Maple Leaf Foods Inc.

Second Quarter 2021 Financial Results

August 5, 2021 — 8:00 a.m. E.T.

Length: 56 minutes

CORPORATE PARTICIPANTS

Michael Rawle
Maple Leaf Foods Inc. — Vice President, Investor Relations & Treasury

Michael McCain
Maple Leaf Foods Inc. — Chief Executive Officer

Curtis Frank
Maple Leaf Foods Inc. — Chief Operating Officer

Geert Verellen
Maple Leaf Foods Inc. — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Irene Nattel
RBC Capital Markets — Analyst

Mark Petrie
CIBC World Markets — Analyst

George Doumet
Scotiabank — Analyst

Peter Sklar
BMO Capital Markets — Analyst

Michael Van Aelst
TD Securities — Analyst

Derek Dley
Canaccord Genuity — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to Maple Leaf's Second 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 Mike Rawle, Investor Relations at Maple Leaf. Please go ahead, Mr. Rawle.

Michael Rawle — Vice President, Investor Relations & Treasury, Maple Leaf Foods Inc.

Thank you, Michelle, 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 future results may differ materially from what we discuss. Please refer to our Q2 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 Q2 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 that you might have.

And with that, I will now turn the call over to Michael. Michael?

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

Thank you, Mike, and good morning, everyone. Welcome to our Second Quarter 2021 Earnings Call.

As we reach what I hope will be the home stretch of the pandemic, I look back with utter admiration at the resiliency of our team and of our business. Despite many new and significant challenges faced over the past year and a half, our team has responded. We've adapted and delivered, I think, extraordinary results. At the same time, we continue to advance our vision to become the most sustainable protein company on earth and continue building long-term value for all of our stakeholders. I'd like to pause on that statement for a moment, continue building long-term value for all of our stakeholders. This is increasingly important to me, as the largest shareholder of Maple Leaf Foods and as the CEO who is dedicated to our vision described in our blueprint for a future of shared value creation and a sustainable enterprise. There's too much short-termism in the marketplace today and we're looking beyond that. We hope you do also.

From 2010 through 2015 we invested significant capital to transform our supply chain. We promised 10% EBITDA margins. We delivered. In 2015 we committed to pivot from fixing a business to growing a business. We committed to create systemic growth engines. We delivered. And you can see that in our top-line performance quarter after quarter, year after year. In 2017 we made three more commitments. We committed to expand our meat margins from the new baseline of 10% to a range of 14% to 16% by 2022. We are on track to deliver that and see more upside as our London poultry plant will get to cruising speed after 2022. We committed to restage our core Maple Leaf and Schneiders brands for profit and margin growth. We delivered. And finally, we committed to become the most sustainable protein company on earth. We delivered. Now we're the only large-scale, carbon*neutral food company in the world. Each of these and more are long-term paths to build value for all stakeholders. Our choice is to look beyond the short-termism in the markets and take confidence in our consistent track record of delivering on our commitments over time.

Closer to home, we advised you recently to expect margin compression in our meat business in the second quarter of 2021 and soft revenue performance in our plant business in the first half of 2021. Both have been the case. Today you're going to hear that we expect a full recovery in our meat protein business margins in the second half of 2021, beginning in Q3, and also the restoration of our revenue growth rate to our strategic target or higher in the plant-based business over the second half of 2021 based on a range of considerations. We have a track record of delivering in the long-term and we're going to continue to do so.

I'm incredibly proud of the results our meat protein group delivered this quarter, a remarkable 7.4% increase in the top line while delivering a healthy adjusted EBITDA margin of 11.6%. This adjusted EBITDA margin was delivered despite challenging market conditions, including the temporary headwinds we highlighted in last quarter's call. The food industry always has normal ups and downs. In my experience, it's as important to pay attention to performance in the downs as it is in the ups. We faced these headwinds, for example, this quarter, but robust top line offset small margin compression to yield but a 6% decline in our total adjusted EBITDA off a record quarter last year with full recovery expected in the very next quarter. Now, to a person committed to long-term trend line performance, this is a very significant observation and this performance continues to be led by our strategic drivers as we progress towards an adjusted EBITDA margin target of 14% to 16% in 2022.

