly business, a quarterly situation, which is just noise. For the whole year, we have, relative to 5-year average, 130 basis points of margin in that end-to-end profit of hog production to meat primary processing, 130 basis points. And we had a 90 basis point contraction. I have to tell you I feel pretty good about that.

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

Right. Okay. And that pressure you saw on your primary processing margin, was that like all the cutouts? Or was it selected areas?

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

Well, that's a composite cutout which is...

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

Was the pressure in all of the cutouts? Or were some of them suffering pricing deterioration?

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

I assume you're referring to the fresh cutout, and I am -- just to make sure I understand your question, we say all of the cutouts. You mean each one of the primal components of the cutout?

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

Yes.

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

Yes, I don't have that data in front of me, but I think it was generally in uniform.

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

Okay. I just want to switch directions a little bit then. So this whole restructuring renovation of the poultry business that you're undertaking, I mean, did you take the charge this quarter? Are we also going to see disruption in operating margins at times over the next couple of years as you bring the new facility online? Or is that all going to be covered by the charges?

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

No, I think you will see some of that when -- during the start-up. We put up an estimate in it. We put an estimate in our forecast when we announced it, Peter. So you can see the estimates that were built into that. I don't have the numbers at my fingertips, but we did disclose that. But I think the one thing in start-up periods over the course of, say, 12- to 18-month period, which would be the norm, the one thing I think you can conclude is that, that number will probably be wrong. It will probably be either worse or better than that, which is kind of normal course in start-ups. So I think the answer to that is over the 12- to 18-month period of a start-up, there will be some noise in there, for sure. I think our commitment should be, and this is what we would commit to you and others is that we will do our level best to try and tease out in a fully transparent way exactly what those impacts are so that you can pull them out. Recognize they are unimportant to what a shareholder return should be. What's important for you is to be able to pull those out and understand exactly what that is. So full transparency is our intention around that, and we'll do the very best we can to give you all the data, just so you can make that assessment.

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

Peter, it's Debbie. Peter, it's Debbie. We have a slide in our presentation that's on our website from when we made our announcement. It's $95 million over the 3 years or for the start-up and the duplicative overhead. And it's spread over the 3 years. The peak year is 2021. And as Michael said, when we get into those cost, they don't really start until 2020. So when we get into those costs, we'll separate them out from our regular earnings, and we'll track you through them.

Operator

Your next question is from Irene Nattel.

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

A couple of questions really about thinking ahead to 2019. So first of all, brand renovation, obviously, a very major undertaking. There was some disruption in 2018. I believe that you pretty much finished during Q4. So how should we think about sort of the cadence of, I guess, promotional events and volume build potentially as we move through 2019?

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

Well, we are seeing some momentum in our retail business. I think these things are measured in single digits as a long-term effort. So I think we're seeing some momentum. The story continues to be the same where we're seeing excellent momentum in the Schneiders brand, which is our largest; some solid but not as robust momentum in our Maple Leaf brand. It's a longer-term messaging strategy, and we continue to just play period-to-period the quick fix or more value-oriented segment around Swift and regional brands and private label. In aggregate, we're very excited about what we've done. And I think the marketplace is as well. So I'm sure you're looking for indicators as to how that -- what are the indicators of success here, and I think that'll be a contributor to our margin expansion over the course of next 5 years. But I also think that what I feel good about, Irene, is these are categories that are under some degree of tension in the marketplace, offset by our very significant position and growth in plant-based proteins. There's some tension in some of the categories in North America. The Canadian categories are actually outperforming the U.S. categories in terms of the overall category approach. And I think I would like to say that, that's a testament to the fact that we are fundamentally addressing the longer-term issues of the category where maybe that's not taking place south of the border. So I feel pretty good about that actually. So I think you'll see the brand performance show up in modest levels of growth. Or you'll see it show up mostly in our margin accretion through mix. The more we can improve our mix in the categories where we -- our mix of brand versus private label of specific brands in our branded portfolio, it'll show up mostly in mix, and it'll show up in category performance over a period of time. How will the shareholders, and how will you feel or recognize that? I think it'll be a contributor to our margin expansion over the next several years.

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

That's really helpful, Michael. And turning to the plant-based protein segment. As you rolled out some of those products in Canada in Q4. Is there any way you can give us an idea of the magnitude of the lift to sales? And then thinking through 2019, you mentioned that with the Lightlife Burger, you're going to start in foodservice. Presumably, you already have some contracts that's not signed and very strong indications. Can you give us some indication of order of magnitude there?

