



Maple Leaf Foods Inc.

First Quarter 2021 Financial Results

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to Maple Leaf's First Quarter 2021 Financial Results Conference Call. As a reminder, this conference call is being broadcasted live on the Internet and recorded. All lines have been placed on mute to prevent any background noise. Please note that there will be a question-and-answer session following the formal remarks and we will go over the question-and-answer session instructions following the conclusion of the formal presentation.

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

James Allison — Investor Relations, Maple Leaf Foods Inc.

Thank you, Joanna, and good morning, everyone. Speaking on the call this morning will be Michael McCain, Chief Executive Officer; Curtis Frank, Chief Operating Officer; and Geert Verellen, Chief Financial Officer.

Before we begin, I would like to 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. Please refer to our Q1 2021 MD&A and other information on our website for a broader description of operations and risk factors that could affect the Company's performance.

We have also uploaded our Q1 investor deck to our 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 modelling questions you might have.

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

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Thank you, James, and good morning, everyone. Welcome to our First Quarter 2021 Earnings Call. I'm joined today by Curtis Frank and Geert Verellen.

As we cross the one-year mark of COVID-19 in North America, I'm heartened by our ability to keep our people safe and continue to supply our customers with minimal disruption. This is a testament to our people, who transitioned almost seamlessly to online work, and our frontline staff who operate our facilities. We've taken extraordinary measures to safeguard them, most recently through rolling out on-site vaccination. We've maintained constant diligence and adherence throughout this to our protocols and commitment to putting our people first.

Turning to our business, we are balancing some near-term performance while advancing our vision to lead in sustainable protein. We continued to deliver profitable growth in our meat protein business and we are investing for growth in our plant protein business. We repositioned our brands and our products to fuel this growth, including being leaders in two high-growth categories, sustainable meat and plant protein. We've grown them at a 25% compound growth rate and these two categories now represent over 20% of our portfolio.

It's important to note that over the past three fiscal years we've grown our meat protein adjusted EBITDA by 53% and we've grown, in that same three-year period, our plant protein business top-line sales by 52%. These are remarkable achievements and I'm incredibly proud of the results so far. This quarter we continued to make progress. We delivered top-line growth in the meat protein business of over 3% in the quarter and our adjusted EBITDA margin was 12.2%. We're steadily and confidently moving towards our 2022 target of 14% to 16%.

The short-term results in our plant protein business were soft starting out this year with sales growth below our strategic target. Curtis is going to unpack that later in the call. We expect to see a material improvement as the year progresses following the abatement of COVID-19 restrictions. Most importantly though, we have unwavering confidence in the potential of this business and the investments that we're making in plant protein. We built our organization structure, invested in brands, brand strategies, and product innovation, and we've made strategic investments to strengthen our manufacturing base. We have a strong number-two market share and we're well positioned for growth.

So, with that, I'll now turn it over to Curtis, who's going to review the operations, and Geert to cover the financials. Curtis, over to you.

Curtis Frank — Chief Operating Officer, Maple Leaf Foods Inc.

Thank you, Michael, and good morning, everyone.

First and foremost, I would like to reiterate Michael's thoughts and take a moment to acknowledge and thank all of our dedicated Maple Leaf employees, who, through this pandemic, have maintained an

unwavering focus on protecting the health and safety of our people, on ensuring the continuity of our business, and in supporting the communities in which we operate. And they've done this all while producing the nutritious food that people need.

Together, we are collectively working to do our parts to bring the COVID pandemic to an end. To further this cause, last week we were afforded an opportunity to host our first on-site vaccination clinics at seven of our facilities in close collaboration with regional public health authorities. We were happy to assist approximately 1,400 of our team members who voluntarily received vaccinations. We hope to continue these efforts as vaccine availability continues to improve while also supporting local clinics within the communities in which we operate.

Turning to our Q1 results, I'll provide some further context across our two segments. Starting with our meat protein business, we once again delivered profitable growth as sales grew by 3.3% while adjusted EBITDA margin expanded by 90 basis points to 12.2%. As Michael mentioned, these are remarkable achievements given we were lapping a strong quarter last year that benefitted from the COVID-induced pantry loading we saw in March of 2020. We also had very limited access to China in the first quarter this year, which, as you know, proved to be a very lucrative market for us, at this same time a year ago. The success in our meat protein group was a direct result of the continued execution of our blueprint and also the strategic drivers that underpin it. Sustainable meat sales grew at double digits and contributed sizeably to margin expansion. We continued to see branded sales growth in our prepared meats business with notable market share expansion in our leading Schneiders brand. We also grew at double digits in the US, where we continued to leverage our sustainable meat brand, Greenfield.

Another contributing factor in our results was the continued strength our supply chain. Despite the challenges and the clear complexities related to COVID, for several quarters now our network has delivered significant operational efficiencies. During this first quarter, our prepared meats facilities reduced direct product costs through higher product yields, particularly in high-volume SKUs such as deli and wieners. In primary processing, improved labour efficiency and raw material utilization also contributed to margin expansion. We believe there is further runway in capturing additional efficiencies, which will be a key facet towards reaching our 14% to 16% adjusted EBITDA margin target in 2020.

Touching quickly on the pork commodity backdrop, the first quarter saw hog markets and pork by-product prices surge well above the five-year average. On the surface, these dynamics imply a 160 basis point tailwind to our meat protein margins; however, this benefit was nearly fully offset by two important factors. First, we sold forward our hogs, as we commonly do in our risk management programs, and this limited the benefit of higher hog prices and, secondly, our restricted access to China meant that we were unable to fully participate in a robust by-products market. As a result, we experienced only a slight benefit of pork markets.

