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PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to Maple Leaf's Fourth Quarter 2019 Financial Results Conference Call. As a reminder, this conference call is being broadcasted live on the Internet and recorded. (Operator Instructions)

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

James Allison - *Maple Leaf Foods Inc. - Investor Relations*

Thank you, Joanna. Good morning, everyone, and thank you for joining us. Speaking on the call this morning will be Michael McCain, Chief Executive Officer; and Geert Verellen, Chief Financial Officer.

I would like to remind everyone that the Investor Relations team will be available after the call for any follow-up questions or any detailed modeling questions you may have.

I'd like to point out that we have a slight change in the format for today's call. A Q4 investor deck has been made available and can be accessed to the investor page on our website. This deck includes support material for the quarter. However, the prepared remarks on the call this morning will not directly follow along the investor deck.

Before we begin, I'll remind that some statements made today on this call may constitute forward-looking information, and our future results may differ materially from what we discuss. So please refer to our 2019 MD&A and other information on our website for a broader description of operations and risk factors that could affect the company's performance.

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

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

Thank you, and good morning, everyone, and welcome to Maple Leaf's fourth quarter 2019 earnings call, and thank you for joining us this morning. As you'll note, we've changed the timing of the call based on feedback from the street, and we trust this new slot will work well for your schedules.

But before I do that, I want to introduce Geert Verellen, our new Chief Financial Officer. Geert is our -- is a career finance executive with global retailing experience, and he joins Maple Leaf after several years as the CFO of Walmart Canada, India and Japan. Now prior to joining Walmart, Geert held a variety of finance positions at the Delhaize Group, a Belgium-based international food retailer. I'm excited to welcome Geert to Maple Leaf and aside from his retail experience, he brings a very hands-on style, strategic focus and an execution discipline to the team. I am confident that Geert will bring tremendous value to our business, and I know he's looking forward to connecting with many of you in the coming months.

So turning to the quarter. We're pleased with Maple Leaf's performance in the fourth quarter, which saw us continue to deliver on our strategic, our operational and our financial priorities. Delivering on these priorities is paramount, and we begin -- and it begins with executing on Maple Leaf's purpose, to raise the good in food and our commitment to become the world's most sustainable protein company. This commitment is not something that comes at the expense of shareholder value, but rather provides a very compelling path to profitable growth. The strategic blueprint that you can find in the investor presentation lays out this framework and priorities of shared value. Simply put, the health of our company is intertwined with advancing to help our communities and our environment. We find that this motivates us, it differentiates us and deeply connects us with our consumers.

During the fourth quarter, we took a major step forward by establishing Maple Leaf as the world's first major food company to become carbon-neutral. This was the culmination of significant research, very careful assessment and certainly, a highlight of my personal career. The food system has a sizable impact on the environment, contributing up to 1/3 of the global greenhouse gas emissions and Maple Leaf has shown leadership by reducing our net contribution to 0. Becoming carbon-neutral forces us to identify inefficient uses of energy and opportunities for innovation across our business, aiding our bottom line in the process.

As consumers seek to eat more sustainably, it also provides us with a unique and compelling brand attribute. So advancing our purpose is aligning us with some of the fastest-growing segments in the food sector: sustainable meat and plant-based proteins. Maple Leaf's 12.8% sales growth for the year and 13.7% growth during the fourth quarter was supported by strong performance in both of these segments.

In meat protein, we continue to witness the contribution of our brand renovation strategy and focus on sustainable meat. These positives allowed this segment to mitigate exposure to what have been erratic pork markets and deliver adjusted EBITDA margin expansion for both the quarter and for the full year.

In plant protein, our investments in advertising, promotion and marketing are gaining traction, supporting both new product innovation and brand recognition in an increasingly competitive arena. As a result, this segment delivered strong sales growth during the fourth quarter and remains on target towards achieving our long-term objectives and the business model attached to those objectives.

Given the encouraging performance in the quarter, I'd like to devote some time to unpacking the operational highlights for each of the segments. Strong results in our meat protein group was the culmination of momentum that developed throughout the year. Performance was particularly impressive given the obstacles that it overcame during the past year, largely related the global trade disputes, including China's 4-month suspension of Canadian pork imports and the short-term negative impact of the global outbreak of African swine fever, both of which impacted this segment's margins. 3 major factors led to the meat protein group's strong performance: first, a very successful repositioning of our flagship brands; second, continued excellent results from sustainable meat. Our Raised Without Antibiotics portfolio is generating double-digit growth in the United States, and we are #1 within the sustainable meat category in Canada; and lastly, responsible pricing strategies to align with the higher input costs. We're also pursuing attractive growth categories, including dry-cured meats and lunch kits. Beyond these top line and margin expansion activities, we will continually seek opportunities to improve efficiencies, eliminate waste and reduce costs in our business.