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

Well, let me start with what I can't do and then talk about what I can. I can't give you kind of specific customer. We don't really talk about specific customer relationships. When we bought into the plant -- when we made the 2 acquisitions that we did, there were $260 million in capital. And we bought 50% market share of the refrigerated plant-based protein business in the U.S. We're #1 and #2 brands in Lightlife and Field Roast, and we felt that all of the growth was going to realize in the refrigerated component of plant-based products. So that was our thesis buying into that. At the time, we told the marketplace that the categories were growing at in and around 11%, I think. Let's call it 10% to 13% growth rates. So that's the context of the investments that we made, Irene. Do those numbers resonate?

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

Yes, they do.

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

Okay. So since then, the category has gone from growing at 10% to 13% to now growing at over 30%. So I'll pause there. It's growing at over 30%. Our growth rates are in line with that. So we are facing an unprecedented level of growth in this category, of which burgers is one segment. But we're seeing that across all our portfolio: our sausage portfolio, our hot dog portfolio, our dairy portfolio, all of our meat analog portfolio, our tempeh, the entire portfolio that we're seeing a tectonic shift, and it's translating in the growth end. We have a 50% market share in the #1 and #2 brands in those categories. So we're super happy with where we're at. Our goal is to keep up with the growth, commit the capital to that growth, to commit to innovation in that growth, which the burger launch is certainly one of those where we've leapfrogged the marketplace in innovation and now a better product in the marketplace than what's heretofore been offered. And we're leveraging the hell out of that. To your specific question about where that shows up, we launched first in foodservice. But we did that largely because the sales cycle in foodservice is exponentially longer than in retail, right? Pause there. The foodservice selling cycle is very long, so we launched early in the foodservice segment but with a long sales cycle. The retail launch in the U.S., I think, is targeted for March. So it's right around the corner, and we are getting listings and distribution almost instantly because of the strength of our brand coast-to-coast. And we're just -- honestly, we're just riding this wave, and we're going to continue to ride it by committing capital, committing to innovation, committing people, all of it to maintain the growth levels here.

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

Presumably, also though, Michael, when it comes to foodservice, yes, there's a certain -- without asking for specific customer name, there's a certain commitment to volume if fast food chain X says we're going to launch this plant-based or this animal protein alternative burger, there's a certain volume commitment presumably.

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

Yes? Yes. But there's a volume commitment to retail customers that take distribution as well. So I don't -- I wouldn't differentiate. I just think they're 2 different channels. And we are attacking both channels. You know what I mean? Just to be clear, we have penetration, customer relationships, scale, marketing prowess, brand capabilities, innovation capabilities, foodservice, retail, the full gamut. So I think we're the leading operator in this very high-growth space. We're the leading operator in North America. And we're going to continue to invest in it and ride that wave aggressively.

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

And in this segment, and then I'll pass it on to someone else, but in this segment, let's be optimistic and say it continues to grow with this torrid pace. What is the magnitude of capital that's -- first of all, what is your current capacity utilization? What's the magnitude of capital required to, let's say, add light?

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

So I don't -- I'm not in a position today to give you any specific answers to the capital utilization, but you will see organic capital investments in this space to keep up with those growth rates. We see them continuing over time. We are going to stay -- we are going to protect our market shares and the growth rates. We're going to invest in it. We have limited runway with the capacity that we have today. I'd measure that in probably a year or 2 depending -- it's very segment-specific. So -- and we're -- I'll use a turn of phrase, Irene. We are MacGyver-ing solutions to extend the current capacity as far as we can, but we will be committing a significant capital to maintain our market shares in this category. And from my perspective as a share owner, that is the best gig in town, and I am thrilled to be able to do that. So we're all over that. But I can't -- I'm not in a position to give you a specific number at this stage.

Operator

Your next question is from Derek Dley.

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

Just a question on your disclosure on the pork complex, 130 basis points for the year. Are you able to break that out for the quarter?

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

It was negative. I think 150 basis points is what I'm just being told by Debbie.

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

Okay. So it accelerated in Q4 versus Q3 -- or sorry, versus the full year. And then similarly on the food renovation costs, that was completed in Q4. Was there any impact in Q4?

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

No, no, minimal. Not material.

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

Okay, great. Just in terms of your capital allocation going forward, you increased the dividend by 15%. It leads me to believe you're very comfortable with the balance sheet and the capital expenditures to support this poultry investment over the next few years, albeit if they will be front-end loaded. Do you have a particular leverage target that you can provide us with?