In the plant-based business, we have invested significantly over the last years to be ready for growth to build long-term value, but we have had a slow first half for the reasons we understand and that we've spoken about after our last quarter. Curtis is going to dive into this later in the call. The pandemic has significantly impacted our recent performance, that's for sure; however, our unwavering persistence and commitment to our strategic objectives have set us up well as the markets will begin to normalize. We are now starting to see a rebound in demand as COVID has begun to gradually abate and we expect to see a pickup in sales in the back half of the year. Of course, a lot will depend on the degree to which our largest market for plant protein, the US, will plot its COVID recovery trajectory, but I remain nevertheless very confident and excited for the potential of this business long-term.

With that, I'm now going to turn it over to Curtis and Geert, who will share more operational and financial highlights from the quarter as well as our outlook for the remainder of 2021. Curtis, over to you.

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

Thank you, Michael, and good morning, everyone.

I would also like to begin today by acknowledging how proud I am of our team at Maple Leaf. Our people have been working diligently to execute our COVID-19 playbook and they have demonstrated expertise in effectively managing the operational challenges that come with running an efficient supply chain in what has been without question a difficult operating environment.

A year and half ago, when the pandemic first hit, we quickly transitioned our business to adjust for the rapid slowdown of food service activity and for the surge in retail demand. We are now managing for this in reverse, albeit more gradually, as restrictions are being lifted and consumption patterns are starting to show signs of normalization. Based on our proven track record, the support of our customers, and the competency of our team, I am incredibly confident that we will continue to manage this transition very smoothly.

Turning to our Q2 operational results, our meat protein segment delivered another exceptional quarter. This was driven by the strength of our strategic initiatives in sustainable meats and in brand renovation and, as a result, meat protein sales growth was 7.4%, an outstanding achievement given the fact that we faced significant foreign exchange headwinds from a strengthening Canadian dollar and that we were lapping the pantry loading demand surge from a year ago.

The meat protein segment also produced a healthy adjusted EBITDA margin of 11.6% in the face of challenging market conditions, which I will describe shortly. Once again, the strength of our brands drove our results, as we grew our branded market share, led by our Schneiders brand in packaged meats and by our Maple Leaf Prime brand in poultry. Our sustainable meats portfolio continued to grow at double digits while also contributing positively to margins.

We continue to see a long runway for growth in sustainable meats. This is a category that represents only a fraction of the market today and is growing quickly. We see incredibly strong demand here and we believe this will be a growth driver for us well into the future. Maple Leaf is uniquely positioned to meet the demand given we are the largest producer of raised-without-antibiotics pork in North America and the largest producer of raised-without-antibiotics poultry in Canada. Our brand, Greenfield, is a great example of our competitive advantage. In addition to being RWA, or raised without antibiotics, Greenfield offers a full suite of sustainability-focused characteristics. Greenfield products are produced by a carbon-neutral company with solid leadership in animal care, including 100% gestation crate free, advanced open sow housing, and all hogs are fed a completely vegetarian diet.

Over the past couple of years we have steadily grown our business into the United States, which is a strategic large and lucrative market for us. Our success in the US is driven by our sustainable meats platform, which provides us with meaningful points of difference while earning attractive margins. Compared to the same quarter last year, US meat protein sales grew 30%, representing the third straight quarter that our US sales growth has exceeded the level of 20%.

As Michael mentioned, you will recall that, back in our discussion in May, we foreshadowed that the second quarter would present challenging market conditions and that we expected the associated impacts of those challenges to be transitory in nature. In addition to the margin compression that we expected and we ultimately experienced in our prepared meats business, we also faced a moderate headwind from the pork complex. On the surface, public market data would suggest a favourable pork complex, resulting in a 140 basis point tailwind to meet EBITDA margins; however, we actually experienced a moderate headwind as packer margins fell below the five-year average and the benefits of higher hog prices and higher by-products markets were neutralized by our commodity risk management programs and by the fact that we continue to have restricted access to the Chinese market.

As I mentioned earlier, in the face of challenging market conditions and against the backdrop of COVID-19, we view our second quarter meat protein results as an exceptional outcome and, as Michael mentioned earlier, we expect a full recovery in our meat protein margins in the second half of 2021, beginning in the third quarter. To summarize, the strength of our meat protein segment adds confidence in our ability to deliver our 14% to 16% adjusted EBITDA margin target in 2022.

Turning to our plant protein group, as you heard in our opening comments today, we had a slow first half of the year for reasons that we understand. Our results in Q2 were primarily impacted by lower retail volumes as we lapped the COVID-driven demand surge of 2020. Since our plant protein business is predominantly US based, the impact of the exchange rate with the Canadian dollar was also quite significant. Excluding this impact, sales fell by 10.4% in the second quarter as compared to last year.