The momentum we are experiencing in the meat protein group is a key contributor towards our goal of a 14% to 16% adjusted EBITDA margin by 2022. Having repositioned our brands to align with key customer demand spaces, we continue to innovate and invest as we push for further growth in the U.S. while reinforcing our leadership position in Canada.

consumer demand for more protein options. By offering -- by offerings that span refrigerated soy-based products, premium grain-based protein products and vegan cheese-based products, we cover a full line in the category.

New disruptive food categories typically follow a predictable path, moving from early adoption to take off to maturity over a period of 5 or more years. We've seen this in the plant-based milk category, in the Greek yogurt category, energy drinks, to name a few. Plant-based protein is currently what we would describe in the takeoff phase, where household penetration builds as mass market adoption becomes the focus, and mass market outlets such as grocery stores become the primary sales channel. Recent IRI data reinforces that plant-based protein will be an increasingly core part of diets in North America and around the world. We're confident that we can build this into a $3 billion business by 2029, which means capturing a conservative, low double-digit percentage share of an estimated $25 billion market in that time frame.

This goal is based on 5 key tenets: we have a 100-year brand history of depth and innovation in traditional protein; we possess the proprietary data necessary to drive innovation, marketing and activation; we have the financial resources and commitment to build a sustainable advantage; we own 2 established plant-based protein brands today, leading in the category; and we have wide distribution and leading shares across multiple plant-based subcategories.

So how are we attacking this market? As you know, we have very strong legacy products in our Lightlife and Field Roast brands that traditionally were found in the produce aisle and marketed largely to vegans and vegetarians. We've had very strong share in that market traditionally, and we continue to see strong double-digit growth in that market. As the market started to grow quickly, plant-based proteins moved to the refrigerated meat section, where we've had very good success.

Less than a year ago, we launched new innovative products in this category with the rollout of pea-based burgers, sausages and grounds, all of which saw strong uptake with retailers throughout the year. In December, we launched the next iteration of both the Lightlife Burger and grounds to dramatically improve these products' taste and texture, and we expect to continuously improve the products going forward. We are pleased with the progress we've made. Since the launch in the second quarter last year, demand has grown dramatically, and these new products are now offered in about 12,000 retail locations in North America. We're also seeing strong sell-through in store. According to IRI SPINS data, velocities in the Lightlife Burger and sausages remain at the #2 position, the second highest in the industry, with a narrowing gap to the #1 player over the last several months.

Innovation is a key driver of success in this high-growth market. Innovating, introducing and quickly deciding whether our new item will be a success does create some complexity for us in the short term, but we believe it is a structural advantage over the long term. Already this year, we launched our plant-based breakfast portfolio, consisting of raw sausage patties and links. And while it's early days, we're super excited about this expansion to new breakfast options and further innovation that we have in store for 2020. Innovation also requires strategic investments to establish these beachhead positions in other plant-based protein alternatives like seafood. Just last month, we announced a $5 million strategic investment in Good Catch, an American plant-based seafood manufacturer. This highly innovative business currently offers a variety of tuna, fish burger and crab cake products throughout the U.S.

Another focus is in the foodservice channel. Serving QSR has strategic importance for us. We've ramped up our efforts here, including hiring industry experts to help us with our sales efforts for Greenleaf. Late in the fourth quarter, we announced 2 very exciting partnerships with A&W Canada and KFC Canada to premiere our plant-based chicken and nugget products to consumers.

So the plant-based business is an exciting one to be in and will drive significant, albeit volatile, growth in its infancy stages as we enter new retailers, launch new products and win new QSR contracts. We're focused on the long-term trajectory, and we continue to target 30% annual sales growth. Sales growth of that nature will require significant investment in advertising and promotional activity and marketing. I cannot emphasize enough the importance of this investment in the early stages of this category's development. It helps entrench our brands with consumers new to the category as they establish their purchasing habits. While the spend may seem outsized today, the magnitude, in fact, has de minimis impact in the long-term value that we believe we will be creating. Not only has this investment benefited our relationship with consumers, it has helped facilitate distribution gains and establish sponsorship opportunities with several sports teams, including teams like the Montreal Canadiens, the Chicago

Supporting growth means also building out infrastructure. This infrastructure investment brings in talent and organizational capacity to maintain and accelerate that growth rate as well as our supply chain capacity, which is our traditional area of expertise. As I've stated before, our strategy here is simple. We're in this to win, we have very significant goals for our plant-based protein business, and I'm very confident that we can achieve those goals.

Well, thank you. And I'll now turn it over to Geert, who will take you through a deeper dive in both Maple Leaf's financial performance and our expectations for 2020. Geert?