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

Yes. I mean, that's a great question. I mean, let me go back to first principles around capital allocation first. First principles are starting with the fact that our goal is to maintain an investment-grade balance sheet. So that's -- there's a bit of wiggle room in terms of how you define that. But we expect to be -- through all of our capital expenditures, we expect to maintain an investment-grade balance sheet. The second principle is we want to have a balanced approach to capital allocation across the whole stack. The first dimension of that is growing our dividends annually because there's a shareholder population that values that and against the context of a strategy on dividends and that strategy is to be at the low end actually, not the high end, at the low end of our peers on payout ratios and yields but still progressing our dividend systematically. The dividend itself while we do that is an immaterial contributor to the leverage ratio of the -- at its current payout ratio. Whether we raised it by 0%, 5%, 11.5%, which we did, or 12%, or whatever the case could be, is like, I think, at least a couple of decimal places past whatever leverage ratio we put in this. So it's immaterial to the total calculus. But to some constituents of our shareholder community, it's an important contributor. So we are intending to systematically raise that dividend against an investment-grade balance sheet. Number three is we want to commit to organic capital, and we demonstrated that in the poultry business, and we're also going to be demonstrating that in our plant protein business and other projects that are in the pipeline. We still intend to maintain an investment-grade balance sheet with all of those organic moves. We've completed 4 acquisitions over the last number of years, Derek. I suspect that we won't be having too many more acquisitions over the next few years. We'll probably turn our attention to completing these organic projects. I actually feel pretty comfortable with that because the returns are better, the risk is lower, and the pricing in the current M&A environment is probably not that shareholder friendly. And we won't overpay. And then finally, the kind of the last in that stack is NCIBs. And depending on how the other projects in the pipeline unfold, we may throttle that in and out depending on how the other projects in the pipeline unfold. So to your point of confidence, Derek, we have confidence in the view of the next few years, where we don't pay a lot of attention other than managing it as best that we can to the noise short term. And we're making great progress on the key initiatives that are going to drive value over the course of the next few years. And when you look at 2018, we have an incredibly productive year, an incredibly productive year towards all of those initiatives. If you consider brand renovation, the poultry announcement, the 3 acquisitions that were completed, all of those like those -- those are very meaningful initiatives, and we're pretty super productive over the course of 2018. So from my perspective, capital allocation is about a balanced and strategic approach. And we have confidence in our blueprint, and we're just continuing to run the playbook as they say.

Operator

Your next question is from Michael Van Aelst.

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

I just want to close the loop on a couple of things. First on the market conditions. I guess if you were to look into your crystal ball a little bit, how do you see the -- where do you see the 2019 market being relative to '18 in the 5-year outlook?

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

It would be irresponsible of me to make a call on that, Michael, because the wild card is what George raised around the impact in 2019 of what's going on in China. And for me to make a call, I think it's -- I think it'll be net positive for us, anywhere from neutral to maybe slightly positive. But I don't pay much attention to that noise, whether it's negative or positive. But at the end of the day, to try and make a specific call on that, particularly quarter-to-quarter, I'd encourage you to recognize that there's a progression of that from liquidation, which implies some pressure in the market followed by a more robust period. The combination of those 2 quarter-to-quarter or month-to-month, it would be irresponsible of me to make a call, but I think we're positioned well for it, and it should be okay.

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

You did say that 2018 was the worst you've seen in a decade. So I'm assuming...

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

Since 2009.

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

Pardon me?

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

Since 2009.

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

I'm assuming you're not expecting it to get worse.

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

No. Short answer, no.

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

And where would 2017 have fallen in just for comparison purposes.

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

I don't have that data actually. I think it was a slightly positive. I think it was slightly positive, but I don't have the data in front of me. We can get that for you, Michael, if you want after the fact. But it's well publicly available data, and so we'd be happy to assemble that for you. But I think my recollection is it was slightly positive.

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

On the core brand right now. Last call, you said your sales trend was turning positive late in the quarter. How did it continue in Q4 and particularly after the price increase that you did?

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

I think -- well, actually we had -- I think it was in aggregate, it was steady, slight decline in volume year-over-year, but it was all traced to foodservice, not retail. So the progression there on our core branded business, retail business was actually good. I think most of our -- we had a very big improvement on our overall performance in the fourth quarter in the prepared meats business. And most of that was traced to better operating results and better mix. Our sales mix was very positive.

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

And the price increase wouldn't have been enough to really slow it down.

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

No. No, which is actually a first time in quite a while actually because we -- which I think is a good indicator. I think you've touched on something, Michael, was a very good indicator. We actually raised our price, and the norm is, as you know, is that there's usually a volumetric response right after that. We didn't experience that. So that's maybe looking too deeply. But we didn't experience a negative price event -- sorry, a negative volume event immediately after a price increase.

