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PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to Maple Leaf's Second Quarter 2020 Results Conference Call. As a reminder, this conference call is being broadcasted live on the Internet and recorded. (Operator Instructions)

I would now like to turn the conference over to James Allison, Investor Relations at Maple Leaf Foods. Please go ahead, Mr. Allison.

James Allison - *Maple Leaf Foods Inc. - IR Officer*

Good morning, everyone, and thank you for joining us. Speaking on the call this morning will be Michael McCain, Chief Executive Officer; Geert Verellen, Chief Financial Officer; and Curtis Frank, Chief Operating Officer. Similar to last quarter, Michael, Geert, Curtis and the Investor Relations team have each dialed in from our respective homes. While we have taken additional precautions to minimize technical disruptions, we ask for your patience and understanding over the course of the call.

We have uploaded our Q2 investor deck to the website, which includes support material for the quarter. As always, the Investor Relations team will be available after the call for any follow-up questions or any detailed modeling questions you might have.

I would remind you that some statements made on today's call may constitute forward-looking information, and our future results may differ materially from what we discuss. So please refer to our Q2 2020 MD&A and other information on our website for a broader description of operations and risk factors that could affect the company's performance.

And with that, I'll now turn the call over to Michael McCain. Michael?

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

Thank you, James, good morning, everyone, and thank you for joining Maple Leaf's second quarter 2020 earnings call. On the call this morning, we will discuss the performance of our business during the second quarter as well as our outlook for 2020 and beyond, and then we'll open the call to questions. I'm joined today by 2 individuals. Our Chief Financial Officer, Geert Verellen, is with me; also, I'm joined by Curtis Frank, our President and Chief Operating Officer. He will be speaking on the call today focusing on the operating performance of our business.

As weeks have stretched into months, we're all very acutely aware of the devastating effects of the COVID-19 pandemic. Spotlight has been shone, not just in the economic devastation, particularly in vulnerable industries, but also on the broader societal issues, including income inequality and food security. And it has been compounded by events, which sparked our collective recognition of long-standing systemic racism, which is entrenched within our society and can no longer be tolerated. I'm hopeful these challenging times lead to stability sometime soon and that the insights personally, and for companies generally, will lead to a safer, more inclusive society for everyone long term.

As Maple Leaf navigates these unprecedented times, we continue to be guided by 3 principles. First and foremost, protecting our people while we operate our critical infrastructure. Because of our early action in responding to this crisis, we were able to maintain business stability and continuity while implementing procedures and protocols to protect our people. This does not mean that we haven't had some of our people test positive for COVID, we have. But what it does mean is that we are applying the best science and guidance from organizations like the Center for Disease Control and our own medical advisers to have the safest work environment possible in addition to instituting policies that support our people to make the right decisions for their health as well as the safety of others.

Second, maintaining the security and continuity of our supply chain so that we may continue to fulfill our essential role in providing food for Canadian and international markets. Our team has been incredible. Through their heroic efforts, we've been able to operate with minimal interruption while managing an incredibly dynamic situation, with changes to protocols, workflows, product mix and staffing, to name a few. I'm very proud of how resilient, creative and committed our team of people have been. With this pandemic, we've been tested, and the team has performed exceptionally well, a true testament to our operational excellence.

Third, we must continue to support vulnerable communities. Through this crisis, Maple Leaf Foods has been actively engaged in supporting our communities with emergency food relief donations, including funding over $1.3 million through the Centre for Action on Food Security. We also supported frontline health care workers, heroes in protecting our health care across the country, with a $2.5 million donation to the Frontline Fund.

We won't stop there, true to our purpose and commitment to shared value, we remain committed to supporting our communities, including being active advocates and participants in the economic recovery in Canada and in the United States.

Turning to the business at hand, our earnings call. As I've mentioned in the past several months, we have a renewed focus on strengthening both our communications and our relationships with The Street. And one of the things that we've heard loud and clear from you all is that you wanted to hear from other members of our management team. Adding Curtis Frank to our earnings call is an important step in that goal, and we plan to have Curtis meet with the investment community in the coming months. Curtis has worked at Maple Leaf for 2 decades. And during this time, he's been instrumental in delivering on many of our strategic initiatives, including leading Maple Leaf's growth strategies for fresh and prepared meats in Canada and the United States.

He's been in the role of President and Chief Operating Officer for the past 2 years, where he's directly responsible for the day-to-day operational and commercial performance of Maple Leaf Foods, including the Greenleaf business. For all matters related to executing on our blueprint, spanning strategy to operations to our social purpose, Curtis and I work hand-in-hand, two-in-a-box, if you will, and our organizational structure reflects that. Curtis is here today as he is a key part of our team that is responsible for delivering on our plans. Curtis and Geert will review our operational and financial performance, but I did want to touch on how we were executing against our blueprint as well as operational and strategic goals.

Success of our strategy is evident in the progress we've made in the second quarter in both Meat and Plant Protein groups despite the significant disruption caused by the pandemic. We delivered on our strategy of profitable growth in Meat Protein with strong growth in sales, gross margin and adjusted EBITDA margin. We continued to see the results of investing for growth in Greenleaf unfold, with over 40% sales growth in the quarter, product innovation, building brand awareness as well as creating greater organizational capacity. To be able to deliver these results in the face of the worst crisis the world has seen in our lifetime underscores the strength of our strategies and our ability to deliver on it operationally.

