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Q3 2018 Maple Leaf Foods Inc Earnings Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Welcome to the Maple Leaf Foods Third 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, sir.

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

Thank you, and good afternoon, everyone, and thanks for joining our Q3 2018 earnings call. Debbie Simpson, our CFO, and I will provide commentary on various aspects of the business, and then we'll, as usual, open 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 if I could turn your attention to Slide #3, please. Our third quarter may best be described as good performance that steadied our results inside markets that were likely the most turbulent that we've ever experienced. We delivered notable improvements and executed against all of our growth and strategic initiatives, all within the backdrop of highly abnormal trade instability. Sales were $874.8 million, with growth in our value-added portfolio impacted by a decline in industry fresh market pricing compared to the prior year. Our adjusted EBITDA margin was 9.3%, and EPS was $0.29. Reported sales were impacted by new IFRS reporting standards that Debbie will discuss when she walks us through the financials in a moment. During the quarter, our business continued to make significant headway on our food and brand renovation, our value-added portfolio and our plant-based protein business. In addition, we closed on the acquisition of Cericola, a very important addition to expand our leadership in premium poultry; and we signed an agreement to acquire VIAU Foods in October, providing 2 great growth platforms for the company.

Turning to Slide #4. We steadfastly stay closely tuned to the market conditions, but they really don't normally figure that prominently in our discussions. We have a broad, branded, value-added mix and portfolio balance. And we're no more exposed to underlying market and input costs factors than any other CPG food company. And as always, markets tend to correct themselves, and we tend to price to offset structurally higher costs. However, the third quarter of 2018 was anything but typical. There have been a confluence of factors happening at once. The unprecedented shock of all globally traded agricultural markets from highly unpredictable global trade instability tied to volatile disputes that you're all well aware of, and they had a very material short-term impact. The quarter saw these extreme market conditions, cause hog prices to plunge more than 35% within a 6-week period, as shown here on Slide #4. This environment was relatively neutral to industry processor margins but significantly impacted hog production margins and profitability in our hog production business. This deep drop in our hog prices hit our top and our bottom line in the quarter, and I would observe that there is absolutely nothing normal or structural in nature about this. The impact on our EBITDA margin, combined with remaining start-up costs supporting our prepared meats renovation, was approximately 200 to 250 basis points in the third quarter, 75% of which was in hog production; and 25% in our food renovation, which is now ramping down.

So despite this short-term noise, our 9.3% EBITDA margin in such extreme conditions remained within the plus or minus 100 basis point range of typical variation of our business and of the broader CPG food sector. I think we can observe that this is a testament to the balance across the value chain in our portfolio, our value-added businesses and our strong leading brands.

What is important here is that the short-term headwinds, we believe, have no bearing on our longer-term opportunities. We're focused on delivering high levels of value creation and achieving our margin expansion goals in the time frame we've discussed. I will provide an update and additional color on that after Debbie has had a chance to review our financials and the operating results.

Debbie, over to you.

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

Thank you, Michael.

As shown on Slide 5, our key metrics for the quarter included sales of $875 million, a decrease of 3.7% or 1.6% after adjusting for IFRS 15 and acquisitions. Commencing this year, all listed companies in Canada were required to adopt the IFRS 15. The impact for Maple Leaf in the third quarter was reduced sales and cost of goods sold by approximately $37 million that would previously be recognized. Consistent with the first 3 quarters of the year, we expect a similar impact in the fourth quarter, with no impact on our earnings, adjusted EBITDA or adjusted operating earnings.

Turning to other financial metrics. As Michael mentioned, we delivered adjusted EBITDA margin of 9.3%, with strong headwinds in hog production margin and execution costs from our food and brand renovation strategy. Adjusted EPS for the quarter was $0.29 per share, and we had net debt on hand of approximately $66 million. This is after $139 million of share repurchases and $49 million of dividends paid.

Turning to Slide 6. From a commercial viewpoint, we made good progress and saw positive leading indicators from our food and brand renovation initiative, with a positive volume trajectory during the quarter. In addition, our value-added portfolio delivered solid performance, benefiting from improved mix in branded prepared meats, which drove higher margin sales. We continue to make significant progress in our strategic growth platforms, with gains in sustainable meats and value-added poultry. We saw continued double-digit growth in plant-based protein, mainly driven by increasing demand and ongoing category growth. We also grew our foothold in the U.S. prepared meats market, largely through our sustainable meats offering.

