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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Welcome to the Maple Leaf Foods First Quarter 2018 Results Conference Call hosted by Mr. Michael McCain. Please be advised that this call is being recorded. (Operator Instructions)

I would now like to turn the meeting over to Mr. Michael McCain. Please go ahead.

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

Thank you, and good afternoon, everyone, and thank you for joining our first quarter 2018 earnings call.Debbie Simpson, our CFO, and I will provide some commentary on various aspects of the business, and then,open up the call for your questions. The news release and today's webcast presentation are available at mapleleaffoods.com under the Investors section.

Some of the statements made on this call may constitute forward-looking information, and future results may differ materially from what we discuss. Please refer to our 2017 annual MD&A and other information on our website for a broader description of operations and risk factors that could affect the company's performance.

So beginning -- if I could turn your attention to Slide #3, please. In summary, we believe we delivered excellent gains in our prepared meats business, which contributed to a 2.4% increase in sales. Reported sales were impacted by a new IFRS standard and other items that Debbie will walk you through. From a margin perspective, as expected, we had a more challenging start to the year, due to anticipated compression in primary processing margins. Partially offset these underlying market conditions with some notable improvements in our prepared meats business as we reduced and improved operating cost performance and the contribution of our growing plant-based protein platform.

The result is consistent with our expectations for the first half of 2018, and I would emphasize that very well within what we've described as the normal and natural bandwidth variation in our business, which we've described for years as being plus or minus 100 basis points in our profit margin in any quarter. On balance, we feel very good about actually delivering the 10.1% adjusted EBITDA margin and our adjusted EPS of $0.29 per share in the quarter.

We're now going to market with our single biggest brand strategy initiative in the history of the company. We're very excited about that. I'm going to come back to that after Debbie goes through some financial highlights and commentary. We remain extraordinarily focused on executing the strategies that we've identified to drive profitable growth, and we're very excited about our vision to be the most sustainable protein company in the world. Debbie, over to you.

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

Thank you, Michael. If I could turn your attention to Slide 4. In aggregate, we are satisfied with the commercial and operating performance across our business in the quarter. Prepared meats sales were very strong, with volumetric growth in both domestic and U.S. markets. We are highly -- excuse me, sorry, we had higher volumes across most of our portfolio, except fresh pork, due to temporary volume reductions that tie back to the impact of the PED virus in Manitoba last year.

In addition, margins expanded across most of our portfolio. Prepared meats benefited from gains in operational performance, while good performance in our value-added fresh meat portfolio included -- including Raised Without Antibiotics pork, value-added fresh poultry, and pork exports, all delivered increased profitability compared to Q1 last year.

These commercial gains were offset by market headwinds in primary pork processing that Michael touched on. As we had discussed during our fourth quarter call, this has been anticipated for some time as the industry adjust to increased U.S. processing capacity with new plants coming online. Short term, this has caused some choppiness in the market, but hog production numbers are clearly increasing to absorb this capacity.

It is important to call out that our strong mix of branded and value-added products and our balanced portfolio insulated us a great deal from this underlying market volatility.

Lastly, our commercial performance also benefited from continued double-digit sales growth in our Lightlife and Field Roast brands, which are building momentum in a very fast-growing category and increasing our presence in the U.S.

Moving on to Slide 5. Our key metrics for the quarter included a sales increase of 0.8% to $818 million, inclusive of a $30 million impact from the new IFRS reporting standard. This increase was driven by prepared meats, our plant protein platform and from value-added fresh poultry volumes. As most of you will know, IFRS 15 deals with revenue from contracts with customers and became effective this January for all listed companies in Canada. The impact for Maple Leaf is primarily related to the area of recognizing revenue on repurchase agreements with coal manufacturers, which, in our case, reduced our sales on cost of goods sold by approximately $30 million that would previously have been recognized in the quarter.