As you're going to hear over this call, there has been a significant noise in this quarter's results. But the most important insight, when you strip away all of that noise, is that our results after all the pluses and minuses are pretty much in line with the reported adjusted EBITDA earnings numbers.

So with that, I'll now turn over the call to Curtis to discuss some of the details. Curtis?

Curtis Eugene Frank - *Maple Leaf Foods Inc. - President & COO*

Thank you for the kind introduction, Michael, and good morning, everyone. Over the course of the second quarter, as we navigated a challenging and highly complex environment, we continued to operate our business and advance the execution of our strategic blueprint. In the face of the COVID-19 pandemic, we were especially pleased with our performance and proud of our organizational agility as we pivoted to not only react to the crisis itself, but also to the corresponding impact of the dislocation of the retail and foodservice supply chains across North America. We saw great resiliency in our supply chain. In fact, we improved our operating efficiencies across the network over the course of the quarter when excluding the costs associated with COVID 19.

Despite this challenging backdrop by leveraging the strength of our brands, driving growth in sustainable meats and broadening our reach into new geographies, the momentum in our Meat Protein business continued to build in the second quarter. We were able to deliver these results by realizing the benefits of our brand renovation, which led to significant growth across our portfolio of leading brands, supported by double-digit growth of our flagship Maple Leaf brand, as consumers gravitated to products they know, love and trust during these uncertain times. We also saw double-digit sales growth and market share expansion in our seasonally-relevant wieners and sausage categories.

Our strategy to leverage our leadership in sustainable meats was also a positive contributor this quarter. We delivered double-digit growth in our Raised Without Antibiotics portfolio in both the Canadian and U.S. markets, including our Greenfield brand. Lastly, we were successful in broadening our reach with double-digit growth rates into the U.S. markets, driven by prepared meats as well as strong sales growth, which continued in Japan and China as we executed on our strategy to further penetrate these high value markets.

These factors all contributed to an adjusted EBITDA margin in Meat Protein of 13.3%, 180 basis points of margin expansion as compared to 2019. This was achieved despite the unprecedented commodity volatility and the headwinds of the pandemic itself. These results underscore our confidence in achieving our long-term goal of 14% to 16% EBITDA margin by 2022.

During the quarter, we continued to advance our sustainability agenda as well as bring new products to market. We introduced the carbon-neutral logo to our Maple Leaf brand, an important milestone in bringing consumer awareness to our deep commitment to becoming the most sustainable protein company on Earth and aligning with consumers that are increasingly making purchasing decisions that are values-based. We also launched our Maple Leaf 50/50 product innovation, which is comprised of 50% meat protein and 50% plant protein, offering consumers more diverse protein options without compromising on taste.

Turning to Plant Protein. We were equally pleased with our operating performance here. Our leading market position, continued product innovation and expertise in brand building were all factors in our growth accelerating in the second quarter, delivering a 41% increase in sales. We saw strength across our entire platform, including greater distribution of new products and strong brand loyalty across our legacy portfolio of items. Within the retail channel, which remains our key area of focus, the Greenleaf business solidly maintained its #2 market share position and continues to have market-leading distribution. Notably, recent innovation product velocities across our raw burgers, sausages and grounds line of products, increased by 49%. The combination of our sales growth and product innovation as well as overall category growth, which continues to be robust and is stimulated by consumers who are seeking out more diverse sources of healthy protein in their diets, confirms our conviction in the importance of this category and our ability to compete and to win.

As part of our commitment to compete to win, we are moving to renovate both our Lightlife and Field Roast product portfolios and brand propositions this year. Leveraging the learnings from the success of our prepared meats renovation as well as what we believe to be the most extensive and exhaustive consumer research in the history of the U.S. plant-based category, we are first reformulating and revamping our Lightlife product portfolio to deliver the cleanest ingredient labels in the plant-based category without compromising on taste or texture. We announced the relaunch of Lightlife at the end of the second quarter, and this relaunch is being supported by our largest marketing campaign in the brand's history, with national TV, social, digital and in-store support. As we move through the balance of this year, you will hear more details on this important initiative.

In closing, we are confident that product advancements like these as well as growing traction in retail and food service will continue to reinforce Greenleaf's strong #2 position within the North American retail and foodservice plant-based protein market.

I'll now turn it over to Geert who will review our financial performance in greater detail. Geert, over to you.

Geert Verellen - *Maple Leaf Foods Inc. - CFO*

Thank you, Curtis, and good morning, everyone. I'll begin today by discussing the company's consolidated performance during the second quarter. I will then turn to a more detailed look at both our Meat and Plant Protein groups. I'll conclude by speaking to some key financial metrics, CapEx and our outlook for the rest of the year.

Sales for the quarter were approximately $1.1 billion, an increase of 7% from the prior year. This increase was supported by strong performance from both our Meat and Plant operating segments. Adjusted EBITDA for the second quarter was $115.7 million, a 7% increase from the prior year, with strong growth in our Meat Protein Group, offset by continued strategic investments in Plant Protein. Total company adjusted EBITDA margin was 10.6% for the quarter, in line with the same period last year.