Our fresh product line felt the challenges most acutely. This line, which consists of items mainly found in the fresh meat case of the grocery store, faced softer distribution in the period. That said, our core portfolio, which consists of products traditionally found in the produce and frozen sections of the grocery store, continues to outperform the broader market. Over the last 12 weeks we have gained market share in Lightlife tempeh and in our Field Roast Chao cheese line. We continue to see both Tempeh and Chao cheese as long-term growth platforms that will benefit the health of our business.

Importantly, throughout the quarter we also continued to advance our strategic plan and we remain confident that we have positioned the Greenleaf business for long-term success. Firstly, we completed the reformulation of our Lightlife portfolio of products, completely overhauling 19 of its items so that they are made with simple, recognizable ingredients and with fewer allergens. Both our Lightlife and Field Roast renovations are now fully in market and our leading brands are well positioned to accelerate growth in the back half of this year.

Secondly, we introduced new product innovation to the market, including our Lightlife chicken tenders and our Lightlife chicken fillets, which are now gaining distribution in retail locations across the United States. These products are a breakthrough in plant-based chicken. They are the first fresh plant-based chicken items available in the market. In this product we have cracked the code. We've improved the breading and appearance compared to competitive products in the category and we have an appetizing texture that mirrors traditional white meat chicken.

Thirdly, our partnerships with major retailers have been increasing steadily and we have confirmed an increase in our total retail points of distribution by over 10% that will take hold in the back half of this year. This includes thousands of additional points of distribution added at large retailers such as Walmart, Albertsons, Publix, Whole Foods, Kroger, Sprouts, and many others. On top of this, we've expanded our presence in the retail club channel, launching Field Roast plant-based nuggets at Costco stores in the Los Angeles region. We see this as a first step to potentially wider distribution of our products in the club channel.

And finally, we announced a number of exciting food service partnerships that will help to drive and propel sales in the back half of this year. These include a new partnership with Little Caesars to premier our Field Roast plant-based pepperoni across the United States with the Planteroni Pizza. We also added our Lightlife burger and Field Roast Italian sausage crumble pizza to Boston Pizza's summer menu, and our Field Roast Signature Stadium Dog was selected as the official plant-based Dodger Dog for the LA Dodgers. This product is also available at a number of other high-profile Major League Baseball stadiums.

I'm excited to see the momentum that we are building in the plant-based protein business today and, factoring our expectation of a gradual reopening of the economy, I am confident that we will recapture our high-growth trajectory in the back half of 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 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 protein groups. I'll conclude by speaking to some key financial metrics, capital expenditures, and our outlook for the remainder of this year 2021.

Sales were $1.2 billion, an increase of 6% from the prior year, with higher sales in meat protein partially offset by lower sales in plant protein. Adjusted EBITDA was $104 million, a decrease of 10% from the prior year. Adjusted EBITDA margin was 9%, a decrease of 160 basis points from last year. Adjusted operating earnings were $56 million compared to $67 million last year. Net earnings were $8.8 million or $0.07 per basic share compared to $25.7 million or $0.21 per basic share last year, largely as a result of higher net loss and non-cash changes in the fair value of biological assets and derivative contracts, which IFRS requires us to do but, as we have noticed over the last couple of quarters, do not necessarily reflect the underlying earnings of the business. This non-cash change in the bio assets is the result of lower market prices for hogs that we use to value our live inventory. Without these non-cash changes, adjusted earnings were $0.28 per share for the quarter compared to $0.35 per share in the prior year.

Looking at the meat protein segment, sales increased 7.4% to $1.1 billion, benefitting from higher fresh pork and poultry market values and a favourable mix shift towards sustainable meats and branded products. These factors more than offset an unfavourable impact from a stronger Canadian dollar against the US dollar and lower sales to China. Meat protein adjusted EBITDA was $130 million, a decrease of 6% as the mix shift benefits toward branded products and sustainable meats were more than offset by lower profits in China and lower packer margins. Michael and Curtis already referred to that. Adjusted EBITDA margin for the meat segment was 11.6%, a 170 basis point decrease from last year.