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

And as for the trade agreements with Canada. So the TPP, how do you see that's impacting Maple Leaf over the next couple of years once it's kind of up and running?

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

We don't play in those international commodity markets in the same way others do, Michael. So that is neutral for us. And we are -- we do business in those international markets, but it's business that fills in our portfolio in terms of available meat that we have to sell at the optimal return in the marketplace. We're not fundamentally in those businesses to be in those businesses. We just sell what we can at premium values for premium products as a residual in our portfolio. Do you understand the difference I'm talking about?

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

Yes, yes.

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

So the TPP agreement in terms of growth, somebody comes along in another market and says, "Hey, I've got a whole bunch of more business for you, Canada, because you're involved in the TPP." We're just not in that business, so we can't respond to that. We're in the packaged goods business from the value-added business, and we just don't supply those commodity markets.

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

Okay. And on the U.S. market penetration, it sounds like -- so I think you said double-digit growth in the year. Did it continue at that pace in Q4?

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

Yes.

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

Okay, and within -- it seems like you've gotten new listings as well. So is there any reason to believe that, that business is maturing at all? Or is that still on a great growth trajectory?

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

No, it mature quarter-over-quarter. Every quarter gets better. We're very happy with how -- it's the first time in our history where we ever had a definable, significant, material point of difference in the marketplace that customers and consumers value. And that's our role in sustainable meats. First time in our history, Michael, and that shows up in our continued progress in the U.S. market.

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

Is there any branded competitor that you see kind of coming out with supply or?

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

Yes, yes. Yes, we're not the only ones in the marketplace that have sustainable -- I think we're the only ones that -- where we are the only scale player in that segment, and we're the only one that has a full, integrated and broad product offering covering both fresh and packaged meats. So with our scale, our operating expertise, our branding expertise and the breadth of our offering gives us a real point of difference in the marketplace.

Operator

And your next question is from Mark Petrie.

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

I actually just had one follow-up question around the brand renovation work. Can you guys give a bit more detail specifically on what's included in the 50 basis points of negative impact you quantified for 2018? Just sort of the cost that actually went into that. And then recognizing that this is a long-term investment, how should we expect that margin benefit to play out for 2019? Those costs won't recur presumably, but just sort of magnitude of the expected improvement.

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

I think I can answer your first one. I don't think I can answer your second question, Mark. I don't believe so, but I'll just -- let me just process that. Your first question about the composition of the 50 basis points. We articulated that I think going back into the second quarter and the third quarter when it was experienced, I think in the second quarter it was roughly speaking around $10 million, and in the third quarter, it was roughly speaking around $5 million. The contributing factors there were everything from volume impacts through transition to supply chain costs. And those are myriad of supply chain costs attached to that packaging write-offs as you're transitioning, efficiency as you're starting up new items, volume impacts as you're transitioning so if you go back and look at the notes from the last two quarters, Q2 and Q3, you'll see a relatively detailed description of the composition of that 50 basis points. But, I remind you that it occurred in Q2 and in Q3, not in Q4. As far as the impact in 2019 and beyond. I would encourage you to view this as 2019 and beyond, I think you will see it mostly in the form of margin accretion in our category as we improve our sales mix, as the branded performance in the categories improve through the support of innovation and which will contribute to margin accretion, and hopefully, you know, knock on wood, hopefully, in performance in the categories as we address fundamental consumer tension in the category and their desire to buy these categories going forward. So, I think you'll see it in baby steps forward in our progression of our margins and contributing to the overall margin targets that we've set. What we won't be able to do, Mark, is be able to tease out exactly how much prices to this particular initiative versus some of the others.

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

Okay, but just to be clear. The 50 basis points will be recaptured in 2019. And any sort of incremental marketing investment or that sort of thing, that would just be supported by the growth of the business.

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

Yes.

Operator

We have no further questions at this time. I will now turn the call back over to Mr. McCain for closing remarks.

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

Okay. Well, thank you very much all. We appreciate it. As I said, we finished a year in 2018 with lots of noise. But we're focused on the signal of what we're doing. If you separate that, we actually accomplished a tremendous amount in 2018, and we're very excited about how that sets us up for 2019 and beyond. So we look forward to continuing to update you on our progress. We got a number of initiatives in the pipeline that will, I think, excite all of our stakeholders over the course of the next 6 months. And we look forward to updating you on those as well. So thank you for your time and attention. And we look forward to the next one. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. We thank you for participating and ask that you please disconnect your lines.