Results included the impact of incremental operating costs due to COVID-19, primarily consisting of the weekly bonus for our frontline team members as well as increased spending on PPE and sanitation. These incremental costs materialized in line with our guidance provided in April and were largely captured in cost of goods sold. We were able to partially mitigate these costs through SG&A savings and discretionary spend categories, including lower spend on travel, training, et cetera. Additionally, we did have reduced marketing spend as we recalibrated our advertising and promo to reflect the current environment. The net impact to earnings amounted to approximately $11 million in the second quarter, which had a dilutive impact to our adjusted EBITDA margin.

Adjusted operating earnings for the quarter were $66.7 million compared to $65.2 million in the prior year as strong commercial performance in both Meat and Plant Protein was offset by strategic investments in Plant Protein and the COVID-19 costs I just discussed. Net earnings for the quarter were $25.7 million or $0.21 per basic share compared to a net loss of $6.3 million last year or negative $0.05 per basic share. Prior year results were impacted by a higher loss from non-cash fair value changes in biological assets and derivative contracts. Excluding these fair value adjustments in both periods, adjusted earnings per share were $0.35 for the second quarter this year compared to $0.33 in the prior year.

I'll now turn to a discussion of Maple Leaf's 2 operating segments, and let's start with Meat. Meat Protein sales for the second quarter were roughly $1 billion, an increase of 5.8% from the prior year. This improvement was driven by several factors, including an increase in hogs processed, a favorable mix shift towards sustainable meats and branded products, higher sales to Asian markets, the positive impact of foreign currency translation and finally, the continued benefit of pricing actions taken during the third quarter of 2019. The strength of retail volumes was fully offset by the decline in foodservice. Meat Protein adjusted EBITDA for the second quarter was $138 million, a significant increase of almost 23% from the prior year. This growth was mainly due to strong sales growth and margin benefits from favorable product and channel mix. These positive drivers more than offset incremental COVID-19 costs incurred in the quarter. Adjusted EBITDA margin for the Meat segment was 13.3%, representing an increase of 180 basis points over the prior year.

This 180 basis points margin expansion requires some context though. To say the second quarter saw unprecedented volatility is quite the understatement. COVID-19 had an impact in 3 areas. Number one, there's the impact on pork commodity markets. We started the quarter with negligible packer margins, only to see record levels by early May as wholesale prices rose and hog prices fell. It was quite the roller coaster. Now common wisdom would indicate that higher packer margins would benefit us considerably. However, in volatile markets like this, normal hedging programs cannot absorb this incredible volatility and become inefficient quite quickly, which we experienced.

Second element is in poultry, where a structural oversupply in the market predating the pandemic just got worse by the collapse of the foodservice business. Production disruptions in some of our poultry plants directly related to the pandemic further put pressure on us to satisfy the high demand coming from our retail customers and came at a significant cost.

Third and lastly, there's the increased cost related to the pandemic itself, like PPE, increased costs for sanitation protocols, et cetera, the weekly associate bonus and the cost of overtime. In short, the benefit of robust packer margins were fully offset by COVID costs, inefficient hedging programs and weak poultry results in these conditions.

Against this backdrop, we benefited from the investments we have made ourselves over the last couple of years, be it assortment renewal like the brand repositioning, the focus on sustainable meat, increasing business development in Asia or the cost optimization projects. All of these elements supported the continued underlying margin improvement that we have called out for a number of quarters now. We're confident this momentum will continue and support our long-term meat margin expansion target.

Turning now to our Plant Group, where we continue to invest for growth in a high potential market. Plant Protein sales for the second quarter were $60.6 million, an increase of 41% from the prior year or 36.5% in constant currency terms. While we remain primarily focused on sales growth and brand building, we continue to work on structural improvements in Plant Protein gross margin. Gross margin for the quarter was 13%, but was also severely impacted by the costs related to COVID-19, which we estimate at approximately 250 basis points. Over the next quarters, gross margin will continue to gradually see the impact of sales building initiatives. At the same time, we will continue to improve the structural margins, including improvements in transportation and distribution efficiency.

SG&A expenses in Plant Protein were $34.1 million or 56.3% of sales. Our spend came in modestly below plan as COVID-19 measures delayed the launch of key marketing activities, primarily related to our Lightlife brand relaunch. Curtis already mentioned that. This is purely a timing shift, and we see no change to our full year investment in advertising, promotional marketing, organizational capacity and our innovation pipelines.

Let's turn to our balance sheet now. Maple Leaf's balance sheet remains strong, with $607 million in net debt and $1.3 billion in undrawn committed credit. While the company has the financial flexibility necessary to complete near-term capital projects, we remain focused on deploying capital in an efficient and balanced manner, with the goal of maximizing shareholder value. During the second quarter, Maple Leaf invested $102 million in CapEx, including construction capital of about $63 million. These expenditures were primarily related to construction of our new poultry facility in London, Ontario. Year-to-date CapEx is just over $200 million, including about $120 million in construction capital. This is behind the pace and time that we anticipated at the outset of 2020, largely due to an overall slowdown in work and spend as a result of the COVID-19 pandemic.

Turning to our outlook. Please note that our expectations are based on certain assumptions regarding the future of our markets. As expected, the onset of COVID-19 has introduced a degree of uncertainty here. This includes volatility in the pork and poultry commodity and currency markets that remain elevated in the face of COVID-19. We have outlined the known and unknown factors, including the above, for the balance of 2020 in our slide deck that is available on our website.