There were -- there was no impact on our net earnings, adjusted EBITDA or adjusted operating earnings. Now that we have adopted the standard, we expect a similar ongoing impact each quarter.

Our commercial performance was also affected by some unique costs in the quarter. Our careful management of the PED virus situation in Manitoba last year resulted in additional costs this quarter related to barn cleanup, lower feed conversion costs and biosecurity. While there are no current signs of the virus in our system, this had a lag effect on volumes and costs, which we are now seeing in our Q1 results.

Turning to other financial metrics for the quarter. We delivered an adjusted EBITDA margin of 10.1% despite strong headwinds in the pork complex. This is our ninth consecutive quarter of greater than 10% adjusted EBITDA margin. Adjusted EPS for the quarter was $0.29 per share, and we had cash on hand of approximately $68 million and minimal debt of approximately $61 million. Our cash on hand reflects $22 million of share buybacks and roughly $138 million spent on closing the acquisition of Field Roast during the quarter. The strength of our cash generation and balance sheet allows us to continue to reward shareholders through dividend and share buybacks.

During the first quarter, we further increased our dividend from $0.11 to $0.13 per share.

I will now turn the call back to Michael.

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

Thank you, Debbie. Turning to Slide #6 in the deck. I would like to begin my remarks here talking about our sustainability journey and the gains that we're making in our ambition to become the most sustainable protein company on earth, which was the topic I primarily discussed at our Annual General Meeting of Shareholders this morning.

I'd like to begin that by quoting Larry Fink, the Chairman and CEO of BlackRock, who's one of the world's largest investors in his recent -- very recent 2018 open letter to CEOs where he wrote: "To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all their stakeholders, including shareholders, employees, customers and the communities in which they operate." He went on to say, "Today our clients, who are the company's owners, are asking you to demonstrate the leadership and clarity that will drive not only their own investment returns, but also the prosperity and security of their fellow citizens."

So these are the beliefs that are at the heart of the Maple Leaf vision of shared value, which I spoke about at this morning's Annual Meeting of Shareholders. While we are leading our industry and sustainability initiatives to address critical needs for society through a new social contract, Maple Leaf is also creating commercial advantage and differentiation through our leadership in these areas. We believe that we're small enough to be rebellious and large enough to make our rebellious ideas commercially viable. Our customers increasingly value our capacity and capability to deliver products, produce sustainably, and consumers are increasingly demanding it.

We organized our sustainability focus under 4 priorities: better food, better care, better communities and better planet. To deliver better food, we are embarking upon the most comprehensive revamp of our entire food portfolio of products and brands in our history. It's a bold strategy and unlike any that we've accomplished or seen in many years in the food business.

Our flagship Maple Leaf brand is anchored in a "Real Food Movement" and is connected to a new Maple Leaf Food manifesto. It's a food revolution not just a brand revolution. We're very excited about the changes that we're bringing to the market, and I'll spend more time on our brand strategy in a few minutes.

Delivering better care, we are immensely proud of the strides that we're making. Our enhanced sow housing is one such area where we're leading the industry. We've converted almost 33,000 sows from confining crates to enhanced open housing, and developed real intellectual property on how to improve welfare using our advanced practices.

We're also about to undertake breakthroughs in innovation in animal welfare that will further our leadership. We have many bold ideas in the pipeline and underway.

Our Maple Leaf Centre for Action on Food Security is a major focus of community engagement, where we're going well beyond conventional charity. Just over a month ago, we held the inaugural Food Security Symposium, which brought together senior leaders from the food security movement, government and business, to elevate the critical issue of hunger in our country and advance collaboration.

This was a real breakthrough as these segments of society often work in isolation of each other. The center has contributed roughly $4 million in funding since its inception to support 12 multiyear partnerships designed to test and scale innovation to tackle food security, which affects 4 million Canadians.