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

Thank you, Michael, and hello, everyone. Good morning. Before I walk through the financials, I want to share how excited I am to take on this role. While I have only been with Maple Leaf for a short time, I've already confirmed my initial thoughts about the potential of this business. Coming from retail on both sides of the Atlantic, moving into the CPG space is both exciting and daunting. Over the past few weeks, I had the opportunity to get to know the leadership team, work closely with the finance group and visit some of our plants. I realize I have a great deal of learning ahead of me. It is clear, though, that this organization has the clear strategies and highly-focused operational expertise to create lasting value. It will be critical to execute our plans with discipline while being resilient and responsive to new opportunities. At the same time, we need to clearly articulate progress made to our stakeholders. I'm confident that Maple Leaf will be able to deliver on these expectations.

I'll begin today by discussing the company's consolidated performance during the fourth quarter. I will then turn to a more detailed look at both our meat and plant protein groups. I'll conclude by speaking to some key financial metrics, capital expenditures and outlook for the year ahead.

Sales for the quarter were approximately $1 billion, an increase of 13.7% from the prior year, or 10.4% excluding acquisitions. This increase was driven by strong performance in meat protein, coupled with accelerated growth in plant protein. Adjusted EBITDA for the quarter was $75.3 million, a decline of 15% versus prior year. This decline reflects our deliberate and strategic investments in plant protein, which more than offset profitable growth in our meat protein group. Adjusted EBITDA margin for the quarter was 7.4% compared to 10% last year.

Adjusted operating earnings for the quarter were $28.4 million compared to $54 million in the prior year, driven by similar factors. Net earnings for the quarter were $17.5 million or $0.14 per basic share, an improvement from $11.9 million or $0.10 per basic share in the prior year. Excluding items not considered representative of ongoing operational activities, adjusted earnings per share were $0.12 compared to $0.29 in the prior year.

I'll now turn to a discussion of Maple Leaf's 2 operating segments, which we began disclosing in the third quarter of 2019. This decision reflected our distinct approaches to long-term value creation in these segments, balancing ongoing profitable growth in Meat Protein with long-term investments in Plant Protein to drive sales growth.

Meat Protein sales for the quarter were $970.3 million, an increase of 13.3% from the prior year, or 9.9% after adjusting for acquisitions. This increase was driven by contributions from all businesses, including favorable pork market prices, considerable growth in sustainable meats including double-digit growth in the U.S. as well as prepared meats pricing action taken in the third quarter. Meat Protein adjusted EBITDA for the fourth quarter was $110.2 million, a robust increase of 28.1% from the prior year. This growth was attributable to strong sales growth coupled with operational efficiency gains, a favorable mix effect and the impact of pricing actions in prepared meats. These drivers more than offset higher bio-security costs in our hog operations and the temporary 4-month import suspension of Canadian pork to China. Adjusted EBITDA margin for the group was 11.4%, representing an increase of 130 basis points over prior year.

Turning now to our Plant Protein Group. As Michael discussed, we're in the early stages of a pivot within this high potential market, and our strategy is to invest for growth. Sales for the quarter were $49.7 million, an increase of 31.5% from the prior year. This encouraging improvement was driven by broader retail distribution, new item introductions and continued growth of our existing portfolio. Fourth quarter IFRS gross margin in plant protein was 14.4%, down from 25% in the prior year. The decline was primarily due to inefficiency costs related to rapid innovation and growth as in Plant Protein were $45.3 million, consistent with our heightened level of spend in the previous quarter. Michael spoke about the nature of this investment, which enables increased brand awareness while fueling innovative new product launches and organizational capacity. Both investments will establish a strong foundation for future growth.

Turning to capital. In 2019, we invested $271 million in capital expenditures. Approximately $83 million of this total related to construction capital, the majority of which was related to our London poultry facility. Maple Leaf ended 2019 with a strong balance sheet, with $442 million in net debt and $1.5 billion in undrawn committed credit. While the company has the financial flexibility necessary to complete near-term capital projects, we remain focused on deploying this capital in an efficient and balanced manner with the goal of maximizing shareholder value.

In addition, yesterday, our Board of Directors approved a 10% increase to our quarterly dividend to $0.16 per share, commencing in the first quarter of 2020. The prioritization of capital and being prudent stewards of capital is key to us. As we continue to grow our business and increase total company capacity with new facilities, we're also seeking opportunities to optimize existing footprint to produce meat as well as plant-based protein product.

For 2020, we currently estimate capital expenditures in the range of $650 million to $700 million. About 70% of this will be construction capital, which is mainly related to ongoing construction of the London poultry facility, further capacity and efficiency improvements in our prepared meats business, investments in plant protein capacity at an existing facility as well as further design, engineering and site work at the Shelbyville location in Indiana.

In London, work is underway with the steel frame being constructed as we speak. However, due to a slower-than-expected start driven by poor weather conditions last spring, along with a robust economy and highly competitive environment, some construction components have taken longer to source. As a result, we now expect the construction to be completed by Q2 of 2022. Despite this delay, we still expect to hit our adjusted EBITDA margin target range for Meat Protein of 14% to 16% in 2022.