While we deal with the challenges created by the pandemic, we maintain our strategic focus on profitable growth in the Meat Protein Group and investing to grow in our Plant Protein Group. Our underlying business continues to advance, and we expect to continue to see heightened but somewhat stabilized demand from the retail channel with lower sales from foodservice. We expect that incremental COVID-related expenses, such as personal protection equipment and increased sanitation, could be around $25 million in the back half of the year, mostly skewed towards the third quarter. Obviously, where possible, we continue to look for ways to reduce expenditures in other areas to mitigate some of these incremental expenses.

Factoring in Maple Leaf's financial performance for the first half year as well as our estimate for incremental COVID-19 cost, our expectations for the full year 2020 are the following. First, mid- to high single-digit sales growth in Meat Protein, led by sustainable meats and higher sales to Asian markets. We expect this to be coupled with gross margin expansion, cost efficiencies, resulting in Meat Protein adjusted EBITDA margin expansion for 2020 and solidly progressing towards our goal of 14% to 16% by 2022. In the Plant Protein Group, we expect to deliver sales growth of approximately 30% in 2020, consistent with our long-term target. And as shown in the first half, this growth can fluctuate by quarter.

Over the balance of the year, we anticipate growth to be supported by increased velocities and distribution of recent innovation, the launch of new products, and the relaunch of our Lightlife brand. Gross margin is expected to be consistent with 2019 levels with improvements to product margins, offset by inherent inefficiencies of a rapidly growing business and the compounding impact of COVID-19. There's more work to be done for us here. But as we work through these short-term issues, we remain comfortable that the business will reach the gross margin targets we have outlined.

We continue to anticipate SG&A expenses in Plant of roughly CAD 150 million or USD 110 million, assuming no further material change to ForEx rates. As I indicated earlier, most of the spend has shifted to the back half of the year due to slight timing delays related to COVID-19. The nature of these investments remains unchanged, consisting of advertising, promotion and marketing and items related to building scale within the business.

Lastly, we have reevaluated our capital expenditures for the year. This recalibration is primarily the result of the pandemic bringing additional complexities to construction to almost all of our projects. As you may recall, construction capital is expected to comprise 70% of total CapEx this year, a significant portion of which is related to the construction of the London poultry facility. We now expect CapEx to be between $500 million and $600 million for the year.

In short, Maple Leaf has a resilient business model that has proven to perform even in very volatile market conditions. We have been extremely vigilant to maintain business continuity, and we are fortunate to be in a line of business that is somewhat insulated from the devastating COVID-19 impact in other areas of the economy. With confidence, discipline and a healthy dose of humility, we will continue to execute on our long-term strategy.

Michael, back to you.

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

Well, thank you very much, Curtis and Geert, for your comprehensive review. To carry on from what Geert concluded with, we are extremely fortunate to be in what is a relatively secure and stable industry. As I stated at the beginning of this call, we're pleased with the progress we've made in the first half of the year, setting the stage for continued strong performance from both our Meat and our Plant Protein groups. There's certainly a lot of moving parts and complexity at this time, but I'm confident that we've got the organizational capacity, capability and management expertise to navigate through it all. As we do, we'll need to keep an eye on the incremental cost of COVID-19, seeking ways to mitigate them without sacrificing the health and safety of our people or our commitment to the community and other stakeholders.

I'd like to conclude by expressing my profound gratitude to our frontline team members, who come to work every day to make the food in which we all depend. I'm humbled, and I'm grateful for your commitment, and I'm inspired by the dedication of all our people to persevere and to succeed in this environment.

Thank you very much. And operator, maybe now would be appropriate time to open the call up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Derek Dley.

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

Just wanted to follow-up on the $19 million in incremental COVID-related expenses. Can you guys comment on how much of that was related to the frontline wage increase or the hero pay? And then secondly, what were some of the areas in terms of your SG&A savings, like what were some of the areas where you were able to drive some of these savings and offset a portion of that expense?

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

Geert, do you want to take that one?

Geert Verellen - *Maple Leaf Foods Inc. - CFO*

Sure. Absolutely. Thank you, Derek. So if you look at the gross cost of '19, it's safe to say that slightly more than half of that was the hero pay. And on the offset costs that I mentioned, there's 2 level of -- 2 cost elements, I would say, that we need to call out. Number one, it's the cost categories that you would expect in a pandemic or as we've seen it, to go away, it's like travel, training, et cetera, with everybody hunkered down, there was not a lot of travel. So that was a natural offset for us. And the second one was a more purposeful choice where we dialed back on the advertising and promotion dollars because we just didn't think it was the proper thing to do in the current environment. And everybody, including our retail partners, was focused on getting product on the shelf primarily anyway. That's also the reason why we leave that a little bit open for the second half of the year. Some of the costs in the first bucket will gradually start coming back as we see the economy opening up. But again, to what extent, that is a crystal ball. I mean we'd have to look into crystal ball, and we're not going to do that.

And then the second bucket is on advertising and promotion, where obviously, we will start to ramp up again because despite the outlook of $25 million of additional expenses in the second half of the year, obviously, our primary goal is to drive the business. And you won't see us making any silly costs having choices, especially not in marketing and promotion to offset those $25 million. That's kind of the way we're thinking about it.