As Michael mentioned, start-up costs related to our food and brand renovation are declining. During the quarter, we incurred approximately $4 million to $6 million, roughly half of what we experienced in Q2. These costs support a comprehensive launch of our flagship brands, which is vital to sustaining our brand leadership and accelerating growth. We expect these onetime costs to tail off in the fourth quarter.

We also experienced inflationary costs in the quarter, including distribution, packaging and ingredient costs. We implemented targeted pricing action late in the third quarter, and we expect to offset this cost inflation, although there is some lag in timing to realize the full benefits.

I'm going to turn back to Michael.

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

Thanks, Debbie.

Now turning to Slide #7. As you may recall, last year, we expressed a clear path to deliver structural EBITDA margin expansion to 14% to 16% range by 2022 through growth levers of future value creation bucketed into cost reduction and profitable growth. We are relentlessly pursuing and executing against these initiatives to meet our financial goals. And let me walk you through some of our achievements to date, please.

First is our leadership position in sustainability. This is both where the market is heading and what society needs. We are continuing to plan, innovate and invest in initiatives that are world-leading, and we're making excellent progress towards those goals. We've converted over 50% of our sows to advanced open housing, delivering superior animal care outcomes and positioning Maple Leaf to be a supplier of choice for crate-free pork. We are transitioning our fleet to hydraulic lift trailers that dramatically reduce stress and potential injury to animals during transport. We're making progress on the development of a new leading carbon management strategy, reducing emissions and supporting global greenhouse gas reduction. And we're expanding our social impact through the Maple Leaf Centre for Action on Food Security, working now with 16 innovative partners across Canada to date and launching our first in-store and social media campaign to elevate awareness of the issue.

On Slide #8, with respect to our investments in value-added poultry, we are pleased to announce that we recently closed the acquisition of Cericola Farms. As we've indicated in the past, this is a very strategic transaction that brings additional supply, additional expertise and capacity. It positions us to expand our sustainable meat portfolio, and it gives us some new capabilities in organic chicken. In addition, we're finalizing our poultry network strategy, which is an important contributor to future EBITDA margin expansion, driving both cost reduction and profitable growth. We expect to get back to you before the end of this year as soon as those decisions are made.

Turning to Slide 9. Plant-based proteins, which is a central component of our long-term growth strategy, is continuing to grow at a phenomenal pace. With the #1 and #2 refrigerated retail brands already in our portfolio, our focus is to ride that wave while we make process improvements to meet rising production requirements. It's a super nice problem to have. We have a robust innovation pipeline with leading-edge products that will serve to further elevate our brand positions. We're really excited about our lineup of new product launches and look forward to bringing them to the market in the coming months. Notwithstanding the challenges as we grow lockstep along with the speed of the segment, we do expect that our flagship brands and innovative products will win in the market with our best food commitment in the category.

Reflecting on the importance of this growth platform, as we show you on Slide #10, we're launching Greenleaf Foods, a new identity for our plant-based protein products and expanding market presence. Our plant-based protein acquisitions will be rolled up under this operating name, where we continue to invest and grow the Field Roast and Lightlife consumer-facing brands in the market.

Turning to Slide #11. In addition to our internal pipeline of opportunities, we are selectively pursuing strategic acquisitions in growth areas that are well aligned with our portfolio. As announced, we have signed an agreement to purchase VIAU Foods, a leader in premium Italian cured and cooked charcuterie meats. VIAU is a great cultural and strategic fit with Maple Leaf that will provide us additional capacity to meet pent-up demand in our existing plants. It also provides the opportunity to expand sustainable meats to VIAU customers and a new avenue to broaden our North American food service business, especially in the growing cooked and dry-cured pepperoni category. We expect this transaction to close by the end of this calendar year.

Finally, on Slide #12. When we look beyond the short-term noise, our business fundamentals are really, really strong. We have growing momentum in our business, our brands and our new market segments. We have a very robust pipeline of low-risk, high-return opportunities to deliver value creation. And we've made some excellent strategic acquisitions in growing markets that expand our capacity in premium product segments. We look forward to sharing with each of you updates as they develop.