Engineering and design work continues at our Shelbyville, Indiana facility. We continue to see the strategic need for a fully-dedicated plant protein facility. However, we're adapting its plans to provide the flexibility we require to meet the rapidly evolving demands of the plant protein market. This delay means we now expect the facility to be completed by the end of 2022. Until then, we're expanding capacity within our existing network to meet current demand.

I'd like to conclude my remarks by providing you with an outlook for our business for 2020 and beyond. I should note that our expectations for 2020 are based on certain assumptions regarding the state of the market over the year ahead. Starting with the Meat Protein Group, we expect to deliver mid- to high single-digit sales growth coming from continued momentum in sustainable meats and higher sales to Asian markets. We also anticipate gross margin expansion, driven by mixed benefits in prepared meats, a more favorable pork complex closer to the 5-year average and higher sales to Asian markets. These factors, combined with continued SG&A efficiencies, are expected to drive adjusted EBITDA margin expansion in 2020, advancing towards our stated goal of a 14% to 16% adjusted EBITDA margin range in 2022 for our meat business.

The outlook in the Meat Protein Group is based on assumptions with respect to 2 dynamics within the global pork complex: African swine fever and the outbreak of COVID-19. On ASF, we continue to believe the pork shortfall in China will create a strategic opportunity for Maple Leaf while driving up pork prices globally. On COVID-19, the situation continues to evolve. And while we have observed some pork delays related to our shipments to Asia, we haven't seen any signs that cause us concern.

Moving to the Plant Protein Group now. We expect this business to deliver sales growth of approximately 30% in 2020 based on an acceleration during the year, consistent with our long-term target. Our growth is not expected to be linear, as we expect Q1 growth to lower our 30% target, with the balance of the year seeing higher growth as we continue to expand distribution points and launch new products. We expect growth to be driven by continued new product innovation, brand renovation in both our Lightlife and Field Roast brands, growth in foodservice and underlying market growth. We expect planned gross margin to expand relative to 2019, as the business continues to grow and we optimize operational efficiencies and minimize startup costs.

development to fuel product innovation.

We previously shared with you how we see the plant market evolve and how big of a role we see ourselves play in that context. We continue to believe this is a very promising market with a lot of room for Maple Leaf to be one of the leading players. We mentioned to you our aspiration to be a $3 billion player in a $25 billion U.S. market. We continue to share this ambition for the long-term, while being laser-focused on disciplined and targeted execution for our short-term plans in a market that is highly volatile and requiring us to be extremely agile. We continue to believe it will be a key part of long-term value creation for Maple Leaf Foods.

I will now turn the call back to Michael.

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

Thank you, Geert. And as I stated at the beginning of this call, we're very pleased with the progress that we've made in the fourth quarter: increasing our profitability in Meat Protein, achieving our growth targets in Plant Protein and advancing our commitment to shared value, the path to seize market opportunities and drive higher levels of sustainable growth. In Meat Protein, we are well on target to achieve our adjusted EBITDA margin goal for 2022, and in Plant Protein, we're firmly focused on executing our strategy, including investments in marketing, innovation and infrastructure that we are confident we'll deliver on the long-term sales and profitability targets that we aspire to.

With this, I'd like to open up the call, please, to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is from Irene Nattel from RBC.

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

Before I ask my questions, thank you, thank you, thank you for the enhanced disclosure. It's really, really, really helpful. I have a couple of questions. One -- well, I'll start with a couple of questions, one on each of the segments. And if we start on plant, what's the target -- that $150 million that you've identified for SG&A in 2020. Can you walk us through how you came to that number? Why your view is that it's an appropriate level? And what kind of returns you expect to see on that level of spend?

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

Thank you, Irene, and good morning. The level of upfront investment in SG&A, which is 60% to 70%, is advertising and promotion and investing in the brands, is very appropriate for the ambitions of a 30% growth rate that we aspire to and the business model of high-growth on a sustained basis. And we come to that number basically triangulating a number of different factors. The consumer is at a very nascent stage in this category, and it's really important for us to develop the brand persona and brand strategies in their consuming pattern, their heads very quickly and early on in that early-stage of brand development.

Secondly, in a growth model based on 30% over a sustained basis, I think you'd find, as I said in my remarks, that the actual financial implications to that, in the process of building a $3 billion business, is relatively de minimis from a financial perspective. I know it sounds like a lot, but if you look at a high-growth model, a DCF and a high-growth model, I think you'd find that.

is probably the single most important level. And this basically puts us competitive in the share of voice in the North American marketplace. And in the early stages of brand development, as a long-term brand advocate and participant, that is likely the single most important factor of all of those that I articulated. So I hope that's helpful.

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

That's actually really helpful. And just a quick follow-up on that, if I may. It may be premature, but you identified a brand persona. Would you be able to articulate for us what you see today as the brand persona for your brand?