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

Okay. No that's helpful. And just switching gears, just to -- in terms of the MPG, the Meat Product Group. You guys had really strong revenue growth again here, 6%. Can you comment just -- or maybe rank the factors that drove that growth, was it volumes, was it export markets? Was it the incremental prices that you guys took, I think, last fall? How did that growth materialize?

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

We had growth, Derek, in almost every platform and particularly our strategic platforms. And Curtis, maybe you'd just talk to some of the details of that, please?

Curtis Eugene Frank - *Maple Leaf Foods Inc. - President & COO*

Yes, sure. I think I'd start by saying we're pleased with the fact that, to Michael's point, several of our growth platforms contributed to growth in the quarter, which, from my perspective, just speaks to the underlying health and diversity of our growth platforms. Our retail business was particularly strong, driven by our brands, and we obviously domestically saw an offset in that foodservice channel that was -- that I was struggling with within the quarter, and our RWA platform really delivered double-digit growth in both Canada and the United States.

When it comes to export markets, Derek, the U.S., which is a significant component of our export business, grew double digits as well, and that was on the backs of both our RWA business and our prepared meats business as well. So we're very pleased there. And the Asian markets were particularly strong. I think if you refer to the MD&A, you'll see that within Japan, we grew at roughly 30%. And our business and shipments to China basically doubled as we continue to take advantage of that particular market opportunity. So several growth vectors contributed to the quarter and very pleased overall.

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

And how much did pricing contribute to that growth rate?

Curtis Eugene Frank - *Maple Leaf Foods Inc. - President & COO*

The pricing? Modestly. The pricing we took a year ago contributed modestly to the growth in the second quarter.

Operator

The next question comes from Mark Petrie.

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

Just a follow-up on that U.S. comment. I wanted to just understand, I guess, a little bit more about the drivers there. And just to clarify, the U.S. business, as I understand it, is mostly a retail business or essentially a retail business? And would the growth have been supported by sort of new share wins or new customer wins or was it mostly just velocity?

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

Curtis? Maybe expand on what you referred to earlier?

Curtis Eugene Frank - *Maple Leaf Foods Inc. - President & COO*

Yes. It's both. We're seeing -- we have strategic partnerships across the U.S. with several retailers. It's predominantly, to your point, to retail business. We're seeing a lot of success in our Greenfield brand across the U.S. market, both in terms of new points of distribution and increasing velocities. And we also have some strategic private label businesses in the U.S. that continue to demonstrate growth that again are on the backs of Raised Without Antibiotics or our sustainable meat platform.

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

Okay. That's helpful. One of the things that, I guess, is happening broadly in the food industry is the retailers seem to be rationalizing their SKU bases to some extent. I'm just wondering if that's a trend that you're seeing play out and how you think that affects Maple Leaf and how you expect to navigate that?

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

We've -- that's a great point, Mark. And -- particularly during the period in our second quarter, specifically in April and May when retail channels, everybody was just struggling to get product and food on the shelf, that became particularly important. I think we're seeing some dialing back of that more recently as we go back to our legacy assortments. Having said that, the ongoing benefit here is that SKU rationalization and culling unproductive SKUs is good medicine for the industry at any time. And so any kind of a catalyst that can refocus our efforts around that SKU culling and optimization is ultimately a good thing. We do it as a matter of course, from time to time anyway, but any catalyst that increases our focus on that is a good outcome, not a bad one. It was intense in April and May. I think it's dialed back some, but we're continuing to focus on the sustainable benefit of SKU optimization.

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

Okay. And then just one other question. Just curious if you have made any sort of material or permanent changes to sort of your production setups or allocation either to improve flexibility in terms of being able to move from product or even package sizes or have you shifted capacity specifically from foodservice to retail?

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

We've done some of both. There are limitations, just capital limitations and lead time associated with adjusting from a capital perspective to be able to materially shift product portfolios from foodservice to retail, but we have done some of that opportunistically where we possibly could, but it's not an unlimited thing. And what we don't want to do is spend significant capital to migrate portfolios from food away from home to food at home, spanning a multiyear capital investment only to find that 2 years from now or 1 year from now that it reverts back to normal patterns. So we do as much as we can, but there are limitations.

Operator

The next question comes from Irene Nattel.

Irene Ora Nattel - *RBC Capital Markets, Research Division - MD of Global Equity Research & Senior Equity Analyst*

Just following up on that last question. If we look at where you're trending Q3 to date, can you talk about what you're seeing in ongoing tonnage gains, let's say, in retail versus offsets in foodservice? And how are you thinking about the evolution as we move through the back half of the year?

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

Curtis, do you want to take that one?

Curtis Eugene Frank - *Maple Leaf Foods Inc. - President & COO*

Sure. Within the quarter, stacking up to Q2 within the quarter, I think you mentioned earlier, but our volumes in the Canadian market were relatively flat. We had very strong growth, obviously, in the retail channel, offset by challenging results in the foodservice channel. Looking forward, I would say that we're starting to see some normalization happen as society broadly opens up, but we're working closely, I think the best way to describe it, Irene, would be to say that we're working very closely with our partners in both retail and foodservice and trying to come to a joint perspective on how the balance of the year is going to play out. The next important time phase for us is obviously back-to-school, and we're trying to align our assumptions with those of our customers on how things are going to materialize, particularly important categories maybe like snacking as we get a perspective on what happens with back-to-school.