Contributing to a better planet, we are tracking well ahead of our ambitious goal to reduce our environmental footprint by 50% by 2025. By the end of 2017, we've achieved across-the-board reductions of about 20% in our emissions, energy, and waste baseline. We are now pursuing a carbon management strategy that we expect to advance innovatively and help us materially exceed our 50% reduction target. In short, we're totally focused on this shared value agenda. It's giving us voice in the industry and purpose in the company.

Turning to Slide 7. Many of you will recall at our Investor Day last November when our Senior Vice President of Innovation and Marketing, Adam Grogan, outlined the single-largest food and brand renovation strategy in the history of Maple Leaf. This initiative is rooted in a deep understanding of consumer behavior, which has led to very clear and unique positioning of our flagship brands in 3 defined segments of the prepared meats category. Our Maple Leaf brand will lead in the Real Food Movement. We've taken out the things that people don't want and replaced them with only natural, real or simple ingredients, with nothing artificial.

Our Schneiders brand stands for craftsmanship and old world providence and artisanal methods and flavors, and our Swift brands appeals to consumers looking for a quick and convenient protein fix with excellent value. It's about affordability and ease. I view these changes, when fully executed, as game changers. We fully expect this work to contribute to our 2022 EBITDA margin goal and future profitable growth for decades.

Supporting such a large-scale brand strategy, we are launching our single, most creative marketing campaign ever and allocating some of our ad and promotional spending behind the launch. We expect to reach virtually all Canadians with intense frequency over the next 6 months and across multiple contact points in a phased campaign.

Some of the various creative executions are illustrated on this slide. As you can see, our marketing program will span TV, out-of-home, digital, experiential and other innovative avenues to engage with our consumers. I'm super proud of the team's creative work to support these campaigns. Our TV creator will be on the air over the next few weeks, and I believe you'll agree when you see it that it truly is groundbreaking.

Turning to Slide #8. We showcase some of the new packaging and in-store execution. I'm equally proud of our team's work on the commercial execution aspects of this strategy. In the first quarter, we were, frankly, racing to the finish line to bring this work to completion, and we're now well underway in executing it in the marketplace. Shipments have commenced to our customers. Their support for our strategy has been tremendously positive. They are as excited as we are about the innovation that we're introducing, and our ability to drive demand and category growth. Their support is showing up in great display space, flyer support and creative in-store execution.

To put this into perspective, our national field sales team has put in place more than 100,000 shelf tags that have to be changed and are building close to 60,000 summer displays in supporting shopper marketing programs, all executed in a matter of weeks. We have one of the most capable retail execution teams in CPG in all of Canada.

This renovation has involved the repositioning of more than 600 SKUs, which is a monumental effort. There will be some additional ramp-up and start-up costs in the second quarter, but most of the marketing spend represents a shift in timing.

In summary, we will have flagship brands carefully targeted, uniquely positioned to meet consumer expectations in very specific areas of consumption and demand. We are excited about the full execution of these plans.

Turning to Slide #9. Another important leg in our growth strategies is the plant protein space, which gained considerable traction last year with our announced acquisitions of Lightlife and Field Roast. Plant protein has been growing for some time at high double-digit clips, and that pace continues. In fact, is accelerating.

Together, Lightlife and Field Roast are fully participating in this growth curve. And our job is to provide the scale and resources to allow each brand to meet this rapidly growing demand, including expanding our supply chain capabilities. We're absolutely delighted with the performance and contributions from each of these businesses, recognizing that we only owned Field Roast for 2 months of the first quarter.

In the past few months, both Lightlife and Field Roast have expanded their distribution with major U.S. retailers, a key indicator of future growth. Both brands are experiencing increased household penetration as more consumers enter the category. We have built an exciting and active presence in the U.S. plant-based protein market and plant protein, for certain, will be a material part of the Maple Leaf portfolio decades from now.