Turning to plant protein sales, they were $48 million, a decrease of 20.7% or a decrease of 10.4% in constant currency. Sales growth was impacted by lower retail volumes as the market laps last year's COVID retail surge. These more than offset growth in food service volumes and the impact of pricing taken in the fourth quarter of last year to offset inflation and structural cost increases. Plant protein gross margin was 0.6% compared to 13% last year. This decrease was mainly due to our strategic investments in capacity in anticipation of revenue growth, which has resulted in increased overhead and transitory costs. Additionally, gross margin was impacted by low sales volume and higher trade expenditures. SG&A expenses in plant protein were $30 million and down slightly from a year ago, primarily due to the impact of foreign exchange. Excluding this, the spend was similar to last year and in line with our plan.

Turning to the balance sheet now, as per plan, net debt increased to approximately $1.1 billion. As we mentioned many times before, this net debt is mostly used to fund our strategic capital expenditures. About $700 million of our net debt is related to construction capital, a term that we use for investments on the balance sheet that are not contributing to returns today but will within the next three years. Think of it like a construction of an apartment building but the tenants haven't moved in yet; the asset has value even if it isn't producing revenues or returns yet. During the quarter we invested $167 million in CapEx, including construction capital of about $128 million, primarily related to the ongoing construction of our new poultry facility in London, Ontario. We're happy with the progress being made on this side despite the many challenges that the past COVID year has presented us with. We're on track to gradually bring the site on line in the second half of 2022, as per plan.

I'll wrap up with an outlook for our business for 2021. Our expectations are based on certain assumptions, primarily the continued normalization of COVID-19 restrictions and a pork complex in line with the five-year average. As you can see from the outlook slide in our presentation on the website, as well as our MD&A and other materials, our full year outlook for meat protein remains unchanged. With prepared meats pricing updates now in the market, we expect to see a full recovery in our margins in the back half of the year. On a full year basis, we continue to expect to make progress towards our adjusted EBITDA margin target of 14% to 16% in 2022. In plant protein, and based on soft sales growth year to date, we no longer expect full year sales growth of 30%. We do expect sales growth in the back half of the year of at least 30%, excluding foreign exchange impact and in line with our strategic target. While we see a gradual reopening of the economy in both key markets in North America, there's a lack of full visibility though on the potential impact of a fourth wave of COVID-19 on the recovery of the food service business. On CapEx, we are rapidly advancing construction at the London poultry plant and the Indianapolis tempeh facilities and are currently tracking in line with our guidance range of $550 million to $650 million for the year.

I will now turn the call back to Michael. Michael?

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

Thank you, Geert and Curtis. I appreciated your very comprehensive review.

Overall, I'm very happy with the commitment and focus that our team has shown throughout the pandemic to keep each other safe while continuing to advance our strategic plans. I'm particularly pleased with the results in our meat protein business where we continue to demonstrate the strength of our vision and our strategy focusing on brands, sustainable meat and operational efficiency, and our ability to deliver profitable growth. In the plant-based business, I'm optimistic about the opportunities that are opening up to us as the economies shift back into a more normal state and the opportunities that will provide us. Over the past months we've put the commercial portfolio manufacturing and organizational foundations in place to deliver on our growth agenda. We're laser-focused on recapturing that growth trajectory in the back half of the year in our plant business. Each day we remain focused on advancing the strategic agenda defined in the blueprint of Maple Leaf, taking steps to become the most sustainable protein company on earth and creating shared value for all stakeholders.

With that, we'll now open up the line for your 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 the star followed by the 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 question before cycling back into the queue. We'll pause for a moment to compile the Q&A roster.

Your first question comes from Irene Nattel. Please go ahead.

Irene Nattel — Analyst, RBC Capital Markets

Thanks and good morning, everyone.

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

Good morning, Irene.

Irene Nattel — Analyst, RBC Capital Markets

Good morning. The meat business actually delivered very strong results for the quarter, all things being considered. You mentioned the sustainable meat, you mentioned the brand renovation, but can you talk to how those played out both from a demand and a margin perspective and really what we should be expecting as we move through the back half of the year on that front?

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

Sure. Curtis, do you want to address that question?

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

Yeah, sure. Thank you and good morning, Irene. Yeah, I appreciate your commentary. We are very pleased, as we stated in our comments, with the performance of the meat protein business in the second quarter. I think, from an execution point of view, a lot of things went right and that was again, you know, based on the competency of our team our business is operating at a high level and I think our strategy is taking hold. It was good evidence of that in the second quarter.