So with that, Greta, I will open the line for questions, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from George Doumet of Scotiabank.

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

I just want to talk to you, Mike, about earlier, that natural bandwidth of that plus or minus 11 basis points that you alluded to earlier. We were generating margins -- I think EBITDA margins of about 11% in mid-2017, so higher than, like, over 100 basis points from today. So

I'm just wondering, how should we think about normalized level of margins going forward? Is it somewhere between levels obtained today and the ones obtained in mid-2017? Or just kind of maybe put that statement in context with today's margins.

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

Yes. I think it's a little bit hard to take that down to the 10 basis points. Structurally, we had a target, George, of 10%, in which you better describe it as 10% to 11% -- sorry, 9% to 11%, I should say. That was our structural target previously. We've obviously been operating slightly higher than the midpoint there in the 10% to 11% range for the last -- I think we've been pretty much between 10% and 11% with a couple of exceptions in -- over the course of the last 1.5 years. And it will move up and slowly and gradually, I think, to our target over the course of the next 2 years, and there will be some chunky movements along the way. I'd look at it and say that, first of all, that I would personally define that as within the 100 basis points of normal activity. But then I'd pause and say to you, yes, but everything that occurred in the third quarter was probably best be described as anything but normal. So I think that's actually a testament to the strength of the portfolio, is that even in a high-stressed quarter, and this would have been clearly characterized as a high-stressed quarter, for very definable and very specific reasons that are nonrecurring reasons, we still operate within kind of a normal bandwidth. So honestly, I think you can interpret that in multiple different ways, but I personally interpret it optimistically.

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

Okay. That's helpful, and I obviously understand the negative pricing headwinds in the quarter. Can you maybe give us a sense of the volume growth that we've seen, maybe the magnitude there and across the portfolio, maybe touching a little bit on the sustainable meats part?

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

Well, first of all, I would say in terms of the -- we've had very strong growth in our sustainable portfolio, continue to have that well into the double digits and specifically in the Greenfield brand. So we're very happy with that. Having said that, our whole volume in the quarter on prepared meats -- actually, for the quarter, was actually slightly down in the quarter in total prepared meats. But I would tell you that -- and we would attribute that to the -- just the changed process in the renovation of our food. But what's important, as Debbie alluded to, is the trajectory inside the quarter was actually quite positive. I'm prepared to give you some numbers to illustrate that, George. In July, we were down year-over-year, down 4%. In August, we were down 1%. And in September, we grew by half to 3/4 of a point, something like that. So there was a very clear trajectory during the quarter, and we felt pretty good about that, actually. So -- and we think we see that kind of continuing into the fourth quarter. So the changes that existed in the product portfolio, in the market position and everything from shelf sets to everything else has just -- has a very broad impact. And we saw that in June, July, and we just started to see improvements of that as the quarter unfolded and as we get some momentum on that coming into the fourth quarter and especially into 2019. So sustainable meat in the -- in the middle of all that, our sustainable meat offerings continue to show strong double-digit growth. And the core business is, I think, trending in the right direction.

Operator

Your next question is from Derek Dley.

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

Just following up on that comment on the volume. Is there any way you can quantify how much of that volume impact was stemming from the brand refresh program and just consumers getting used to the new brand and brand propositions?

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

It's very hard to tease out all the influences, Derek. But I think we would basically say the vast majority -- I think it would be probably hubris to say all, but I'd say the vast majority. But for the purpose of strategic consideration, I'd say all of it. But teasing up the pluses and minuses, because there were some pluses in the middle of that as well, like in sustainable meat, as we talked about with George. But that was the dominant influence out of that, if not all.

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

Okay. And you commented, I believe it was last quarter, you're about 2/3 of the way complete your brand renovation, and the remaining 1/3 was -- the vast majority was going to be completed in Q3. I mean, how much is left to go in Q4?

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

I think -- I'm going from memory here, Derek, but I think we've got something like 40 SKUs left to convert, and that would probably be something in and around 10% to 15% of our portfolio. There were -- actually, it might be maybe less than that because there were, I think, up to 600 SKUs. So it might be down to 8% or something like that. But it's in that zone, 8% to 12%.