Finally, turning to Slide #10. I would say we very clearly anticipated a more challenging first half of 2018 due to reasons that we have been very carefully monitoring for years, including the compression in the pork processing markets connected to U.S. capacity startups, and we got it. But our portfolio and our business profile muted that impact with very strong commercial gains in prepared meats, value-added protein and plant protein.

While we expect the second quarter will be similarly affected by market headwinds, this is all entirely inside the bandwidth of normal behavior in our business mix and is transitory. We are managing the short term, and I'm totally focused on the mid- and longer-term views that will be supported by our strategies and our brand performance.

We have clear strategies to deliver the next level of profitable growth and EBITDA margin expansion, and we are driven by bold goals that set the standard for sustainable protein. We're pursuing a vision that will create meaningful social and shareholder value, and we're now actively in the process of launching the largest food and brand renovation in the company's history, which we believe has tremendous promise to contribute to growth for years to come.

And with that, I'd like to open up the call for questions.

QUESTIONS AND ANSWERS

Operator

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

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

As you roll out this tremendous brand relaunch, how has it gone so far? When should we start -- I mean, you mentioned that we should start to see sort of the blanket sort of communication start in a few weeks. Can you just kind of walk through how we on the outside can monitor the cadence of progress of this key initiative?

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

I think you can monitor it on a month-to-month basis, Irene. It will be difficult to monitor weekly. We are well into shipping new products beginning back about 3 weeks ago. So we are starting to ship the products, but they're going to unfold over the course of the next predominantly 60 days, although there will be a tag in that will go on for a couple of months after that. So you will see -- you can start to -- for example, our field sales organization are sending photographs back now. The photographs I included in the deck, actually, are realtime from real grocery stores just over the course of the last week. So you can find or experience those brand conversions in grocery stores across the country as we speak, but the full effect of that won't be felt probably for another 60 to -- 60 days or so. I would tell you that our marketing initiatives are mostly hitting the marketplace beginning next week and will start to ramp up over the course of the 30 days after that. But we begin our marketing efforts to the -- to really target the individual brand strategies beginning next week. Having said that, it is a terrible mistake, Irene, to try and monitor brand or volume performance in an initiative like this over the course of the next quarter. We really -- I mean, you really have to focus on what's this going to be like a year from now. And there's one of 3 outcomes. Door number one is it's a raging success, and we can declare victory very quickly within a quarter; door number two is it's a complete face-plant, and we'll have to revert to something else. Unfortunately, there's a 95% probability that it will be neither of those 2. It will be somewhere in the middle, where we really won't see the consumer traction for a year or 2, and that's really how great branding works, is that it takes time for consumers to really internalize and digest the direction that these brands represent and changing their consumer buying behaviors. And so I'd encourage you and others that are on the call to really look at this as the importance of this strategic direction and what it will mean for us 1, 2, 3 years from now.

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

That's very helpful, Michael. Just moving back to the quarter, if I might. Certainly, you've been very, very clear about that bandwidth, and so that -- I get that piece of it. But if we isolate that, can you give us a little bit of color around -- you noted that you're very happy with the performance of the rest of the business. Where did you see -- like where were you most particularly happy with? What are you seeing in terms of margin evolution in the core prepared meats business?