Irene Ora Nattel - *RBC Capital Markets, Research Division - MD of Global Equity Research & Senior Equity Analyst*

Yes. I mean I would think that your strong positioning in things like snacking would serve you very well as we all sort of think about going back to school or work, but still kind of staying away a little bit from the foodservice element...

Curtis Eugene Frank - *Maple Leaf Foods Inc. - President & COO*

Yes.

Irene Ora Nattel - *RBC Capital Markets, Research Division - MD of Global Equity Research & Senior Equity Analyst*

Or the individual single servings. Yes. Okay. That's great. And then also really intrigued by what you were talking about in terms of the brand relaunch in the U.S. on the Plant side. I was wondering if you could expand a little bit about how some of the research that you've done has really created opportunities in terms of different segments? And what your -- sort of what the objective -- and obviously, I understand the ultimate objective, but how -- sort of the differentiation that you're planning on working with?

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

I think I'll give an overarching comment, and Curtis, maybe you could add some color. This is an emerging and ultra-high growth category. And in the first instance, in the first phase of that burgeoning growth, Irene, it's very common that consumers are in trial mode. They are what I would describe as food curious and in many cases, they're not particularly certain exactly why they're buying the category. As we approach the next phase of growth, the marketers tool, that's been a tool for decades, is segmentation. Consumers choose a lane. They choose a lane of why they buy a category and their affinity for brands that are prominent in that segment that they choose grows and strengthens. So it goes from trial, food curious into picking a lane and habituating in that lane.

Our work has been trying to define exactly what those segments will be, what those lanes will be, position our brand strategically inside those lanes, recognizing that we're not going to be everything to everybody. We just want to be a leader of growth in the categories and the segments that we choose and excel in that. And that's been the basis of it, and it's super exciting, as was mentioned, just incredibly energizing the amount of research and brand work and strategy that's been brought to bear, drawing all of our skills in that field. And we're now in market with some of the work that's been completed on that over the course of the last many months. It's really exciting. We're very energized by it. We think it will be the next evolution in driving growth in these categories and differentiation of our products and brands. And we'll underpin our ability to win. So I think that's the basis of it. Curtis, anything you'd add?

Curtis Eugene Frank - *Maple Leaf Foods Inc. - President & COO*

Maybe just a couple of additional details. I think you covered it, Michael. Irene, I'll give you a little bit of commentary on Lightlife, and we'll hold Field Roast for a future date. We haven't -- we're not quite ready to roll out our communication in that area yet. But what I would say, if you refer to the slides that we published, you'll see some of the images with respect to the Lightlife rollout. We just hit market at the end of the second quarter. You'll see rebranding in terms of packaging and a slight refresh of the logo treatment, and the positioning for Lightlife is really all around clean ingredients. And it's one of the demand spaces that we've identified.

Of course, it's not the only brand in our portfolio, but it is one of the demand spaces that we know is deeply important to consumers in this space from the research that we've done. And we're super excited about what we've done to the brand. Just super excited. We've started with our raw burger, sausage and grounds portfolio, and the balance of the products will roll out in terms of formulation and packaging in line with what you see today over the balance of the year.

Irene Ora Nattel - *RBC Capital Markets, Research Division - MD of Global Equity Research & Senior Equity Analyst*

That's great. And presumably, just -- I promise this is my final one. Presumably the 50/50 that -- product that you rolled out was designed for that segment of people who feel like they should be eating it but don't necessarily want a pure plant product because they like the feel and taste of meat...

THOMSON REUTERS

Curtis Eugene Frank - *Maple Leaf Foods Inc. - President & COO*

Bingo.

Irene Ora Nattel - *RBC Capital Markets, Research Division - MD of Global Equity Research & Senior Equity Analyst*

Presumably, that's what that -- yes. Okay.

Operator

Your next question comes from Michael Van Aelst.

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

So congratulations on the strong results. And I do have a few questions, of course, on the meat side to start. So China exports doubled, which isn't a surprise given the strong demand there. But do you believe that you're gaining long-term customers there that -- given right now, they're high margin, they're strong demand, but do you see these as long-term customers or temporary due to ASF?

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

My view would be, and I know this is a more opinion-based than fact-based, but I think the facts would point to that we are building long-term relationships there. We're so small relative to the size of the Chinese marketplace, and we're focusing all of our efforts around the value-added dimension or segments in the Chinese marketplace, specific retailers, specific needs. And ultimately, we feel that our positioning in RWA will be strong and viable in that market as well. So we're such a small player relative to the whole market, Michael, that I believe that we -- it's just a good diversification play.

The important point about the China revenue doubling in the marketplace is 2 things. The first is that we have a finite amount of meat and a finite amount of hogs processed. So when our Chinese business doubles, something else doesn't. It falls back. It's not as if it's new sales, it's diverted sales into that market. So our job in that class of products, in that business, is optimization, not just pure growth, if you're connecting with that distinction. The second thing is that the real oddity -- the perverse oddity of the second quarter, and this is a very important point, is that in the second quarter, there were times in the second quarter, a significant amount of time in the second quarter, when the North American market was actually more lucrative than the Asian markets.