We had robust sales growth, 7.5%, and our volumes were relatively flat, but keep in mind that's against lapping the COVID surge from a year ago. So we were very, very happy with that. There are a number of things that contributed. I would start by mentioning the strength and resiliency of our supply chain. And we did start to see some normalization, some signs of normalizing in the channels between food service and retail and we had an incredibly efficient supply chain in the second quarter, which helped support our results, obviously.

We did grow our market share in our brands, so our brand renovation continues to pay dividends. In the quarter we saw especially strong strength in our Schneiders brand, but we're clearly happy with the mix that our brands are benefitting our business within the quarter. And then our sustainable meats offering grew at double digit again this quarter, which also contributed. And on top of that we again had double-digit growth in the US. So, when you think about kind of the growth vectors that we have in the Company, I think you saw evidence that they all played out positively in the second quarter and we are quite pleased with that.

The last thing maybe I should mention, Irene, is we also accomplished 7% revenue growth in the face of a pretty significant FX headwind, so the results would have been materially better had there not been an FX headwind as well. So, again, we're very pleased with the results.

I think looking forward, we've guided towards mid to high single-digit growth rates for the year and certainly see ourselves as being on track to deliver against that over the balance of the year.

Irene Nattel — Analyst, RBC Capital Markets

That's helpful. Thanks, Curtis.

And then moving on to the plant side, obviously 0.6% gross margin is disappointing. What are the conditions that need to be in place to get you back to, let's call it, the low- to mid-teens pace of last year, I guess part of last year, or even the 20%-plus margins that you had previously?

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

I think it's really important, again, with a long-term lens on this, Irene, to kind of digest the path to profitability that we see here. And I know that's top of mind for anybody who's investing. Our performance in our plant-based business and the investments that we're making are not losses. They are investments in our lens. But like all investors, we, like you, expect a path to profitability that has some confidence in it. That path to profitability we see as likely intersecting sometime in the 2023/2024 zone and is going to be delivered on the back of growth. We need to restore that growth levels and we're confident that we will.

Curtis outlined a range of considerations and initiatives that are in the marketplace that will support that. Behind that wave unfolding in late 2021, there are waves of innovation and new developments behind that for the next many years and we expect that path to profitability to intersect sometime 2023/2024.

Obviously, gross margin is one component of that. Our gross margins today are primarily suppressed, for two reasons. The first is we invested for that growth in the capacity to supply it in advance of the growth, so we're carrying the cost of that growth in advance of delivering it. So growth will deliver the normalization of those gross margins in the first instance. And secondly, there is some inherent instability in our operations, which go from instability to some stability, and that will normalize. So, I am not concerned at all about the gross margins. We are only concerned about delivering on the growth in the long term, not quarter to quarter, in the long term, with the ambition that those lines will intersect on a path to profitability in 2023/2024. And I can assure you, as an investor, who's got a long-term track record of always looking for a return on my investments, I can assure you if Plan A doesn't work, we'll find Plan B.

Irene Nattel — Analyst, RBC Capital Markets

That's helpful. Thank you, Michael.

Operator

Your next question comes from Mark Petrie. Please go ahead.

Mark Petrie — Analyst, CIBC World Markets

Good morning. I wanted to actually just follow up on the plant-based question with a little bit of a different topic, I guess. Could you just help us understand the R&D capabilities in Greenleaf Foods and I guess specifically plant based? Any comments or figures on the spending or budget and how that's evolved would be helpful. And related to that, I'm interested to hear your views, Michael, I would guess from you, on the potential of plant-based foods versus cell-based or cultured products and Greenfield's outlook for potentially participating in that part of the market?

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

Yeah, great questions, Mark. And again, with a long-term lens, those are the two probably best topics to concentrate on with that long-term lens, so I value your question immensely. They're supremely important.

We've built an innovation capacity and capability in our business today that rivals anyone in the world. Anyone. We've, for example, used that innovation capacity to deliver on a first-to-market and best-in-market portfolio of chicken products. That's no small feat. We have used that capacity to deliver on pizza toppings like pepperoni and will be applied to other pizza toppings in plant-based protein that are unrivaled in the marketplace, and many have tried, and it's all driven because we have built and innovation and commercialization of that innovation capacity that's unrivaled in the marketplace and I'm super proud of it. Incredibly proud of it. Delivering on a fresh plain burger is table stakes relative to these other innovation capabilities.