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

Sure. And I think what's really important to understand here is the key drivers of what's -- what creates this normal bandwidth, which is, for emphasis, identical to the normal bandwidth of quarterly performance in CPG broadly not just us, all of CPG would have statistically the same degree of normal natural variation inside a very short-term quarterly window. The things that impacted our performance inside that normal bandwidth this quarter are things that we've been talking about and foreshadowing for years. We foreshadowed and talked about strategically the introduction of new pork processing capacity years ago and said it would occur in early 2018 -- late '17 and early '18. We foreshadowed and talked about the startup of the new brand renovation years ago. We talked about the forward impact of, say, a PED virus 6, 9 months ago, and it's very short term and temporary in nature as it passes through the system. So if you add up all of those things and say, "Wow, in the middle of all that, we had a variation, natural normal variation of 50 basis points, and our EBITDA margin still delivered 10.1%. Frankly, I'm very excited about that. I'm happy about that. And the reason, which you -- as you point out, is the underlying business is actually going tremendously well. Our volumes were up. Our prepared meats business is dramatically better this year than it was last year. Our plant-based protein business in the United States is on fire. And our poultry business, particularly our value-added poultry business, is very strong. So when I look at the transitory short term, however, you want to describe it, which we foreshadowed and talked about for years and a normal bandwidth of the business, frankly, I look at it and say, "Great. Fantastic. All systems go." So that's just the perspective that I'd add a color that I would add to it. And those are the 4 things that are -- that I'm really focused on brand renovation, volume performance, operating performance, our prepared meats business, our value-added fresh meat performance, the plant-based protein business. Those are all going swimmingly well.

Operator

The following question is from Peter Sklar from BMO Capital Markets.

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

Michael, on the primary pork processing margin, the impact of this additional supply that's come on from these large U.S. facilities, can you update us with your opinion on how long that's going to work it -- how long it will take for that to work its way through the system, and before demand-supply balances and we see normal margins?

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

If I looked at most publicly available econometric models, I think that they would say that they feel that, that would be absorbed in the back half of this year. But Peter, that's a hard thing to call. I know that the hog herd is growing, and it's growing into that capacity so relatively quickly. But what creates that variation is more kind of the emotions of what's taking place than the econometric model. So those are hard things to call. But again, Peter, these are -- if you look at the -- if you're interested in what the shareholder value is 1, 2, 3, 4, 5 years from now, they're incredibly transitory, whether it's 1 quarter or 2 quarters, I don't know.

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

Right. Okay. And can you talk a little bit about your thinking on this China retaliatory 25% tariff? And are you or will you see that in the primary process margin?

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

Again, it's very hard to call. It's very hard to call. We -- that's another factor. It's an overlay to what's actually occurred in these markets. Again, for emphasis, I'm really happy that the very significant portion, almost all of our portfolio actually operates outside of this. So it doesn't have the impact on our business as it does on many others. But you saw, for example, the hog price, if you track that, if you'd looked at -- you'd see a very rapid decline after the announcement of the potential for a trade dispute. Then there was a recovery. Then there's a decline. So there was some movement in that. How the pork processing margin attaches to that is anybody's guess. It's another factor. I don't think it's as significant a factor, Peter, as the -- as just the increasing capacity. It's just another factor. But once again, I mean, the -- you could look at the publicly available data and see what that impacted on -- what that impact had on us and see how much better, how much reduced our impact was versus the publicly available data because of our portfolio.

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

Okay. And just lastly, on this -- your whole rebranding initiative, it's obviously causing quite a bit of change at the shelf level with the grocers.

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

Yes.

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

I'm just wondering, like, how do you organize that with them? Are there fees that you have to pay? Or are you taking more shelf space and (inaudible)? I mean, how does that (inaudible)?

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

That is a -- there's a very, very extensive response to that in how we organize -- we have great relationships with our customers. We go through the process of selling in the change in many cases, in many cases, we're reformulating and redesigning packaging around an existing SKU. So there's no listing fee attached to it, but there might be a shelf tag change. In some cases, there is a SKU change that is attached to that. So we end up approaching it very collaboratively and holistically. There are some costs attached to it but not with retailers, but not really significant or not outside our normal new innovation cost -- upfront cost that's built into our ongoing business model. There are some start-up costs for us, no doubt. There -- you're never perfect in packaging and ingredient time lines from old to new, so that never works out perfectly. There's always some start-up efficiencies every time a new formula is run in the factory. There can be some short-term windows from a supply perspective where you expect a particular SKU to deliver on Monday and it's a week from Monday because something occurred that was unanticipated. So the reality is, these are just normal operating conditions for us, but it's multiplied by up to 600 SKUs over the next 6 months. So that creates some more -- some greater, bigger noise out of this. So that gives you some color, Peter, in some of the elements.