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

Okay, okay. That's great. And just the last one on the -- I think you pronounced it VIAU. I was just saying V-I-A-U acquisition.

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

No, it's properly pronounced VIAU.

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

VIAU. Okay. On the VIAU acquisition, can you just talk about your ability to leverage your RWA supply into that business? Because as I understand, there currently isn't any RWA products, but that's obviously part of the value proposition going forward.

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

Yes, that's a significant strategic consideration in this acquisition, is that they don't -- they are leaders in dry-cured and kind of value-added premium Italian and meat offerings, particularly in the food service channel, but they don't have an offering in RWA, a material offering today. And because we have the meat supply, we can dramatically accelerate that, and that's our intention.

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

And is it a function of using incremental supply? Or are you able to increase the yields on your RWA hogs?

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

Well, our supply of RWA hogs is growing every year, and we have the opportunity to improve our utilization within that supply of hogs. So it's really both, Derek.

Operator

The next question is from Irene Nattel.

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

I was wondering if we could just spend a couple of minutes on the brand renovation program, which, of course, is so critical. I was wondering if you could just sort of talk through what have been some of the biggest wins that you've seen, what maybe has been slower out of the gate and how we should think about all this evolving as we move into 2019.

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

Well, I'll go to both ends of the curve, which is what's been the earliest and most pointed wins so far and then which area that we think requires more attention and more work at the other end of the curve. So at the top end of the curve, our #1 brand actually in terms of volumetric, is the Schneiders brand. And on that brand, actually, we've had very rapid uptake success in the performance of the brand in the marketplace. And that's not to be unexpected because it's a much easier proposition to embed in the consumer behavior in that it's rooted in decadent taste, artisanal, craftsmanship-based, decadent taste. So the consumer experiences this decadent taste and experience the minute they put it in their mouth. And honestly, we've seen great uptake in that -- and growth in that brand renovation very quickly. At the other end of the spectrum, what we describe as quick fix, which is value-driven, the Swift brand, for reasons of distribution, the distribution, it's because that's new to the market kind of brand proposition, gaining the distribution at the speed that we would like is probably slower than we'd like. And getting people to migrate into that brand for value reasons, that takes a little more time, and so that's probably one where we have to be a little more patient. The Maple Leaf brand has got a core group of consumers. They're very loyal. They're very motivated. It's a slower-building proposition to get new users into the category for the proposition because understanding the Real Food Movement and the differences in an ingredient deck and so on and so forth is it's a slower but much more committed build with consumers. So that would be somewhere in the middle. So there's a clear -- there's an early win, some more work to do in the quick fix segment and the steady eddie in the middle with the Maple Leaf brand is how I would characterize it. Did I answer your question?

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

Yes. No, that's really helpful, Michael. And for the Swift brand, is it really a combination of trying to get -- attract new people to the brand and get others to switch from, say, some lower-end private label products?

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

No, we're not -- for the quick fix, for that demand space, there's a number of different choices. There's -- we have some regional brands that can play that role. We have the Swift brand, which can play that role nationally, and we would like to migrate more towards that one brand because concentration in value under a single brand is very important to meet the important factors in that brand. And thirdly, private label. So we've got a number of different paths there to meet the needs of that demand space. And we obviously -- we still have a strong position in our regional brands, which has not been part of the renovation, but they're still strong, and they're still a part of that equation and against the backdrop of increasing the distribution on Swift. Some places -- and we try our best not to do that in a competitive or directly competitive way with private label. That's an important consideration in our dialogue with our customers, is to find ways where it's actually collaborating with private label in the category with the whole category, not competing with private label.

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

That's great. And just sticking with the whole notion of brand portfolios. The -- sort of the restructuring, if you will, of the plant-based protein offering under that one sort of umbrella, when you look at your existing offering and portfolio, are there any sort of glaring holes that you see, product lines or product categories that you don't currently offer that you really would like to offer?