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

That's a great question, Irene. This is a category that is following very predictable and common trajectories of maturation -- is that the right word, maturing? And I think we're entering the next stage of that trajectory, which is to say that the early adopters who are trying, but trying for reasons that they're not necessarily fully clear on, are migrating to a space where almost every category in food and packaged goods ends up, which is one of very clear segmentation. And this is where Maple Leaf's wheelhouse really exists, is understanding the very deep motivations that occur in each of those segments. And we are now in that stage of investing in understanding that evolving consumer motivation, both their functional motivations and their emotional motivations in what is, will ultimately be, a clear segmentation in consumers' behavior and in the process of moving to the next stage of defining the brand strategies, which include their personas, to align with those segments. I cannot speak to you today about the outcome of all of that work, but I think that's the next-generation of activity that you're going to see through 2020, and it is completely aligned with our skill set in brand management at a much deeper and mature level in the category. And I would tell you that I am super excited about it and what that will mean over the course of the next 12 to 24 months as it unfolds.

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

That's actually really helpful. And then if I might just very quickly turn to the meat segment. It really was a great quarter for me. Really nice revenue growth and good margin recovery. Could you outline for us what you see is the highlights of the performance in the group in Q4?

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

Yes. I think, as I said in my remarks, Irene, it was highlighted by progress, mostly in our packaged meats business. Good volume growth, good margin growth and the -- if you double-click on that, it would be driven by our progress in sustainable meat, which continues to be an engine of profitable growth for that segment for the foreseeable future, we believe. And we're seeing double-digit growth in our sustainable meat portfolio, both in the United States and in Canada. It's a really powerful platform for growth in the U.S. market because it differentiates us, gives us the opportunity to compete in that marketplace beyond just a forward price entrant that gives us a clear point of difference and strategic focus in what we're trying to accomplish in that market. But it's also -- we're seeing tremendous growth in the Canadian market as well, where we're the clear leader in sustainable meat.

So I think that was the -- that's the headline of the quarter in the meat protein business. Obviously, the market conditions, as I said last quarter, rebounded in the fourth quarter, and we expect, as 2020 unfolds, as Geert outlined, for that to continue. And we feel pretty confident in that. If you look at the underlying market conditions for the quarter, I think there was roughly a 40 basis point tailwind. For the year, interestingly, while we advanced for the year, our margin advanced by 50 basis points for the year against a market headwind of 110 basis points, actually. So the market provides some headwind, tailwind around that.

The next question comes from Michael Van Aelst from TD.

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

Thanks, and I reiterate the extra disclosure is definitely helpful. I just want to clarify your last comments there, Michael, on the market conditions. You said the headwind was 110. I guess -- so you're saying that 2018 was down 110 basis points and 2019 was up 50 basis points?

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

When we quote those numbers, Michael, our first go-to reference point is versus 5-year average.

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

So are you saying that Q4 was 40 basis points better than what the 5-year average would have been for market conditions?

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

Correct.

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

Okay, that's clear. So when you talk about your meat guidance for 2020. That's also relative to the -- I guess that's -- you're assuming a market that's similar to the 5-year average?

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

I think the indications would suggest today similar or maybe possibly better. I think similar would be a conservative perspective. Just the overall conditions heading into 2020 would suggest that, that's a reasonable assumption at this stage.

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

And is your guidance based off of similar or better?

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

Similar, similar, similar.

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

All right. And what is -- what do you assume then for the ASF impact and tied in with COVID-19? Is that -- are you expecting -- are you seeing volumes shipments to China recover? Did you start shipping out of Canada in December? And I guess, just for overall, though, for the -- are you seeing market industry shipments from North America increasing despite COVID disruption?

We've not seen disruption attached to COVID-19 to date. One of the -- while, of course, there are port and logistical interruptions, whether it's from blockades or in Canada on this side of the ocean to port disruptions on the other side of the ocean, but I think we've not experienced any disruptions at this stage, largely because throughout those supply chains, the priority's being given to medicine and food. And so we just find that virtually all of our shipments to date have not been impeded, and we don't anticipate that, largely because of that prioritization.

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

So you have normal -- are you expecting normal exports to China now that the ban has been lifted?

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

Yes. We began shipments into the Chinese market the first, second week in December, so we experienced about 4 weeks of that in the quarter, Q4. But we are now in full swing, and we expect it to accelerate through 2020. Logical progression as we maximize the opportunity. The -- in total, in our pork business, that would constitute some optimistic upside in our projections.

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

And then flipping to the plant-based side. So you had good growth overall in 2019 on the top line. As recently, I think, as last quarter, though, you're expecting closer to $280 million in 2020 revenues for the division and now, you're at $230 million. What's caused you to scale back that forecast? And how does that change your thinking long term?