We have said that our strong skew towards value-added products, together with our risk mitigation processes, limit our exposure to raw material and raw commodity markets. Said simply, we do not experience the low lows or the high highs. And the first quarter was a prime example of that. As we look forward, we do anticipate moderate but, very importantly, temporary margin pressure in the second quarter as the rapid and unexpected surge in grain and hog prices have driven up meat costs. We are currently reflecting this new reality within our pricing and we expect a full recovery starting the third

quarter. With that context, we continue to expect to achieve our meat protein targets for the full year of 2021.

Turning to our plant protein group, as Michael mentioned, we had a soft start to 2021. This was driven by several market factors. Firstly, COVID-related market disruptions that we experienced at the tail end of 2020 carried over to the start of 2021. In essence, the intensity of the third wave, together with related government restrictions that heavily impeded food service activity, delayed fresh innovation, and impacted the timing of retail shelf resets. Second, the overall plant protein market has begun to lap the retail surge that we experienced together in late March of 2020 and this resulted in lower year-over-year growth in the month of March.

Despite this market backdrop, we did see encouraging results within our portfolio. POS sales for our core retail product lines once again outpaced growth in that market sub-segment, highlighted again by our Lightlife tempeh and Field Roast Chao cheese products. POS for our retail fresh product line was stable relative to Q4 of 2020 as velocities in distribution were largely unchanged. In addition, we continued to advance our strategic agenda in the quarter, putting the pieces in place to set up the business for long-term success.

We completed the repositioning of our leading brands. In Field Roast, our new brand messaging and packaging is now in market, while in Lightlife we rolled out the second phase of product reformulation, this time to the entire Smart product line. We brought new innovation to the market with our Field Roast Signature Stadium Dog and plant-based pepperoni. We signed up some very strong food service partners like Wienerschnitzel and Pizza Nova to help us bring these products to market and we have received super

positive reviews from customers and consumers. It is the first products of their kind in the market and we believe there is tremendous opportunity for growth in our innovation set of products.

We have recently expanded distribution for a number of Lightlife and Field Roast products at Whole Foods, we continue to lower our supply chain costs as a result of the actions we took in late 2020 and, finally we have closed on the acquisition of our Indianapolis site and building, which will be converted into a world-class tempeh facility to support the rapid growth in the exciting tempeh category. Factoring these positive catalysts and our expectation of a gradual reopening of the economy, our full-year outlook in plant protein also remains unchanged. We continue to expect full-year sales growth broadly in line with our 30% strategic target with the pace of growth reaccelerating as we move throughout this year.

With that, I'll pass it over to Geert.

Geert Verellen — Chief Financial Officer, Maple Leaf Foods Inc.

Thank you, Curtis, and good morning, everyone. I will begin today by discussing the Company's consolidated performance during the first quarter. I will then turn to a more detailed outlook at both our meat and plant protein groups. I'll conclude by speaking to some key financial metrics, capital expenditures, and our outlook for 2021.

Sales were approximately \$1.1 billion, an increase of 3% from the prior year with higher sales in meat protein partially offset by lower sales in plant protein. Adjusted EBITDA was approximately \$98 million, an increase of 9% from the prior year. Adjusted EBITDA margin was 9.3%, an increase of 40 basis points from last year. Adjusted operating earnings were \$50 million compared to \$45 million last year. Net

earnings were \$48 million or \$0.39 per basic share compared to a loss of \$3.7 million or \$0.03 per basic share last year, largely as a result of non-cash changes in the fair value of bio assets and derivative contracts that resulted from the surge in hog import prices. Aside from these non-cash changes, net earnings were further supported by strong operating and commercial performance in meat protein. Without these non-cash changes, adjusted earnings were \$0.26 per share for the quarter compared to \$0.21 per share in the prior year, an increase of 24%.

Looking at the meat protein segment, sales increased 3.3% to \$1 billion, benefitting from pricing taken in the fourth quarter last year to offset cost pressures, a favourable mix shift towards sustainable meats and branded products, and higher fresh pork sales related to an increase in hogs processed. These factors more than offset an unfavourable impact from a stronger Canadian dollar against the US dollar, lower prepared meats compared to last year's COVID retail surge, and lower sales to China. Meat protein adjusted EBITDA grew an impressive 11% to \$123 million, benefitting from strong operating performance and mix shift towards branded and sustainable meats and pricing action taken in the fourth quarter. These more than offset the impact of ongoing pork trade restrictions into China. Adjusted EBITDA margin for the meat segment was 12.2%, a 90 basis point improvement over last year. It's important to highlight that this is the sixth consecutive quarter of adjusted EBITDA margin expansion as we progress towards our 2022 target.

Turning to plant protein, sales were \$43 million, a decrease of 8.1% or a decrease of 2.5% in US dollars. As was noted earlier, COVID-19 restrictions have disproportionately impacted this market. Overall sales growth was impacted by lower volumes in fresh retail product, which more than offset higher volumes in core retail products and pricing taken in the fourth quarter of last year to offset inflation and

structural cost increases. Plant protein gross margin was 0.3%, impacted by lower sales volumes and lower than expected capacity utilization, which more than offset improved distribution costs and pricing action taken last year. SG&A expenses in plant protein were \$29 million, in line with our plan, and down slightly from a year ago due to the timing of advertising and promotional expenses. As a percentage of sales, SG&A were broadly similar to last year.