Operator

Our following question is from Mark Petrie from CIBC.

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

I just wanted to ask, I guess, a few questions. The first, with the Raised Without Antibiotics product, there's been a bit more supply coming in, I think. How have the price gaps between sort of the regular sort of commodity fresh pork and the value-add RWA pork evolved over the last year or so?

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

So the price gaps that we're experiencing have not deteriorated in any way. And yes, there is more supply coming in, and I think everybody expected more supply to come in because the demand is growing at a very healthy clip. In the United States, for example, in our core categories, I think in the last 2 years, the demand for RWA meat is up like 25% or more in the U.S. marketplace. So some would say -- certainly, the customers would say, damn good thing that there's more supply because the demand has gone up markedly. And we expect that's going to continue for the foreseeable future. So -- but we've seen no deterioration in the margins attached to that.

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

Okay. With regards to Lightlife, have you had any progress? I know you highlighted the progress you've made in terms of distribution within the U.S. But have you had -- I think part of the plan was to distribute those products more broadly in Canada. Have you had progress on that?

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

Yes. We've presented to all of our customers, and we had very positive responses. So we're -- we expect that in the very near term.

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

And what's the manufacturing capacity like at Lightlife and Field Roast in terms of being able to (inaudible)?

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

Honestly, it's tight as hell because the categories are growing so rapidly. We're constantly working to keep ahead of that. But it's a very high-growth category, a very high-growth segment. And as I learned lots -- a long time ago, when you got a wave like that, ride the wave. And that's exactly what we're doing. We're doing it in the form of making sure that we keep up with the capacity needs to make sure we are filling the demand, make sure we're maintaining or growing our market share in these rising -- in these rapidly growing markets, matching that with new product innovation, which we're doing. Our marketing programs are strengthening. So we are across every lever possible. We're riding the wave as aggressively as we can, including keeping up with the capacity needs.

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

And how material is the CapEx that's needed to do that? Or should we expect news of another -- a new plant or something like that?

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

That's TBD -- to be determined, but if -- I would tell you, that if the growth is significant enough for us to require a new plant, that will be the best news that I've heard in a long time. I'd be happy as hell about that. I suspect that's likely over the course of the next few years. But in fact, I'd say almost certain over the next few years, and it'd be fantastic news.

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

Okay. And just a couple more quick ones. The supply issues with regards to the PED virus, is it fair to say that's isolated to Q1 and that's been resolved in Q2? Or will there be some spillover to Q2?

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

I think there could be some spillover, but it's -- more of it is in Q1. It's just due to the lag. I would tell you that that's not an insignificant impact that was isolated to us. We would estimate there was about $5 million in the quarter -- on PED virus. So it's not insignificant in the quarter, and is mostly due to a hole that's created back 6 or more months ago. The -- and it has a bit of an insidious impact. It affects -- first of all, it affects our volumes and it affects our volumes and hogs Raised Without Antibiotics. So that's always a bit of a struggle because we do so much better on that. But it's also in a lot of other ways. It affects our weight, so the volumes available on existing hog numbers in terms of their weight when they come to market. It affects our ability to sell hog numbers in primary processing. So lots of different direct and indirect implications. I think take that as a rough number. It's probably, I think, better said 4 to 6, but we've kind of pegged it internally as roughly speaking, roughly right about $5 million in the quarter. And there could be a little bit of spillover into the second quarter, but not nearly as much.

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

And that's on revenue or costs?

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

What? The $5 million.

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

The $5 million, yes.

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

No. $5 million in profit.

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

Yes. Okay. And sorry, just the last question. It seems like, I guess -- or wonder if you can just comment about your export business into Asia. And I know China has been getting a lot of headlines, but it does seem like there's been some changes from Japan in terms of their trade policies. And I know that that's an important export market for you. Have you seen any impact in that?