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

It has no impact on our thinking long-term because we believe that our target -- our long-term model is a 30% growth rate, and we expect to be at or above that 30% growth rate in 2020. And that's what the long-term model was built on and is based on. I think the delta between the previously $280 million and the 30% growth rate that we're now guiding towards is largely driven around timing of distribution progress in the marketplace. So Geert, do you have anything to add to that?

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

Michael, I just wanted to add that you also saw us land on the lower-than-what-we-initially-expected 2019, so our base of which we need to grow is also lower. So we're very confident with that 30% growth rate. We said it was probably not going to be linear throughout the year. And it's largely, as Michael indicated, tied to how we see a realistic view of how we introduce new products, how we advertise and support new products, and that's how we got to the 30%.

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

Can you give us any more color on that timing of distribution progress comment?

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

Well, the -- we started, for example, in September. We had something like 5% ACV in our innovation line and by the end of the year, we were up to just under 30%, and it continues to progress. So these things are -- these things, in terms of gaining distribution, in terms of -- it's a bit of a process and there's time lines attached to it. So I can't say anything other than what we've experienced to date over the course of the last just 3 or 4 months.

During the quarter, I think it was roughly in mid-November, you press released in the division a doubling of your points of distribution from 6,000 to 12,000 roughly. Were you in all those points of distribution during the quarter? Like roughly, what timing did those -- did you ramp up to those 12,000?

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

About mid-quarter, I think. Mid-quarter. But the point -- the metric that I would encourage you to look at, and all of our stakeholders to look at, is the ACV distribution as opposed to the points of distribution. A C-store is not as good as a mass merch store in terms of what its value is to us. So all commodity distribution, the ACV distribution, is a better metric, and we're -- we have an ACV today of just under 30%. I think it's 27% to 29% in our innovation. We are well over 65% in our legacy categories -- that number is our innovation categories. In our legacy categories, which is in -- typically in the produce segment, includes the dogs, the deli-like products, tempeh, et cetera, the sausages in the produce section, the distribution is well over 65% ACV.

So we -- as we've got 65% ACV in 1 part of the store, we've got just under 30% and continuing to grow and expand in the other part. And our projections for this category, Michael, continue to be based on innovation, and so the projections of any given year are a function to some degree of the slope of distribution progress that you make when you introduce a new lineup of -- in the category. Is that helpful?

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

That's good.

Operator

The next question comes from Derek Dley from Canaccord Genuity.

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

Just following up on that last line of the questioning. As it relates to the plant-based, you made the comment that in Q1, you expect to be lower than that 30% and obviously have velocity ramped throughout the remainder of the quarter. When we think about seasonality in this business, is it fair to assume that Q2 and Q3, similar to what you would see on the meat side are your high selling point parts of the year, in Q1 and Q4?

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

Yes.

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

Okay. Now again, as it relates to that slowdown in growth, is that just a function of seasonality? Or is it also a function of new products coming online later in the year or innovation later in the year?

Yes. It's just timing and seasonality and distribution gains, it's just a cocktail of influences. But yes, it's those factors, and we're not concerned about it. As I said, we're confident that we have a growth model that's based on 30% per year. That's what the long-term strategic growth model is financially rooted in, and we're confident that we will be at or above that figure.

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

Okay. And then how about on the gross margin side? I get you guys aren't doing the core gross margin any more. If we think about adjusting for some of these onetime expenses and on a product margin basis in plant-based, should we expect something closer to that 30% target in 2020? Or is that something that's going to take a little bit longer to come to fruition?

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

Yes. Derek, this is Geert. I think what we said is that you will gradually see us grow into that 30%. The reason why we're not at that 30% and at the 14% is precisely because we're in that growth phase. We have -- there's a lot of start-up expenses that we need to get through, and it's just the phase of high-growth that we need to grow ourselves through to get to that 30%. So we were very clear we will get closer to the 30%, but we're not aspiring to get to 30% at the end of this year. Absolutely not. It remains our long-term target. We'll grow into it, and we'll continue to update you as we see that nudging forward.

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

Okay, that's helpful. In terms of the...

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

Derek, in the charts, there are reconciliations between GAAP -- what's actually reported. It's on Page 15 of the material. There's reconciliations between what was the GAAP measure and what those targets are. So the data that helps you see that is in Page 15.

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

Yes. No, I appreciate that. I appreciate the -- I'll echo the thoughts on the incremental disclosure as well, very helpful. In terms of the capacity available for plant-based now, given that you're delaying the construction of Shelbyville here into '20 or the completion into 2022, can you just talk about the capacity that you have available within your existing footprint? Is it predominantly through existing facilities with Lightlife and Field Roast? Or are you able to -- or have you been able to sort of transform some more of your meat processing lines to plant-based?