So, long term, that's the single most important asset. We're not disclosing kind of the quantum of investment behind that, because I actually don't think that that's a relevant metric between the two, because you can spend a lot of money and waste it or a little money and it'd be very effective. But it's a super important question and I'm really proud of what we've done and it's showing up in the marketplace in the second half of this year and will continue to be the gift that keeps on giving.

With respect to cell-based meats, Mark, again, a super important question for us, an important topic. The cell-based meat business is immature today, but it will be a part of the business and we will participate in that over time. I think it's early in the development cycle for us to participate in it. We've made a very small investment in that space to date just as a window, just to have visibility to the development and the technology. There are many participants in it, so this is not a one-pony race. And there are lots of different strategic pathways for Maple Leaf to participate and cell-based meat is just another kind of source of protein. But suffice to say, it's immature. We will be participating in it over time. We've made small, very small bets to keep our eyes, ears, and learning on the table in that space, and as it develops we will certainly be a player.

Mark Petrie — Analyst, CIBC World Markets

Okay. I appreciate that. And then one, I guess probably for Geert. Two straight quarters with SG&A dollars below last year. Obviously there's a fair bit of noise in there given the pandemic costs last year in Q2, but I guess you're running at about 11% of sales. Is that a good run rate going forward or do you think you can gain leverage from here given your solid top-line momentum?

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

Mark, I think, as you say, there's a lot of noise in here. We've got a lot of COVID costs last year. Obviously they're abating a little bit, except for the structural pieces that we've built into our business and also priced for. There's always timing on ad and promo. That plays a role in both segments. But I think it's fair to say that we see, in our financial planning cycles, we continue to see, every single year, opportunities to eke out a small amount of cost out of the business. And that is almost in all cost lines across the P&L. So I think, as we continue to grow the top line, you will see us deliver some basis points or tens of basis points on leverage. I would really be hesitant today to give a target SG&A percentage other than that general principle. So in short, yes, we see more opportunity.

Mark Petrie — Analyst, CIBC World Markets

All right. Appreciate the comments. All the best.

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

Thanks, Mark.

Operator

Your next question comes from George Doumet. Please go ahead.

George Doumet — Analyst, Scotiabank

Good morning. Michael, I want to get your thoughts on China's statement that the pork herd is almost back to its pre-ASF level and you think, as a result of that, the North American pork complex could be running at margins below its five-year average over the next few quarters?

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

First of all, George, I and most others have little to no confidence in any of the data prognostications, comparisons, or industry analytics that come out of China these days. It's just, it's very opaque and I would not place any judgments on the state of recovery of their industry, because there's many kind of false signals that seem to emerge.

Our strategic approach to China over time is less about the opportunism of participating in that marketplace during an ASF bubble and more about the long-term relationship with China as an outlet for by-products from Maple Leaf pork complex that was lucrative prior to the ASF outbreak and will be lucrative after the ASF outbreak either way. So we're looking at it very much outside the lens or prism of the opportunism of the ASF bubble in that market, which is agnostic to whether their industry recovers or doesn't.

George Doumet — Analyst, Scotiabank

Okay. Thanks for that. And just my second question was on the price of poultry, obviously a really substantial move in the quarter. Can you talk about that part of the operation, how it's trended, maybe anything we should be cognizant on in terms of volumes and margins as we circle the rest of the year?

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

Well, the price of poultry is highly correlated to corn values and you've seen what's happened with the grain complex, the feed costs in the first half, and those two are basically perfectly correlated. So that's the underpinning of the price shifts that have occurred in poultry.

Maybe, Curtis, you'd take what's going on more granularly in the marketplace around the poultry business to address George's question.

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

Yeah. Good morning, George. Thank you. So we've obviously seen an escalation in the cost of live chickens in the poultry complex. Over the course of the year really there's been an escalation, as Michael mentioned, tied of feed grains. We've had to adjust our pricing into the market on two occasions and the sum of that pricing has been in the range of kind of the mid to high single digits in terms of moving our pricing forward. We've executed twice and we believe and have a high level of confidence we're really well positioned here for the back part of the year. So I think that would be the summary, George.

George Doumet — Analyst, Scotiabank

Great. Thanks, guys.

Operator

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

Peter Sklar — Analyst, BMO Capital Markets

Good morning. First, the margin recovery, the strong margin recovery that you're expecting in the second half for the meat protein group, is that all related to normalization of the pork complex and, I guess specifically the processor margin, or are there other factors at play as well?