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

No. Not really. I think it's been steady as she goes in both of those markets. We haven't seen any material impact. I think it'll be -- it's $64 question is if trade dispute evolves between China and the United States in terms of how that impacts the markets. I think it's important to recognize that it's a global market. So if you create a hole here, it usually creates -- if a door closes here, a window opens over there, right? So to think because it's one supply base with one global demand set. So I think I don't fundamentally see that as being a big risk to us, but we're not managing our business to kind of figure around how will these market conditions may or may not affect us in a quarter or 2. As I said, it does have -- it has a small -- it has an impact, but it's a small impact actually. It's a very small impact. It's similar to how these things impact other CPG companies, plus or minus, 100 basis points in a quarter. I think we've seen that this quarter. It is an actual fact, if you extract the PED virus, actually, that's $5 million, about 60 basis points, actually. If you take that out, we'd probably been roughly in, maybe, not quite back to last year, but certainly, exceeding consensus. And so I think we're, I think, within the natural ebb and flow of our business model, and so we don't really track those global econometric factors to that degree.

Operator

(Operator Instructions) Our following question is from Derek Dley from Canaccord Genuity.

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

Just as it relates to that, the PED virus. So would it be fair to say that the contribution or your exposure to RWA in the quarter was it down sequentially, just given you didn't have the supply in the quarter?

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

Yes. Yes, that would be a fair correlation. Small, but yes.

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

Okay. And then, in terms of the prepared meats side of the business that you commented outside of processor or fresh pork you did see some volume growth. Can you quantify what the magnitude that growth was, roughly, in the quarter?

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

What our prepared meats volume growth was?

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

Yes.

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

Yes. It was low double digits -- sorry, low single digits. Sorry, I misspoke. Low single digits, which frankly, that's prior to any of our brand renovation. So I would look at that as being actually reasonably -- in fact, I view that as incredibly positive. So it's prior to any brand renovation all of the work that we're doing that is kind of loaded into kind of the back half of 2018 in terms of the impact that, that would have. Being -- having any volume growth, frankly, in our prepared meats business is a bit of a win for us.

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

Okay. And what -- can you remind us what the split in the business is between fresh pork and prepared meats? Like what percentage of your business is fresh pork?

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

We haven't put that into the marketplace, Derek, so I can't give you a number on that. We have said what portion is because we think that the better distinction is not fresh versus prepared because a significant portion of our fresh business is really highly value-added fresh business, things like our Prime poultry, right, and our RWA or Greenfield fresh pork and so on and so forth. So we have a very high penetration of value-added branded or premium fresh offerings that are incredibly attractive and stable for us. So we -- the better metric for us that we have put -- that we have highlighted is what our portion of value-add is as a percentage of our total portfolio. And the number that we've typically quoted, it does hover around a bit inside a range, but we would describe that as in the 75 to high 70, maybe in some periods, up to 80% range. And with a company like ours with 75% to 80% value-added products and sales, which is similar to what the peers that we have that are the highest value-added in the North American pork market would be very similar, in the 75% range, 80% range, value-added products. And that's the more important metric for us than a fresh processed kind of metric, Derek.

Operator

Our following question is from Michael Van Aelst from TD Securities.

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

Just starting on the core brand renovation. In past calls, you've talked about some of the risks, and you alluded to them a little bit today already. But maybe you could give us a bit more color on there's the production risk, there's the customer risk and there's the consumer risk. So it seems like you're talking about possibility of some production risk causing some cost impact in Q2, not unexpected. But then the retailer acceptance seems to be going very well based on your comments this time. Is that still a risk in your view?