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

The answer is both of those. And we think this is very positive to accretive, if you will, to our long-term business model. It's -- risk management is a very important element of a growth model like that. It's a super important element. When we started down the path of constructing the Shelbyville facility, it was super clear to us that we were going to need a new greenfield footprint of that nature. Subsequent to that time, we recognized that there were opportunities to maximize our existing network while simultaneously building that new footprint and allowing us to push that out. And from a risk management perspective, that's super positive. The supply chain strategy, obviously, is rooted in operating assets ourselves, but it's really, really important for us to maximize the footprint we have in every dimension before we build new footprint. And that began with maximizing the output of the 2 assets we have in the United States, one in Seattle and one in Turners Falls. It was followed by maximizing the footprint of available capacity in our meat network in -- mostly in Canada. There is some selective and strategic utilization of co-packing. And then finally, the new footprint in Shelbyville, which inevitably, in this model, will be required. But every step that we can stretch that out from a risk of years.

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

Okay. That's helpful. And just last 1 for me. Switching gears a little bit here just to the meat group. Really strong revenue growth here ex acquisitions of 10%. Can you just comment on the magnitude of volume versus price contributing to that growth?

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

We have volume growth in the quarter. It was low single digits, I think, volume growth in the quarter, Derek. In prepared meats. Mostly on the back of our innovation and brand development work, and we're super excited about growth in, as I said earlier, in sustainable meat and our brand renovation, and our growth in the U.S. market where we're continuing to experience double-digit growth on the back of sustainable meat predominantly. So we've got a very wide array of growth factors that are -- we're very excited about in our meat platform.

Operator

The next question comes from Mark Petrie from CIBC.

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

I just want to follow-up on a bunch of the things that you've talked about already. But in terms of the brand renovation, you've talked about that as a multiyear project. And when you think about 2020, do you think that the benefits from that work would be greater than the benefits you saw in 2019? Or sort of what's your thinking when you look at sort of the underlying drivers and performance you're seeing?

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

Yes, I believe that the benefit from our brand renovation will accelerate over the next decade. We have -- there's a number of different dimensions of that brand renovation, and we continue to refine and leverage the work that we've done over the last several years, and we think that, that will accelerate. Most brand renovations of that ilk in history have shown accelerating trends over the long term.

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

And when you talk about brand renovation, are you including sort of product innovation in that? Or is it simply around sort of the positioning of the brands to the consumer and to your retail partners?

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

It's both. When you define a brand strategy, Mark, it has influence over the entire marketing mix, which is everything from product and innovation inside that category, all the way through to messaging. The magic is the alignment of your innovation strategies, your messaging strategies, your packaging strategies. The alignment throughout all of that marketing mix around the core brand strategy over time has tremendous value.

Okay. So I mean, I guess, I'm just trying to understand how much we can really isolate the impact of the brand renovation versus the impact of sustainable meats and -- I don't know if you can comment on that.

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

They are, to some degree, intertwined. So it is hard to tease that out because a big component of our renovation was to leverage in a more effective way the work that we're doing in sustainable meats. For example, we are in the process of applying the Carbonzero certification logo on the Maple Leaf brand, on the Greenfield brand and both of our plant-based protein brands. So there is a very high level of intersection between the sustainable meats activities and our brand renovation, Mark.

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

Yes. Okay. That's helpful. Just on the plant-based business. It's helpful to see you sort of quantify the nonrecurring costs and start-up inefficiencies. But at the same time, I guess, we're at a relatively steady 30% revenue growth rate. Obviously, that's a massive number, but it does seem like you expect that number to be relatively consistent. So I guess I'm just sort of thinking, does the 30% gross margin target, does that require Shelbyville to be sort of up and running? Or how does that fit into it?

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

Well, first of all, I would say, I think in a category like this, to expect consistency quarter-to-quarter in that top line might be an unreasonable expectation. We -- I think our guidance was 30% for the year. I think -- I would say with some confidence there will be some quarters that might be a little less than that, a little less, and some quarters, a little more. So I do feel that in a growth model like this, to expect that kind of quarterly consistency in that top line would probably be unreasonable. The second part of your question was, Mark?

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

In terms of just getting to that 30% gross margin. I mean, does that require Shelbyville to be up and running?

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

Does it require Shelbyville? The answer is, ultimately, yes. It's just we've been able to, by leveraging our supply chain assets already available to us and maximizing the output from the existing footprint, has allowed us to push the timing out and still meet that demand, which I would articulate is a very a positive outcome. The more we can do that, the better.

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

Yes. Okay. And then just a last question. You guys have highlighted the liquidity available to you to fund some of the pretty significant investment that you're going to be doing over the next couple of years. You did increase the dividend in a year where obviously, the investment in place accelerated pretty significantly. Could you just talk a bit about the background sort of leading up to the decision to increase the dividend? And as we look out over the next couple of years, how you see leverage playing out?