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

Oh, for sure. We have great strength in the dog segment and the deli segment and tempeh segment. We've got a great position in burgers, but we are starting to be strengthening that. We need to do -- we probably can do a better job in poultry subsegment there, so we plan to broaden that. The nondairy cheese alternative segment is fantastic for us, growing like stink under the Chao brand, but we probably can expand the offerings there. We're mainly in slices. We can expand the offering there. So honestly, that's what we do best, Irene, and we are deep into broadening the portfolio into multiple different categories and do -- and really invest heavily in innovation and across the whole spectrum. So that's really a focus of effort for us over the course of the next few years.

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

And certainly, Kroger identified, I guess, plant-based protein as a key area for 2019. So presumably, your customers and the ultimate consumer are highly receptive to the new product introduction.

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

Yes -- they are -- the best way for me to characterize it would be "bring it on."

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

Outstanding. And then just a couple of housekeeping questions, if I may. You mentioned a price increase that you put through during Q3. What was the magnitude? And what was the response on the part of the retailers?

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

The normal responses. But we were, as always, able to justify the price alterations on the basis of inflationary pressures and things like packaging and various ingredients, freight costs, a range of other elements. And so the price increase was implemented at the end of the third quarter -- at the very end of the third quarter. In fact, I think, technically, it went into effect on October 1. And so that is in place now for the fourth quarter, and I think kind of normal responses. It was roughly 2%, I think, in and around that. So I think reflective of normal inflationary trend.

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

That's great. And then just finally, with VIAU, what proportion of their current sales base is food service?

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

I think over 80%.

Operator

The next question is from Mark Petrie.

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

A couple of follow-ups. I guess, just with regards to the additional opportunities you see in plant-based, Michael. Do you -- it sounded more like that was innovation that was going to be internally executed as opposed to addition through M&A. Is that fair?

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

What I described -- it's a good question, Mark. What I described with Irene was our organic agenda, and we're investing in all of the things that are required to maintain your growth rates with the category and even expand them. That would include human resources, our people, strengthening the team, investing in our brands and the brands' strength, the innovation pipeline and organic capacity growth. So all of those things are being invested in -- very heavily across the board. Having said that, to your question, that does not preclude the fact that we will always be interested if conditions are right, and I'll come back to the condition, if the conditions are right for us and for the seller. Always interested in expanding that portfolio through acquisitions. And if the right opportunity comes along, we would be at the top of the list on interest level. Those conditions, though, are often hard to meet, as you know. The first and most important is it has to be priced right, and there has to be an appropriate value on that opportunity in our hands for us and for our future. So there, we would see -- we're driving like mad on an organic agenda but always open to expand the portfolio inorganically.

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

Okay. That's helpful. One other follow-up to your earlier comments, just around the brand repositioning. Outside of the sort of marketing costs and launch costs that you've incurred, how is the brand -- how are these sort of repositioned products and brands performing in terms of profitability? I mean, is it having the intended positive impact outside of all these other factors?

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

We did not margin the categories or the business brand up in this process, broadly speaking. We did not margin them up. Having said that, we are highly optimistic that it will margin up our portfolio because of a better mix. So the more we can -- the more those brands can outpace the growth in their category, the better we will perform in margin because of mix, not because of pricing.

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

Right. Okay, okay. So then -- and the mix is still a work in progress, and that takes a year or more to accomplish. Is that fair?

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

Yes, yes. I mean, I gave Irene earlier a bit of a short-term landscape of how things are going today. But I would always and emphatically add the health warning that we are still very early days. The only appropriate lens to apply to this from a consumer perspective is probably 1 year from now.

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

Yes. Okay. And then I guess, I want to come back to the whole commodity topic, and I just want to understand better exactly what the lower hog price means in your business. And when we think about that volatility, is it sort of the absolute level of the hog price that matters? Is it the sudden drop? Like what are the relative factors in terms of importance that would have led to the compression of EBITDA and the pressure on your business?