Turning to our balance sheet, we have a very stable financial position with \$845 million of net debt and over \$1 billion in undrawn committed credit. As you know, about \$580 million of this debt is related to construction capital which is carried on the balance sheet. While this is not currently generating a return, it will within the next three years as these projects come online. During the quarter we invested \$185 million in CapEx, including construction capital of \$152 million, primarily related to the construction of our new poultry facility in London, Ontario.

I'll wrap up with an outlook for our business for 2021. Our expectations are based on certain assumptions, primarily a return to some normalcy as COVID-19 restrictions subside. As you can see from the outlook slide in our Q1 presentation, as well as our MD&A and other materials, despite some weakness in the front half, our full-year outlook remains unchanged. While we do expect some short-term pressure on meat margins in the second quarter, this is a timing lag as we are passing through pricing to adjust for higher pork prices. And in plant protein we anticipate sales to increase as COVID restrictions ease. In the context of these actions and expectations, we remain confident in our full-year outlook.

I will now turn the call back to Michael.

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Thank you, Geert and Curtis.

Considering that we are operating within the significant constraints and costs imposed by this pandemic, we're really pleased with our results, especially in our value-added meat business. The strong team that we have in place, the asset base, the brand portfolio, the differentiation in sustainable protein are all collectively delivering shared value as we expect. This quarter we moved the puck a little closer to the goal line. In meat protein we're well along our journey and our 2022 target is within reach. In the plant protein business we're building a strong business backed by an integrated supply chain, well differentiated brands and brand strategies, and the broadest product portfolio in the marketplace today.

For a broader view of the year and our progress against these strategies, I would encourage everyone on the line please to tune into our virtual AGM, which is being held at 11:00 a.m. Eastern Time this morning.

So, with that, I'll now, Joanne, open the line up for questions.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press star followed by one on your touchtone phone. You will hear a three-tone prompt acknowledging your request. If you are using a speakerphone, please lift the handset before pressing any keys. We also ask that you limit your time to one question plus one follow up before cycling back into the queue. We'll pause for a moment to compile the Q&A roster.

Your first question comes from Derek Dley. Please go ahead.

Derek Dley — Analyst, Canaccord Genuity

Yeah, hi, good morning, everybody.

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Good morning, Derek.

Derek Dley — Analyst, Canaccord Genuity

Good morning. I wanted to ask just on the meat side, just in terms of pricing, given what we've seen here with lean hog prices almost doubling to start the year, can you just talk about, I guess, two things. One, the cadence of pricing and volume and the impact on the 3% growth rate this quarter, and then how you expect that to impact Maple Leaf going forward, recognizing the pricing increase is likely going to come in the back half of the year as opposed to Q2.

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Curtis, do you want to address that?

Curtis Frank — Chief Operating Officer, Maple Leaf Foods Inc.

Sure. Hi, Derek. I'll start, Derek, with the first quarter and answer your question maybe in two parts. So, in the first quarter we were, as Michael said, pleased with our sales growth. Pricing, mix, and volume all contributed to our top-line performance. You'll recall, from a pricing point of view, we did move, as we normally do for normal inflationary kind of costs, in Q4 last year we moved our pricing forward, and obviously that had an impact in the first quarter. We continued to see favourable mix in the first quarter as well, predominately through the execution of our strategies, frankly. We saw growth in both sustainable meats and a shift toward branded products, which were favourable in the quarter.

And then finally, our volumes were stronger. We saw higher fresh pork volumes that more than offset a little bit softer prepared meats volumes. Keep in mind our prepared meats volumes were down slightly year over year, but that's predominately based on the month of March, Derek. We had a really great start to the year in Q1 and Q2 from a volume performance point of view and then, as you would expect, there was a pretty significant impact when we hit the kind of timing of the COVID loading from a year ago. So that's basically a summary of Q1.

Looking forward, I think the best way to think about our outlook on sales looking forward would be just simply to take you towards where we kind of guided you, which is mid- to high-single-digit outlook for the year on a 52-week basis. Our view on that remains unchanged. We do expect to increase prices as a result of the market impacts that you've clearly outlined. That will happen kind of late in Q2 and we're very confident that we will fully recover those costs in Q3 and Q4. And the very reason we've got it towards a range of mid to high single digits is for that purpose. And keep in mind we would have planned this part of our annual pricing rhythm to reflect any inflationary costs that we would have incurred in the fall anyway, so we're basically just pulling that forward for this year.

Derek Dley — Analyst, Canaccord Genuity

Okay, great. That's really good colour. Just to follow up a little bit on your commentary just on that pull forward in retail that you saw in March at the start of COVID, I guess looking forward, hopefully I suppose, we get some relaxation in some of these restrictions and things start to improve on the COVID front. That would lead me to believe we'd see some food service, some of the food service business returning. So can you just comment on any impacts that might have on, one, revenue and two, margin?

Curtis Frank — Chief Operating Officer, Maple Leaf Foods Inc.

Yeah, I think it would be fair to say that, maybe in two parts of our business, Derek, if that's okay, I think the way to think about the forward view here would be to say in our meat protein business the impact will be relatively neutral. So, at the highest level, don't see any impact in our ability to deliver to the 14% to 16% range by 2022. No impact at all. So, neutral in meat and probably slightly positive to the plant protein business.