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

No. No, it's decidedly not that, Peter. In the second quarter we had an unexpected increase in the value of meat, which is a raw material in our prepared meats business, so quickly that we were unable to execute pricing within the quarter, which is normal. There's typically a 12-, 14-week lead time executing pricing with retailers. We executed those prices effective early July, which affects our third quarter. So we have the raw material costs affecting us in the second quarter, the pricing to offset that affecting the third quarter, which will recover our margins. That's the primary story.

Peter Sklar — Analyst, BMO Capital Markets

Oh, okay. Great. And then just a couple questions on the plant protein group. I think like you took price in the plant protein group in the fourth quarter of last year and like how has that price been received in the retail channel and were you able to get that price?

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

Broadly the answer is, yes. Curtis, maybe you could offer Peter some colour and detail on that.

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

Yes. Sure, Peter. We did advance our prices, as you mentioned, in the fourth quarter last year and were able to secure that pricing in the market. We have not seen any significant competitive headwinds or challenges from a pricing point of view beyond what our base or normal expectations would have been. And based on our kind of procurement situation, again, we feel like we're well positioned heading into the last part of the year here.

We do normally, as part of a normal structural review of inflationary costs, review our cost position kind of around this time of the year and we're certainly looking forward, in the plant protein business, to the impacts of distribution in raw materials, and we'll decide once we have all those inputs in place what our calculus will look like over the coming months. But to date, yes, we've been successful in pulling through the pricing that we expected.

Peter Sklar — Analyst, BMO Capital Markets

Okay. And then, Curtis, I noticed your comments in the package, in the slide deck. You talked about higher trade expenditures in the plant protein group. Is that just normal course increases because sales are expected to grow there and you're introducing new product categories or is there something structural going on?

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

No, I would call that normal course of business.

Peter Sklar — Analyst, BMO Capital Markets

Okay. Thank you very much.

Operator

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

Michael Van Aelst — Analyst, TD Securities

Thank you. Good morning.

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

Good morning, Michael.

Michael Van Aelst — Analyst, TD Securities

On the plant-based side, the core products seem to be in pretty good shape and growing nicely, but you talked about the fresh performance taking the brunt of the decline this quarter. Can you explain a little bit more what's behind the fresh performance and what's being done to rebuild the momentum?

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

I think one of the more important things, Michael, to appreciate, certainly we do, in our plant-based business is the breadth of the various segments that we participate. That includes our legacy produce business, that includes multiple dimensions of that from dogs, sliced meats, roasts, all the way through to tempeh, the Chao cheese alternative segment. It includes our burgers and grounds and all the way through to some very new and emerging significant segments like chicken alternatives and pizza toppings alternatives like the pepperoni, salami kind of products that will be offered to that segment. So we have a very broad portfolio, broader than anybody else. Not all of them are going to perform equally. Clearly, the fresh burgers and grounds is one segment that people pay attention to. I don't know if that's an appropriate amount of attention, but people pay attention to that as a bellwether and that's been more of a struggle for us.

In terms of the nuances and some of the colour and detail behind those various category performances, Curtis outlined it. Maybe, Curtis, you could just maybe do a little deeper dive into the fresh component of it that Michael's questioning, but also in the context of all of the other segments of our business that are going incredibly well.

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

Good morning, Michael. I think there were three kind of challenges that we faced in the second quarter. The first was a category slowdown, which I suppose shouldn't be a surprise given the lapping of the COVID demand surge from a year ago. The second was just really around the pace of on-boarding new food service customers and new retail innovation, and that's really a disruption from COVID as well. And then the last, as you mentioned, was around fresh velocities, which we did signal. I think Michael characterized it well. The fresh component or the burger in particular is one meal in the day, one day part and one part of our portfolio, but there are many that I think are important. And for me, I think we should concentrate on what's going to be different in the second half of the year.

So, starting with fresh, we have re-launched our advertising support and the ad and promo that we're investing behind our fresh product line and we're gaining some distribution in the back half of the year as well, (inaudible) distribution in the back half as well. Outside of that, I really think it's important to focus on the momentum we have both in our core, where we're gaining share, as we said earlier, in tempeh and in Chao cheese, and the pace and the breadth of innovation that we're bringing to the marketplace. That will be materially different in the second part of the year. That's Lightlife chicken, as Michael said, the Stadium Dogs, the Field Roast pepperoni, the four platforms that we've established in food service that include pizza, chicken, dogs, as well as our burgers, and the fact that we've confirmed that we're adding thousands of points of distribution across the retail network, including the club channel with Costco. So I think you're starting to see evidence of those benefits and the other levers that we have in our portfolio taking hold over the balance of the second part of the year and, without question, we have to get the fresh velocities going. That's a challenge we're facing head on and something we need to deal with over the back half.