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

It's a very dynamic market. And so, Mark, I would say the various forces at play have some pretty complicated interdependencies or interactions, I should say. Let me start with the fact that between late June, I think the fourth week in June, the third or fourth week in June and the middle or late August, over a 6-week period, the hog price plunged 35%. Imagine that, a 35% elimination in the value of a live hog in North America on the back of a tweetstorm. So pretty unusual. We used the word abnormal. I think that was a pretty safe word, to call that abnormal. But that's what occurred. Because of the opaqueness of that and the unpredictability of that, the value of the meat block fell simultaneously. So commonly, if hog costs fell, you would be reasonably secure in that it wouldn't have the negative impact because the price of the meat block would actually reflect that. But it didn't. It fell at the same time. So the processing margin actually helped. It didn't decline, but it sort of held in this period of a rapid 35% decline in the hog cost. And that's one of the more unusual attributes here that is just -- it is because of an entire market globally. And not just in live hogs. You saw this in -- look at what's going on in the soybean complex, for example, and many of the other agricultural complexes. It's -- the most deleterious effect of all of this global trade instability is in agriculture. That's a very sad outcome. So that's why it had such a short-term impact. But having said that, you look at late August through to the end of the quarter, you started to see a rebound, not enough that it could recover the economic impact in the quarter, but you did see that start to march its way and normalize back by the end of September. So you see this dramatic U-curve inside the quarter, which is highly abnormal, highly abnormal. And it is what it is. I think what's important, Mark, is while it's important for us to pay attention to that, it truly is noise. It's just noise. What's important in our business is the impact on our business over time on our sustainability agenda, our renovation of our brands and food, the investments we're making in plant-based protein, in the poultry. Those are the things that are going to make a difference in our business over the next number of years. I'm not particularly swayed by a tweetstorm, so that's why we positioned it the way we have.

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

Okay. That's very helpful. Actually, a couple of follow-ups, if I could. Just then -- so if the packer margin had been lower, like if the whole protein block had fallen more, you would have basically made up for that lower price in a greater way in your prepared meats business. Is that right? Am I thinking about that right?

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

No, no. First of all, your prepared meats business tends to track how those meat blocks move. And any impact on the meat block, it doesn't affect you in the quarter. That affects you in the next quarter and the quarter after.

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

Right. Okay, okay. And then so that's my other follow-up, I guess, is you said that it sort of began to normalize by the end of September in terms of prices. But how should investors think about the impact of the commodity sort of complex overall on margins over the next quarter or 2, understanding that it will normalize over time, and this is short-term noise?

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

So Mark, the answer to that is completely a function of what your horizon is. So if you're a long-term investor, how I think would be a good way, a constructive way to think about this is it is just noise. It's simply noise. If you're a short-term quarter-to-quarter investor, you're beyond our pay grade to be able to predict it because this is -- when you are in a situation with multiple forces in play like this, it's a very, very difficult thing to predict. And we don't do well -- we don't do forward guidance on -- that way and nor do I think we should. So look, I think the tendency right now, what we know right now is that things are starting to normalize coming into the fourth quarter. That's what we know coming into the fourth quarter. But I would also tell you that when a tweetstorm can have that impact in the third quarter, who's to say that there isn't another tweetstorm in the fourth, right? It's only the third week in October.

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

Yes. Hard to say when those tweetstorms are going to come. Okay.

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

Well, exactly. And I'm not -- if your horizon is like our horizon is, which is multiple years in creating value for shareowners over and creating shared value for all the stakeholders over the long term, it's just noise.

Operator

Your next question is from Peter Sklar.

Jennifer L. Panes ***BMO Capital Markets Equity Research - Associate***

It's Jennifer filling in for Peter. So you mentioned that volumes were down in the quarter. But with the tariffs from China on the U.S. pork, I would presume that, that would result in China sourcing its pork from other parts of the world. So do you expect to see any volume increases because of these tariffs going forward?

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

No, and the reason is because we have one fixed supply of fresh pork, and it is fixed based on the amount of hogs that we process. We are -- we sell that fixed amount of pork with no intention to grow our raw material supply of pork because that's just our meat procurement strategy. We have no intention to grow that. So we have -- so even if the market opened up in total, we have no desire -- we have no ability to sell increasing quantities into that market, or desire. It's never been part of our strategy, Jennifer. Our strategy is not to supply pork to the world. Our strategy is we supply pork -- fresh meat to ourselves, to our own brands, to our packaged meats business as raw material supply is required. And then any of that surplus, we market it in the best way possible, either domestically or in other markets around the world. But it's a fixed amount so -- of surplus. So we're not really -- we're not in that game and have no intention to participate in that game.