The reason I think it's neutral in meat is the timing of the return to normalcy in the channel mix between retail and food service will be gradual, it certainly won't be an event, and we've seen incredible strength in both the penetration of our brands as well as the growth in our margin accretive sustainable meats business in both US and Canada. And I think those will continue to give us positive benefit moving forward. And when you combine that with some of the skills that we've built in our revenue management function and our ability to manage inflationary costs, I think we're incredibly well positioned for the back part of the year. So I think just keeping that guidance intact is important.

When you think about the plant protein business, the reason I say that it may be slightly positive is, number one, we expect that we'll accelerate our food service relationships and partnerships, particularly with some of the innovative products that we have coming to market as the year advances, and many retailers in North America haven't taken the time to reset their shelves in a meaningful way and once we see an abatement of COVID I think we'll start to see shelf resets and we expect positive news again from a distribution and an innovation point of view.

So I think neutral in meat and positive to plant, if that's helpful.

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

The other thing I would add, Derek, the only thing I would add to everything that Curtis very articulately outlined is that as vaccination rates come on and as society in North America normalizes, we would also see some, not full but some abatement in our cost structure that's related to COVID, which we'd anticipated. We priced in what we felt were the sustainable kind of permanent infrastructure components of that COVID protection operating structure. Clearly, as vaccination rates and society opens up, some of that will move back, which is margin accretive, right, which we would expect. So I think, you know, we're highly confident that we can maintain our guidance.

Derek Dley — Analyst, Canaccord Genuity

Okay. Good to hear. All the best.

Operator

Your next question comes from Michael Van Aelst. Please go ahead.

Michael Van Aelst — Analyst, TD Securities

Thank you. So, just getting back onto the plant-based protein, can you help us get some confidence in that 30% growth number or the close to 30% growth number considering the tough start to the year? And Q2 has a very tough comp as well, 40% growth last year. So are you seeing any growth in Q2 to start or what gives you the confidence to get to that, close to that 30% in the second half of the year, given that if you don't get growth in the first half you're going to need 50%-plus lift in the second half.

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Well, for starters, Michael, and, first of all, good morning, and it's a great question, is the comp in the second quarter is strong, the comp in the third and fourth quarter not so much. So you put that into balance. The confidence that we have is based on the composition of building blocks. Those building blocks are the normalization due to COVID and an innovation pipeline that we're really, really excited about. And Curtis has described a bit of that, but maybe, Curtis, you could add some colour.

Curtis Frank — Chief Operating Officer, Maple Leaf Foods Inc.

Yeah. Thank you, Michael. I think there's maybe four things that I would outline that will be accelerants in the back part of the year. The first is just to keep in mind that the core health of the business remains intact and the core is very healthy, and that's led by our tempeh business and our Chao cheese business in Field Roast, so Lightlife tempeh and Chao cheese. Those businesses remain healthy, growing, and we expect to see very strong performance in both of those businesses as the year progresses.

The second, as you mentioned, Michael, appropriately, is we have some very, very strong innovation coming over the balance of the year. The first is in our Field Roast Stadium Dog, which is the first, I think North America's first pea-based hotdog. The second is in a pizza pepperoni platform that we're just thrilled with and we think has got tremendous opportunity in the food service channel as well as a retail application, also a pea-based product.

And the third is in a chicken product that we're bringing to the meat department that we're also really excited about.

So the core is healthy, we've got innovation coming. COVID, we will see an abatement throughout the year and expect to see both retail benefit to that but also an uptick in the food service channel. And then finally, we do expect that the proceeds from our brand renovation work that we've done in Lightlife and Field Roast will benefit as the products take hold and the repositioning takes hold in the market as well as our advertising campaigns to support them over the balance of the year.

So I think those are the four most important factors to keep in mind as we look to accelerate growth in the back half and we have tremendous confidence.

Michael Van Aelst — Analyst, TD Securities

That's help, Curtis. Thank you. And just to clarify something, so the delays in resetting or adjusting the shelves at retailers, how does that differ between adding new products, like Impossible has added thousands of new doors in the last six months, versus the resetting of the shelves to allow for innovation?

Curtis Frank — Chief Operating Officer, Maple Leaf Foods Inc.

The fresh department tends to be a little bit more accordion-like, it kind of ebbs and flows, and the standard departments, like say produce or the prepared meats department where there's fixed space merchandise in the store, tend to move broadly, not every retailer is the same, obviously, but broadly in one or two planogram window changes per year. And many retailers have pushed them off or delayed them just because of the resourcing constraints and, frankly, the demand that they've experienced in dealing with the COVID surge.

So we kind of see that getting back to normal in the back part of the year and the benefit will be an opportunity to open up more space, we think, for innovative products, in the retail channel in particular, over the balance of the year.

Michael Van Aelst — Analyst, TD Securities

Okay. That's interesting. Would you be willing to give us the split between the core and the fresh from a sales perspective and the growth in those two?

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

I think we'll take that and we'll think about that, Michael. We've not typically segmented that business, but I think we should take that under advisement and think about it. We don't want to be distracted by segmentations in these things. We have a portfolio, the broadest portfolio in the marketplace, and there will always be some measure of puts and takes across the various sub-segments.

I would add to Curtis's perspective which gives us the optimism of the accelerating growth rates as the year progresses that at the end of the day, Michael, the strategic perspective on this, the lens that we apply most commonly is rooted, ah, gives us confidence in a number of different ways. The first is that while, on one hand, we are disappointed, of course, in a decelerating growth rate through the COVID experience, on the other hand we're not going to be guided or pushed aside based on a COVID experience and all of the implications that that had or the vagaries of quarter-to-quarter competitive skirmishes.