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

I don't think we have any customer acceptance risk. I think we know enough of that today. I think we have a onetime charge risk, Michael, that would be embedded in our operating numbers because we just have no ability to time these things perfectly. And when you start shipping one and stop shipping another, there's almost invariably some packaging and ingredient write-offs in that transition. And we're doing our best to manage that. We're doing, I think, an even better job of managing finished product transitions between through channels and so on and so forth. But there's some -- just some transition attached to that and onetime kind of write-offs attached to it. All very normal, completely unavoidable to anybody going through a transition like this. The second variation that can hurt is basically the production risk, as you describe, which is you're starting up, in many cases -- in almost all cases, a new formula. And that's new formula, no matter how much you go from bench top to full-scale production. You get them pretty much right, but you just don't get them perfectly the first time around. So there can be a start-up efficiency issue. There might be -- the first production run isn't exactly what you expected. And so you tweak it, and you have to -- and so you go back around and you have to take a second production run at that. We describe that when we start up all new products. When we start up new products, we have what's described as the manufacturing warranty period. And that's when the plant people say, "We need a little bit of a Mulligan here because we can't start up that product in the first instance with optimal productivity or optimal performance." So there's a bit of that. The consumer risk is really -- the consumers are going to see new things on the shelf. And when they see new things on the shelf, no matter how good your presentation is, no matter how good your packaging is, no matter what the strategic logic of that is, consumer behavior is highly, highly habitual. And in that process of consumer behavior, when that habit gets broken, it doesn't work out perfectly in the first instance, sometimes. Sometimes it does. Sometimes it's so shocking that -- and so positively received that you get that instantaneously home run. Honestly, for us, to expect that would be completely naive on our part, right? That's not what we're trying -- we're not shooting for a home run. We're looking for long-term sustainable brand positions that are attractive to the individual demand spaces of consumers in the way they eat, when they eat it. And so that consumer behavior can have some introductory habit-forming, habit-changing risk. And all of these things are just part of very, very good behavior. As a share owner, I'm excited that we're taking these risks. I feel thrilled that we're taking these risks because we're doing great things in the marketplace to effect the long-term brand performance of the business, the food, the brands, the brand positionings, the strategies. I'm thrilled that we're doing these things. So yes, that's some of the color, and it does show up in multidimensional ways. Is that helpful, Michael?

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

That's very helpful. And follow-up, on -- you talked about your poultry plant modernization or consolidation during your Investor Day, but you weren't 100% certain on timing. Have you got any more color as to when you might -- what the timing of that plan or program might be?

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

I think the last time we got together, I think I articulated, I may be wrong on this. I don't want to be inconsistent. But I'm going from memory only, Michael, that we said that we should have more detail and color sometime before the end of 2018. And I'm pretty confident that we will meet that commitment or exceed that. Basically, if I wanted to interpret that, I'd say sometime before December 31, you'll have more details.

Operator

We have no further questions registered at this time. I would now like to turn your meeting back over to you, Mr. McCain.

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

Okay. Thank you very much. Again, I would say, for emphasis, that we tried to do our best to foreshadow some turbulence in our business in the first half of 2018. We feel very good about both predicting, anticipating and foreshadowing that turbulence, particularly because it is so transitory and short term in nature. I guess everybody has a different definition of short term, but it's certainly short term in our perspective -- from our perspective. And we are operating within the what I would consider normal bandwidth of natural operations of our business. And so, all of which reflects the good things going on in our business, some exciting news around our brands, the performance of our prepared meats business, the value-added fresh business and poultry business that is -- continues to go from strength to strength and the emerging, very high-growth plant-based protein business in the U.S. market and migrating north to Canada.

So all of those good things we're very excited about, and the rest of this near-term noise is just an unfortunate distraction. So we're focused on the good things in our business and how that will impact our business a year, 2 years and 3 years and beyond for share owners and all of the stakeholders in our business.

So thank you for your attention. I hope this was a helpful update. We're trying our best to be very forward communicators in all of these factors. Thank you for your support and your questions and your understanding, and we look forward to next quarter and a further update. Take care. Have a wonderful afternoon.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time, and we thank you for your participation.