Michael Van Aelst — Analyst, TD Securities

So we're over a month into Q3 and the question I've got from a few investors already is like what's the level of confidence in that 30% revenue growth. And since you're already a month into the quarter you know your listings for the most part, you know some of the demand, so are you quite confident in achieving this in Q3 or is this more of a broader second half comment?

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

We've directed the commentary towards the second half, so I think it's important to answer the question in the sense that we're very confident to be at or above our 30% target in the back half of the year. And I think that's the answer to your question, Michael.

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

On a combined basis, so there's no misunderstanding, Michael. Clearly most of this innovation comes in, it's a curve, because they're commercializing it and there are new launches. We don't control how quickly Little Caesars rolls out pepperoni to their—we know what the end is and we know what the beginning is, but there's lots of steps in the middle between how that rolls out from a timing perspective. They can change an order from September to October and that number materially changes between Q3 and Q4. You know what I'm saying? So, putting a fine point on the differentiation between Q3 and Q4 would be short-termism at its worst and we just don't feel that that's appropriate.

Michael Van Aelst — Analyst, TD Securities

Okay. And when you talked about investment to drive sales, is it primarily the ad and promo support or is there price concessions being provided anywhere on the plant-based side?

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

Curtis?

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

It’s primarily ad and promo support. Primarily.

Michael Van Aelst — Analyst, TD Securities

Okay. All right, thank you

Operator

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

Derek Dley — Analyst, Canaccord Genuity

Yeah, hi, guys. Just following up, just on that comment on pricing, can you sort of quantify the magnitude of the price increase, the most recent one that you passed through? Like is it in the mid single digit level?

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

For prepared meats?

Derek Dley — Analyst, Canaccord Genuity

For prepared meats, yes.

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

3% to 5%, I think, would be a reasonable range. It depends on the product category obviously, but that 3% to 5% would be a reasonable range.

Derek Dley — Analyst, Canaccord Genuity

Okay. And have you guys been facing or continue to face any supply chain issues in relation to either the base business or even in relation to building out your facility in London?

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

No. Our supply chain has been performing remarkably, remarkably well, actually, all things considered with the disruption that's occurred in channel shift and so many others. As Curtis said in his remarks, the effectiveness of our supply chain today has been a real source of strength for us, so I would say broadly, you know, an emphatic no.

Derek Dley — Analyst, Canaccord Genuity

Okay, thanks. And then just the last one on me, just obviously, given the strong growth you've seen here in sustainable meats, both in Canada and the US, it looks like you guys added some more hog raising capacity in Saskatchewan. So what percentage of your hogs are now internally sourced?

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

The investment that we made in Saskatchewan doesn't materially change the internal sourcing. It's not a material quantity just based on the shifts that we've got going and migrating it from one source to another. So there's no material shift in our effective hog ownership statistics that we've maintained. What this does do for us is it increases our availability of RWA hogs. So the return on investment for us is, A, it brings more internally-controlled finishing and weaning production, but the big return is it increases our RWA hog numbers.

Derek Dley — Analyst, Canaccord Genuity

And then so that total percentage would be still around 40%? Is that the number I recall?

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

Yes. Yes, yes. Yes. It doesn't change. It's hovers between 40% and 45%.

Derek Dley — Analyst, Canaccord Genuity

Between 40% and 45%. Great. Okay. Thank you very much.

Operator

There are no more questions at this time, so I'll turn the call back to Mr. McCain for closing remarks. Please go ahead, Mr. McCain.

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

Thank you very much for everybody participating today. Again, I would encourage all of our stakeholders to focus on the long-term blueprint that we are executing against in both our meat and our plant-based business. We're excited about our business today, more excited than we've ever been, notwithstanding that there's always things that you wish could or would go better in the moment, but we are, again, focused on our long-term perspective in both of those platforms and highly confident in each. Look forward to the next time and the next time we get together and we will further update you, but thank you very much for your support and we will see you in 90 days. Thank you all and have a good day.

Operator

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