There are three participants today in this category. Three. We are number two of the three. And interestingly, if you chart out the last two years of quarterly growth rates, in fact in the last two quarters and continuing, the growth rates between our growth rate and the number one in the category have actually converged, plus or minus a few percentage points of each other. In aggregate. And there's puts and takes in all of these portfolios. But, in aggregate, the growth rates in the category have actually converged over the course of the last six months. And that gives us some confidence actually. Maybe we have to manage that confidence carefully, but that gives us some good confidence.

We're focused on the long term. The performance in the category has shaken out to three investing participants. Yes, we continue—this is not a loss. These are investments. They're investments in growth. We have a long-term view. We're making the choice to invest and we have the confidence in our brands and our long-term brand strategies. As the performance between these players has converged, we're confident that our strategies will have a very lucrative outcome over the long term. And so we feel very good about it in total. Disappointed, obviously, in the COVID experience, but overall, long term, we feel very good about it.

Michael Van Aelst — Analyst, TD Securities

Thank you, Michael.

Operator

The next question comes from Irene Nattel. Please go ahead.

Irene Nattel — Analyst, RBC Capital Markets

Thanks and good morning, everyone. A very interesting discussion so far. A couple of questions. First of all, on sort of the pricing action that you're planning on taking, what's been the tone of discussions with the grocers? I know they're never easy, but I think there's also recognition as to what's going on out there, so just kind of wondering what you're seeing and I guess the receptivity of your core clients to these discussions.

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Well, I think the discussions are the same as all discussions with the retail community. There's always, you know, the friction attached to that in the marketplace. Has been forever. Always has been, always will be. I don't think there's anything here that's out of the norm, Irene, and at the end of the day the facts prevail. All you need to do is pull up a chart that shows grains over the last three months and lean hog prices over the last three months and the facts are compelling. They're just compelling. They

affect everybody and they actually affect the inflation rates in the entire food complex. So, at the end of the day, the friction is normal, the discussions are constructive, and the facts are beyond compelling.

Irene Nattel — Analyst, RBC Capital Markets

Yeah, I was actually wondering in the other sense, Michael, whether, because it is so clear and compelling, whether perhaps the friction had been sort of diminished a little bit.

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Never.

Irene Nattel — Analyst, RBC Capital Markets

I know. Wishful thinking on my part. Okay. Also kind of wondering, as we're seeing the US start to open up, maybe it is too early, but have you seen any kind of shifts in behaviour or any shifts in sort of, perhaps, a step up or the beginning of some of these openings, the sort of resets, in markets in the US where we have seen—?

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Yes.

Irene Nattel — Analyst, RBC Capital Markets

Yes. So can you walk us through—?

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

What you're seeing is channel normalization in the US, Irene, and some of the largest QSRs in America are reporting actually sales rates and velocities that are, you know, growth over pre-pandemic numbers, which I think is a reflection of the fact that they are, in many parts of the US, seeing pretty solid economic recovery and normalization. So yes, very much so, in the US. Less so in Canada, but in the US, yes.

Irene Nattel — Analyst, RBC Capital Markets

No. Definitely. And presumably that's sort of easing some of the discussions that you're having with them around product innovation.

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Yes. Yeah, it does. There's always a lag attached to that, but yes, we are seeing very exciting things in the pipeline.

Irene Nattel — Analyst, RBC Capital Markets

Okay. And just finally to cover off this subject, Michael, from your answer, would I be wrong to interpret that you haven't yet seen that flow into retail and sort of some of the resets begin in retail or that's starting in certain markets?

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

I'm not sure I'm fully understanding your question.

Irene Nattel — Analyst, RBC Capital Markets

Well, the discussion that you had with Michael just around some of sort of the resets that you're waiting to see or that you're waiting to have in the retail channel and so just wondering whether—

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

In plants you're talking?

Irene Nattel — Analyst, RBC Capital Markets

Yeah.

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Yeah. Curtis, do you want to address that one?

Curtis Frank — Chief Operating Officer, Maple Leaf Foods Inc.

Good morning. I think the short answer there would be it's far too soon, number one, and typically you wouldn't see that happen over the summer. That would more be a fall rhythm. And we expect that hopefully to return as a normal fall rhythm in grocery resets.

Irene Nattel — Analyst, RBC Capital Markets

That's great. Thank you.

Operator

The next question comes from Peter Sklar. Please go ahead.

Peter Sklar — Analyst, BMO Capital Markets

Thanks. Sorry, back on the plant-based, when we see the point-of-sale data, you see like Impossible really growing quite rapidly as it entered the US grocery channel. So, you have much better access to point of sale and market share data than we have, so I'm just wondering, like what do you think is happening there? Do you think that they're taking share from yourselves and Beyond? Or are they expanding the category? Or is at bit of both in your eyes?

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Well, it's a bit of both. I'll speak to it in the context of the last six months, because that's when the competitive skirmishes have occurred. They have gained a couple of percentage points, Peter. It's not massive. It's a couple of percentage points as the number-three player in the marketplace. We've lost a little bit. Not much actually. If you look at our market shares over the last six months, they've been super stable actually. Lost a little bit. Most of it has come from, interestingly, the all other category. Because there's the three big ones and then there's this very long tail of a whole bunch of other participants. And that long tail of other participants has contracted. Most of the share loss in the last six months as been in

the all other category and the number-one position, the number-one player was relatively flat. We lost a tiny little bit. Most of the loss came from all other, to the benefit of number three. But if you look at the charts of the SPINS data in market shares in the category over the last six months, you know, plus or minus a percentage point, they've been quite stable. Very stable, actually. Very stable in historical terms.