Operator

(Operator Instructions) The next question is from Michael Van Aelst.

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

A question on your CapEx. I think your -- you've said in the past that maintenance CapEx was something in the range of $80 million, but you're spending about $175 million this year. Can you talk about some of the growth initiatives that are built into the CapEx?

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

Sure.

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

Michael, it's Debbie.

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

Debbie will give you an outline or so.

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

So we previously had guidance out there about $150 million for the year. And I think maybe you saw the press release from last week, and then I think we've been talking steadily throughout the year about some of the investments that we'll be making. So last week, we made that press release around our investments in open sow housing, and we've been gradually over the year investing in our annual welfare initiatives around gestation crate-free and a number of other things, and then we have the other strategic initiatives around controlled atmospheric stunning for Edmonton plant. So some of those strategic initiatives that we -- remember, as I said before, we've always got that base CapEx that we plan on. And you're absolutely right about the $80 million. And then in any 1 year, we plan to take on a number of these smaller strategic initiatives, but we can never be sure what the timing of them is going to be. And we build in an expectation to do a number of them, and then we tweak that balance of capital, and we update our estimate depending on whether we actually get them fitted in, in the year or not in that. So that should all be happening here. We've been quite successful in getting a number of them underway this year. So we've topped up the estimate by about $25 million.

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

So is there no material capacity expansion built into that number?

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

We lose the call?

(technical difficulty)

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

So I apologize. We had a technical snafu there that it -- that -- just the line just dropped. So Michael, are you still on the line?

Operator

(Operator Instructions)

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

How far did I get, Michael -- how far did I get -- how far did Debbie get before the line got cut off?

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

Well, I just asked if there was any areas where you're expanding capacity within your CapEx budget this year.

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

Yes. So I was talking away to myself there. So I was congratulating you on your accuracy around the $80 million. We've talked about that before, and that's absolutely what we track, which is around that maintenance level for CapEx in our business. And I think what I've said before is we're also planning to our expectations to do a number of strategic capitals in the year, small strategic capitals, and has obviously put out that press release last week on our efforts around open sow housing and our plans around there. So in this particular year, we've actually managed to get a number of strategic projects underway and have actually added an extra $25 million to our expectations on our total capital spend for this year because we've been successful on timing. Those small strategic capitals are usually dependent on getting -- on timing, right? In some years, we get more than others, and we've been quite successful in getting a few off the ground this year. So money around the open sow housing and gestation crate-free and a few other capital around supporting our animal welfare initiatives are what's driving it as well as you recall earlier in the year, we talked about the controlled atmospheric stunning initiatives for our Edmonton plant in poultry. It's actually what's behind it.

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

Okay. And then at the annual -- at the Investor Day, you had given us some numbers on U.S. penetration in terms of -- I think you're -- at the time, you're in 3,300 retail stores in U.S., so I think 8 of the top 10 retailers. Can you update us on the success you're having in the U.S. and the penetration, both at retail and at QSR?

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

So we -- most of our concentration of effort, Michael, in the U.S., because we had very broad distribution in the early days, quickly has been on building our assortment and the penetration inside the retailers that we had, and that's been very successful as we wanted to increase our velocity and the breadth of offerings and the assortment and the performance of the business inside those retailers. So we've been really concentrating on that, and it's been broadly very successful for us so far. We are starting to broaden that now and move into new points of distribution, but I think that's secondary because we have such good strong distribution to date. So that's where our focus on the business.

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

Are you able to supply all the demand that you're seeing down there at the moment?

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

Yes.

Operator

There are no further questions registered at this time. I would now like to return the meeting back over to Mr. McCain. You may proceed, sir.

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

Okay. Well, thank you very much. Again, I would encourage everybody to look beyond this -- the short-term noise and stay as we are, focused on the business fundamentals, which continue to be very strong. And the pipeline of initiatives for value creation over the next 5 years is very robust, and we're very excited about that. Appreciate your support and your engagement. I apologize for the technical snafu this -- over this call, but that happens, and we look forward to visiting with you again in the next quarter. Have a wonderful day.

Operator

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