And that makes that doubling of volume into China, you have to put it into that context, all of that is woven into the calculus that Geert reviewed of 320 basis points of tailwind in our pork complex but offset by poultry, really egregiously ineffective hedging in our prepared meats and the COVID cost. That math comes out to pretty neutral. So there are a lot of moving parts there. The Chinese market is an important strategic market for us with or without ASF, and we believe that it will be sustainably so because we are so small in that market that we're just focused on positioning with really strategic positions, differentiated positions, long-term positions that have premium value.

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

Yes, that's good to hear that it's not strictly just trying to fill the general demand of going after targeted products. That's right. On the poultry side, during the quarter, the supply of chickens was cut. So is supply/demand back in balance and margin has been restored on poultry?

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

Curtis, do you want to try -- you want to take that one?

Curtis Eugene Frank - *Maple Leaf Foods Inc. - President & COO*

Yes. It was a -- sure, absolutely. It was a particularly challenging quarter. Obviously, we came into Q2 with markets that were slightly oversupplied and have been feeling some modest headwinds heading into the quarter, and the outlook was for things to improve at a fairly significant way in Q2. And of course, that was all put to bed with the COVID situation. With markets today, things have started to show signs of correcting, and we expect over the back half of 2020 things to normalize. And we're already starting to see positive signs of a market correction. But of course, that will play out for the balance of the back half of this year.

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

Okay. So we've seen some improvement, but not full recovery in margins?

Curtis Eugene Frank - *Maple Leaf Foods Inc. - President & COO*

Yes. Yes. So I'd say significant recovery, not -- significant recovery, but not full.

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

Okay. And then on the CapEx, with the CapEx budget coming down a little bit for this year, can you give us an update on the timing of when you expect the poultry plant to open and if there's any initial new time on plant-based protein plants as well?

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

Geert, could you take that, please?

Geert Verellen - *Maple Leaf Foods Inc. - CFO*

Sure. Absolutely, Michael. The timing has not so much changed. So for the poultry plant, we're still aiming for the middle of 2022. And Shelbyville is the same, we have not changed that timing in 2022, either. We're continuing our work on Shelbyville in terms of designing and thinking through what it is we really want to build. So that work continues, and we're going full steam ahead there.

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

Okay. So both are supposed to open in 2022 and ramp up. And then do your year 2022 numbers or guidance, does that reflect impact on margins from some of this or is that net of these new plants?

Geert Verellen - *Maple Leaf Foods Inc. - CFO*

That also has not changed, Michael. We've said, I think it was in the beginning of this year when we changed our outlook for the timing of the poultry plant, that we would probably get to the lower end of that range of 14% to 16% now that we could not count on a full operational year of the poultry plant in the 2022 year. So again, that thinking has not changed for us since the beginning of this year. (inaudible) poultry -- I'm sorry?

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

Right. The duplicate overhead costs, are those factored into the 14% to 16% in 2022?

Geert Verellen - *Maple Leaf Foods Inc. - CFO*

That is what gets us to that lower end of that range, yes.

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

And just finally, on the plant-based side, so your growth was 41%, 37% excluding FX. Were you able to fill all the demand that you had in the quarter or did you struggle to ramp up beyond that, even that level, given I don't know, I'm assuming COVID spurred additional growth? So I'm just wondering if you -- if there's untapped demand that you couldn't fill.

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

There was. We -- particularly late in the quarter, we had demand that was greater than our ability to supply short term, but we continue to optimize our supply chain and find ways to squeeze more capacity out of it in the short term. So that was a very short-term effect, but yes.

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

It seemed like some of the scanner data that was out there was actually more positive than what you're producing in revenues. Is that accurate? And if so, can you explain the difference?

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

Very hard to reconcile because you've got -- it depends on the category, it depends on the segment of the store, it depends on the subcategory, it depends on the timeframe. Reconciling those, Michael, is really, really difficult.

Operator

The next question comes from George Doumet.

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

Congrats on the good quarter. I think, Curtis, you mentioned -- on normalization in the Canadian business, can you talk a little bit about foodservice demand? Maybe you can give us some parameters in terms of where it was entering the quarter where it is today.

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

Curtis, do you want to take that one?

Curtis Eugene Frank - *Maple Leaf Foods Inc. - President & COO*

Yes. Well, I'll start by saying the clear leading indicators or the worst is obviously well behind us, with reopening across the Canadian market beginning to be phased in. We are starting to see a recovery in our foodservice business. We're continue to be operating well below a year ago in terms of sales volumes, and those volumes continue to be offset within the retail channel. So from an overall growth perspective, volumetrically, we continue to be happy with how things are performing.

The recovery is -- there is a steady slope of recovery in foodservice. But we're clearly a ways away from coming anywhere close to being flat to a year ago. I think the positive outlook from -- certainly from my perspective, is the fact that our retail business continues to at least cover the shortfall within foodservice, and I think that's a testament to the strength of our growth platforms overall.

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

Okay. Maybe shifting gears to the poultry operations. Can you talk a little bit about any -- maybe any lingering effects from the lower quotas into the second half of the year? Anything we should be kind of cognizant on? And maybe some color on, I guess, on how that segment performed in the quarter?