Peter Sklar — Analyst, BMO Capital Markets

And what has the pricing and promotion backdrop been in the US and the Canadian market? So, for example, like we've noticed that your competitors have been introducing value packs, which seem to be well priced. And I noticed Metro, in its flyer, had a very strong promotion, I believe it was on Lightlife, the other week. So, can you talk a little bit about the promotional and pricing backdrop? Like it seems intense just looking at flyers and things.

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Yeah, no, I don't think there's any insight there beyond the normal activity of promotional, you know, promotional activity is just part of the food industry in all categories and you try and create value impressions no matter what product or category you're operating in, but I don't think there's any competitive intensity there expected in the category that would be outside the norm, if you will. There's certainly lots of theater attached to some of these things, but we have probably the lowest-cost supply chain in the marketplace so if there ever was undue competitive activity, you know, competition is not something that we're shy about. But I don't see any fundamentals that are going to lead to that outcome.

Peter Sklar — Analyst, BMO Capital Markets

Okay. That's good to hear. And then just lastly, the benefits that you're hoping to see from the brand renovation and also the major innovations, which seem to be the Field Roast hot dog and the pizza product, can you give us specific timing, be a little bit more specific about timing on when those innovations and when those brand renovations actually hit the shelves in the US grocery chain?

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Yeah, Curtis will give you some detailed timing on those. I would highlight, Peter, that the growth in this category is going to be driven by—the engine here is going to be constant innovation. So there are a couple of examples that Curtis cited. We have a portfolio of innovation in the pipeline that is very deep today and so those are two immediate in-the-marketplace examples. There are dozens of examples like that right behind it not in the marketplace yet and we continue to be excited about. So, what's important, beyond the next quarter or two, to recognize is that this has been and will continue to be, across all of our portfolio, and innovation-led growth rate. There's lots going on with the consumers, but there'll be an innovation-led growth rate.

Curtis, maybe you'd just speak to some of the timing on this.

Curtis Frank — Chief Operating Officer, Maple Leaf Foods Inc.

Yeah, sure. Of course. The Field Roast Stadium Dog is actually now hitting the market and we have distribution confirmed at a number of customers. It wouldn't be appropriate to list them all off, but a number of customers, starting here in the second quarter. So we're excited there, obviously. The Lightlife chicken products are going to be launching the middle of May and we're starting with a national customer

that we're bringing on board and then we'll be expanding distribution from there. The pizza pepperoni will be starting in the second quarter of 2021 as well. And then of course we launched our line extensions in Chao cheese last year (inaudible) continue to build the distribution rapidly within the retail channel as well. And then we've got some kind of important customer inroads that we've made in the (inaudible) channel as well. So I think it would be fair to say that the balance of the products are launching throughout the second quarter and we'll continue to build distribution in stores from there.

Peter Sklar — Analyst, BMO Capital Markets

And Curtis, when did the Lightlife and Field Roast brand renovations like actually turn up on the shelves?

Curtis Frank — Chief Operating Officer, Maple Leaf Foods Inc.

Most of the work in the formulation components of Lightlife was completed through January, February, March. So it would be fair to say the products themselves are really rolling out in full. They rolled out throughout the first quarter, obviously, but we're really only now getting the fulsome benefit of having the products, the packaging, and the formulations on shelf here. And Field Roast is really just March and April, the new packaging rolling out, and the early read in terms of kind of pick up in POS has been really positive reception to the Field Roast repositioning and repackaging.

Peter Sklar — Analyst, BMO Capital Markets

Okay. Thanks very much.

Operator

The next question comes from Mark Petrie. Please go ahead

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Good morning, Mark.

Mark Petrie — Analyst, CIBC World Markets

Good morning. I just wanted to follow up on this whole sort of plant sales split. I think Michael asked about it, you know, with regards to between core and fresh. And I know you don't want to get into it, but is it fair to say that the ad and promo investment between those two buckets is relatively balanced and matches sales or would one be getting a bit more?

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Most of the ad and promo investment is brand focused and the brands actually span both categories. Because it's brand focused and not category focused, I'd say both.

Mark Petrie — Analyst, CIBC World Markets

Okay. And with regards to the gross margin performance, I mean can we assume that fresh is a bit of a drag just given the competitive intensity in that category? Or are they relatively comparable as well?

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

It's not driven by the competitive intensity, as I articulated with Peter a moment ago, Mark, but I do, you know, I think they're relatively balanced across the portfolio. We obviously have, you know, we have invested for growth that has been slower coming than we expected in the fresh side, which impacts, obviously, those near-term gross margins, but beyond that component it's relatively comparable across the portfolio. Most of the investments, again, are in people and infrastructure and innovation pipeline and R&D and advertising that is more end-strategy focused, et cetera.

Mark Petrie — Analyst, CIBC World Markets

Okay, thanks. And you called out new customer wins for Greenfield in the US. Has that been a pretty consistent driver of the growth or can you just give us a bit more context in terms of how much of the growth in Q1 or maybe even in 2020 more broadly is sort of sell through versus new listings or new customers?

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Curtis? We haven't distinguished that or segmented that data.

Curtis Frank — Chief Operating Officer, Maple Leaf Foods Inc.