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

Yes. I do think that we'll see, as supply was contracted, we will see strengthening margins, and we'll have some very modest impact on the top line in that particular segment. I think it's net positive, not negative, relative to where we were in the second quarter for sure. That's for sure. George, important to keep in mind that, that contraction was necessary because the market was somewhat oversupplied, as Curtis highlighted earlier, coming into the second quarter, and so it was a necessary move regardless of the COVID circumstance. And so I think we'll be net -- net strengthen our business, not weaken it, but you're directionally those 2 moving parts, you're right.

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

Okay. And just a clarification. On the SG&A per plant, it looks like we're running $20 million below the $150 million guidance for the year. Is most of that money going to be used for the relaunch for Lightlife?

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

Directionally, yes.

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

Okay...

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

Geert or Curtis, is there anything you'd add to that?

Geert Verellen - *Maple Leaf Foods Inc. - CFO*

I would say the SG&A is -- it's adding promo and all the SG&A as well. I would, obviously, a big part of the timing, as we indicated, is marketing, but there's other elements in SG&A there as well, so we're very confident that we're going to stick to what we said in the beginning of the year. It's purely timing, and I guess, part of it will be the advertising and promo support for Lightlife.

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

Okay. And just one last one, if I may. Michael, you often talk about North American port complex as being I guess, favorable, unfavorable position compared to 5-year average. I know this is a tough question, but can you talk about where it is today, if you account for COVID and you account for ASF, how long do you think the American market can be and I guess in a favorable position for?

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

I'm not going to give you an outlook in terms of how long, George, because I don't know, and I don't think anybody knows. Today, it continues to be slightly positive. But keep in mind, there are 2 parts to that, George, not one. The first is the packer margin, offset by continued very low hog costs. The hog cost today is $50 in the U.S., $50 to $52 coming into the back half of this year, which is painfully low. So I think net-net, it continues to be not as positive as it was in the second quarter, so I think we'll tend to reduce positive impact from the second quarter in pork while strengthening in poultry.

But how long will that last? I think it's -- by and large, it's going to continue to function correlated to the fact that the global supply and demand of protein is short, and you know all the drivers behind that. There's a shortage of global protein that will likely last for years. But I don't know exactly how long.

Operator

(Operator Instructions) Next question comes from Donald McLee.

Donald Delray McLee - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

So I was wondering if you could discuss some of the factors that drove the change in the biological asset values in Q2, especially in the context of declining live hog prices during the quarter?

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

Yes. Geert, maybe you could add -- you could do it? That's basically accounting rules force us to take just -- it basically changes in the value of your biological assets, which is your inventory. It is -- to us, Donald, it's -- I will confess, it's a -- those changes in biological asset values is a metric that we pay literally 0 amount of time focusing on because it's an accounting adjustment of -- at a point in time that has no value to the economic anatomy of the business. So it's an inventory adjustment that's mandated by IFRS, it does not affect the management of the business or the financial position of the business, and that's why we include it in -- it's not included in the adjusted earnings. So Geert, maybe from an accounting perspective, you could add more color to that?

Geert Verellen - *Maple Leaf Foods Inc. - CFO*

Sure. Yes. This is one of the elements that we adjust between reported earnings and adjusted earnings, and as Michael indicated. So what it actually represents is, as we grow our own hogs or our own poultry, what we do is we need to value those hogs at a certain moment on our balance sheet. And to value those hogs, we use market prices as reference points, and we correlate that with the point in the lifetime that these hogs are in their growing process. And obviously, the key driver there is the hog price or the live hog prices on the market. And as they go up or down, that obviously has an impact then an accounting impact on how we value these assets on our balance sheet because we do not believe it has a direct correlation with the strength, the underlying strength of our business. We correct for that between recording earnings and adjusted earnings.

The big swings that you see between quarters, and this is -- actually, the swings were even bigger, I think, in Q1, where we went from a big adjustment in the plus last year to negative adjustments now in Q2. Now we've got adjustments both in the in direction but of a different magnitude. Those swings can really be extremely disruptive in interpretation of our results, and that's why we take them out in adjusted earnings.

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

Just Donald -- it's an inventory -- a point in time inventory adjustment that has no meaning to us, in terms of the performance of the business today or what it will be in the future.

Donald Delray McLee - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

And then just one more on the pork by-product market. Could you talk about -- maybe highlight there any factor that are limiting the potential -- it sounds like you're -- or I think people are generally anticipating a knock-on effect from the stronger demand from Asia on U.S. side, but it sounds like that doesn't -- that hasn't happened yet. Are there any factors. Are there factors that are limiting that knock-on effect?

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

No, not really. Curtis?

Curtis Eugene Frank - *Maple Leaf Foods Inc. - President & COO*

No. Nothing that I'm aware of or I would add, no.

Operator

There are no further questions. 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 for your time and attention here this morning. We appreciate your commitment. It's very challenging times. We're proud of our team and our people from -- throughout the organization, and we really appreciate the support of our investor community through this as well, and we appreciate the opportunity to highlight all of the great things that are going on as well as some of the challenges. So thank you for your time and attention, and we'll look forward to updating you at the end of the next quarter in a similar fashion. So thank you, and have a wonderful day, and stay safe.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating, and we ask that you please disconnect your lines. Enjoy the rest of your day.