Yeah, but I'll give you maybe just some general colour. We're getting support in both areas, both from a velocity improvement and also from an expansion of distribution of the brand to more retailers. I think where we're excited about our sustainable meats business is that we continue to be, as you can imagine, relatively small in the context of the United States market, with tremendous white space for opportunity for growth, both in terms of expanding items where we have existing relationships with

retailers in the US, but also expanding the brand itself to more retailers within the United States. So, significant upside and potential for growth. And then also the utilization of the animal, I think we've talked about in the past, offers us an opportunity to continue to introduce more products into the market as well. So lot's of growth potential left in the sustainable meats business in the US and we're getting kind of growth in both areas.

Mark Petrie — Analyst, CIBC World Markets

Okay, great. And how should we think about capacity of those animals and your ability to continue to fulfil the growth?

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Our growth rate can be sustained through a couple of sources. Number one, we continue to grow our own in-house production of our own production of animals, live hogs raised without antibiotics. We have growth potential driven by our increased utilization of the meat, both in poultry and in pork, so the utilization rates continue to grow. As we've discussed in the past, that's an important metric. And then once we tap out those two supply lines, we also have the option of converting the balance of our non-Maple Leaf hog supply to some portion of raised without antibiotics and we just have to, we would then find pathways to share the IP that we have in raising those animals without antibiotics with others, which we're prepared to do, which can sustain the growth rate beyond that. So we've got lots of opportunity to very methodically maintain that supply line for the foreseeable future.

Mark Petrie — Analyst, CIBC World Markets

Okay. And then just one last one. Curtis, could you expand on the efficiency improvements that you've achieved in processing and primary production? I mean you called it out in your script and it would be helpful if you could just give us some context on the sort of materiality of that and also how much sort of further opportunity still exists. You know, are you halfway through or what's the relative sort of progress?

Curtis Frank — Chief Operating Officer, Maple Leaf Foods Inc.

Yeah, I don't want to get too much into disclosing detailed specifics, but here's what I would say. We've been clear that, in our path to achieving our 14% to 16% margin target, we will drive efficiencies in our business, both from an operational point of view but also from kind of a cost mitigation point of view. And we've been pretty successful over the past few years at doing both. We would say often that we're not, you know, our ZZB process maybe isn't quite as intense as others, but I think we've been, from a budgeting and cost containment and management point of view, pretty effective. And we continue to see cost being a material driver or a driver of our ability to achieve our 14% to 16% target and we're well on the path to accomplishing that.

Our plants and our operational performance is an area that we're really quite proud. We've made significant headway, obviously, since the transformational years. We've made steady progress in our operations. And even in a COVID environment we continued to see strength and we're managing our direct product costs very efficiently and very effectively within our operations. So I think the colour would be super positive results. We expect them to continue and the transformational challenges are well in the

rear-view mirror and we're well on our path to achieving our targets and cost management will be a component of that.

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

I would add, Mark, that these types of efficiency gains are a game of inches, it's just we happen to have thousands of those inches. Right? And that's how they accumulate. And it's an ongoing process. It's not a project or a program with a beginning and an end, it's an ongoing benefit.

There are any number of operational efficiency opportunities that we see in the runway in that game of inches ahead of us, up to and including, you know, as our volume progresses, finding very creative and new ways to optimize the asset utilization across the platform, which is probably the next and newest frontier. So just, you know, hard to describe that game of inches when there's a thousand of them, but we see that as being an ongoing effort.

Mark Petrie — Analyst, CIBC World Markets

Okay, great. Appreciate all the comments and all the best.

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Thank you.

Operator

Ladies and gentlemen, as a reminder, should you have any follow-up questions, please press star followed by one.

Next question comes from George Doumet. Please go ahead.

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Good morning, George.

George Doumet — Analyst, Scotiabank

Good morning. I wanted to ask about the SG&A spend in plant. It was about \$145 million last year. Can you guys maybe give us a sense of how much of that was headcount versus promotion? And within that promotion kind of bucket, can you talk a little bit about how much we spent on rebranding and reformulation? Any context around that would be appreciated.

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Geert, do you want to take that SG&A question?

Geert Verellen — Chief Financial Officer, Maple Leaf Foods Inc.

Sure. George, the overall bucket of \$145 million, so there's two components. You've got A&P and you've got what we call supporting the structure or the organizational development of the company, of the segment. The bulk, I would say it's probably roughly 75/25 last year was A&P. As we scale up this

business, obviously the proportion of brand investment is going to go down and, on the other side, the SG&A support for the organization is going to go up. But that's the thinking around this. When we think about this long term, normally for the first number of years we would stick around the same amount of dollars, but the proportion of A&P would gradually go down as we scale up the organization with more sales force, with more R&D force, et cetera. So that's the first part of your question. Can you repeat the second part please?

George Doumet — Analyst, Scotiabank

Yeah. Just in general, I guess, within that 75%, like how much did we spend on rebranding and reformulating Lightlife and Field Roast?

Geert Verellen — Chief Financial Officer, Maple Leaf Foods Inc.

That is more an R&D question I think.

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Yeah. That would have shown up, George, mostly in the non-A&P components in terms of our infrastructure investments in R&D.

Inside the brand, the advertising, the A&P budget, we try and focus all of that on our kind of new brand strategies, so the vast majority.

George Doumet — Analyst, Scotiabank

Okay. That's helpful. You guys spent quite a bit of time on (inaudible) innovation for plant, so thanks for that. Can you maybe give us a sense of how much growth is left in new doors for us in retail, be it in the US or in Canada?

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

In which, please?

George Doumet — Analyst, Scotiabank

Like new doors, like it's distribution for plant. How much growth is left for that?

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

It depends if you look at new doors in distribution of the new items and innovation, whether it's, as Curtis referred to a few of the examples, whether it's the Stadium Dogs or the work that we're doing in the cheese platform or the pepperoni or chicken platforms that we've, ah, the pizza toppings and chicken platforms. It's all new distribution. So if you're looking at it from an item perspective, obviously we've still got a long ways to go in the fresh platform to expand our distribution. From an item perspective, George, I would think that most of it comes through new distribution of those new items and I think that's normal. I'm not sure that's addressing your question.

George Doumet — Analyst, Scotiabank

Yeah, maybe from an ACV standpoint or something like that in terms of just getting a sense of how penetrated we are in US retail.

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Well, historically the brands are penetrated, you know, Lightlife and Field Roast are present in 65% to 70% ACV. Now the question is you double click that and you say, well, tell me about this by category, and that's what it is. So you've got a range of answers to that.

The 65% to 70% is kind of the portfolio, is kind of the portfolio average, but you've got, say, for example, Lightlife Smart Dogs would have, ah, I don't have the data in front of me, but it'd be well in excess of 80. Field Roast core items, same thing. But then you've got some of the new innovation items, whether it's in fresh or the Field Roast items and Stadium Dogs or some of these other platforms, you know, they would be in the 20s. So it's a combination of all those things. The challenge with a brand ACV number is that the devil's in the details there of how does it break out and shake out by category or subcategory. And new innovation.

George Doumet — Analyst, Scotiabank

That's helpful. Thanks for the colour. Appreciate that. And it seems that we're focusing quite a bit on food service more and more. Can you maybe talk to how you see our mix evolving, like our food service to retail mix evolving maybe as we get to 2022?

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Curtis, you want to address that?

Curtis Frank — Chief Operating Officer, Maple Leaf Foods Inc.

Yeah, sure. I think we're talking about food service lots in the context of, you know, in the sense that we're starting to see a more gradual reopening in the United States and we're excited about the prospects of some of our innovation product aligning with our food service customers. And, frankly, we're excited to be back at the table with food service customers who are more optimistic now about the future and we're having some great conversations and we expect to make meaningful progress.

So that's the reason why we're talking about food service. That doesn't diminish the fact that we have a wonderful retail business and we're going to grow it and it continues to be the most material component of our portfolio. I don't expect a material, you know, I guess it depends on your definition of material, but I don't expect a material mix shift in early 2022, but I do expect positive momentum coming out of the food service channel in the short term, but with no negative material mix (inaudible)...

George Doumet — Analyst, Scotiabank

Okay. Thanks for that. And just one last one, if I may, on a topic that probably doesn't get that much air time. But on M&A in general, like just wondering if you guys, what the appetite is there for M&A. Is that something you guys are looking at actively?

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

There's nothing that we would speak to looking at actively today. I think we've got our hands full right now, from a capital perspective, on completing the task at hand, which is the major project in London in our poultry business. It's not insignificant at \$720-odd million. Having said that, we fully expect that to

be behind us as 2022 unfolds and coming into 2023 and so, of course, we need to be looking forward on what the growth prospects for use of cash will be beyond the London poultry investment and we are constantly looking through the strategic lens of what those opportunities might be. So I suspect once we get through this capital intense period that you'll see us being much more active in M&A over the course of the subsequent five years.

George Doumet — Analyst, Scotiabank

Okay, great. Thanks for your answers. Good luck.

Operator

The next question is a follow up from Michael Van Aelst. Please go ahead.

Michael Van Aelst — Analyst, TD Securities

Thank you. Can you just give us an update on the poultry business? I think around this time last year is when we saw the food service sales fall off and the supply have to get cut a few months later. And then I guess, from what I recall, your business stabilized after that and margins went back to normal, but with lower revenues. Can you talk about where you're seeing it now? Are we starting to see it come back? And is the industry supply coming back?

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Well, the headline, Michael, is that in the first quarter the third wave of COVID was not kind to the poultry business. I think we've been clear about that. But it's not as acute as it was a year ago. And largely

because I think everybody was well prepared for the fact that it wouldn't be as kind, so I think the reactions were not as acute. And late in the fourth quarter of 2020 the industry proactively and aggressively reduced supply. So we are seeing now, near the end of Q1, coming into Q2, a right-sizing of that supply. So the markets are, right now as we speak, more closely tracking, coming into the second quarter and the back half of 2021, more closely tracking what you would expect in five-year average. So last year, as COVID emerged, it was a really challenging period in poultry. It got better. The third wave hits us, it tightened up, but not nearly as acute, and we're starting to see some recovery.

Michael Van Aelst — Analyst, TD Securities

Okay. And I guess as food service starts to recover you would expect that poultry supply to start ramping up again.

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Well, yes. I think there'll be a lag time in that, but right now the industry is concentrating on keeping the supply and demand in relative balance through what is very difficult to forecast. Because, as you know, this COVID experience in the first quarter was on again, off again, on again, off again. That makes it incredibly hard to forecast. But I think we've managed through it reasonably well and it was not like kind of the shock therapy that we experienced in second quarter of last year.

Michael Van Aelst — Analyst, TD Securities

All right, perfect. Thank you.

Operator

Thank you. That concludes the question-and-answer session. I will now turn the call back over to Mr. McCain for closing comments.

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Okay. Well, thank you very much. We're very excited about how this is all unfolding for us, in both of our platforms. Obviously, excitement comes with challenge and disappointment, but we've got our eye on the prize in the long term and we appreciate all of the support. So we look forward to updating you on the next quarter and thank you for your time this morning. Have a wonderful day.

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.