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

Hello, Mark, this is Geert. We feel very comfortable with the CapEx plans that we have and the impact that they're going to have on the leverage. We've guided you guys a couple of times. I think that the framework of our thinking is due to stay somewhere, I mean, largely below what the year. So we'll continue to balance that. And I think in one of the slides in the PowerPoint, we have mentioned -- or we've given you our sequence of thinking of allocation of capital where we see that capital go over the next couple of years. But to date, we feel very comfortable with the level of CapEx we have on one hand. And on the other side, what that threshold is that we're holding ourselves accountable to.

Operator

The next question comes from George Doumet from Scotiabank.

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

Just starting on the SG&A spend for the plant-based. Can you maybe share any learnings in any areas that you guys feel did really well? And any areas you feel you need to invest maybe less or more in the coming year?

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

I think the most important insight, George, is that, I think, connected to the observation I made earlier, which is that the targeting of that investment over the course of the next several years will most likely narrow in, as the categories mature, as consumers habituate in the category, as our brand strategy's refined. I think you'll see that the strategic focus of that investment will increase around the brand strategies over the course of the next several years. And that's a natural evolution as this category matures and continues to grow. And frankly, it's the one area of this that I'm most excited about because I think you'll see, as 2020 unfolds, some very exciting insights that we can -- we are and we'll continue to bring to the table express to those brands. So I think that's probably the most important insight and learning attached to that investment.

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

Michael, can you maybe help us frame the China export opportunity over the next 12 to 18 months? Like how big can that be maybe as a percentage of sales or a dollar amount?

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

Well, first of all, we don't -- we're not producing any more pork, George. So it doesn't change the amount of pork that we have available to sell by $1. What it does is there is, as we speak, an insatiable appetite for a protein in the Asian markets, particularly in China. And we are as of the end of Q4 well positioned to serve that market. And at the moment, that market is quite lucrative relative to North American markets, largely connected to the demand, the amount of demand and also the tariffs that continue to exist on U.S. pork that doesn't exist in the Canadian border. Our path forward is to divert as much of that as we possibly can into a more lucrative market. We are in the process of doing that and intending to do that. Dealing with all the constraints attached to that because there are logistical constraints that are -- that you have to work your way through. But also recognizing that we have strategic relationships in our pork business in other parts of the portfolio that we are unwilling to sacrifice for fewer opportunities. So it's a balanced effort in maximizing the opportunity. The net of it is though, George, is it's a net -- we're very optimistic and very positive about the outcome. I think the underlying guidance that we've offered, which is that we feel the pork complex from end-to-end will be kind of guided in and around the 5-year average, I think, is a relatively conservative perspective for the year.

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

Okay, great. And just one last one, if I may. What is that threshold that you guys called out? Can you maybe quantify that? Or maybe give us a sense of what it is to maintain our investment grade?

Well, that's a notional number. I mean, I think certainly, it depends on who you ask. And probably won't get exactly the same answer from a number of people. But typically, people have referred to that in the high 2s, would typically say that would be the kind of the threshold number. But to some degree, it's interpretive as well, which is -- which depends on the prognosis for paydowns. So -- but historically, I look at my 40 years in this business, I've operated in the high 2s, low 3s most of my life. Some people have suggested that it's -- you can be in the low 3s and still be investment-grade from a short-term transitional perspective, but it's in that range.

Operator

(Operator Instructions) The question comes from Peter Sklar from BMO.

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

A question on the Plant Protein Group. So in terms of the SG&A spend. So if you look in the fourth quarter, your SG&A spend was $45 million. That annualizes to $180 million, and your guidance for the year 2020 is $150 million. But you did mention in your commentary that you are moderating that spend, I think someone used that language. And I'm just wondering, what is behind the decline in the SG&A spend? And is it just due to the fact that your revenues are coming in below what you initially anticipated a quarter ago? So you took that down just to make the numbers -- just because the numbers -- falls in within the numbers? Or what's behind it, Michael? It just seems like all your commentary today is about the reach of the brand and the expansion of the brand and you're scaling back somewhat. How should we look upon that?

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

I wouldn't see that as a material scale back, Peter. I think that's just more of the timing of spend. We had a lot of upfront spend attached to innovation and just kind of early starts in the second half of 2019. Honestly, I would not view that as a material shift.

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

Okay.

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

Peter, this is Geert. I think what's important is that the investments we made in the second half of last year were really brand building, brand awareness, et cetera. As we get into 2020, we believe we can capitalize on that, and so you'll see our spend more skewed towards specific advertising, supporting innovation and supporting item introductions. We've always said that we were going to gradually grow into the spend, and that's what you're seeing here. So the total amount of SG&A spend, which is not only ad and promo, by the way, will gradually descend as we mature in this business and as we see our top line growth.

So it's a combination of sales leverage and being more purposeful and deliberate in our spend as we see it fit.

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

Again, Peter, just to reiterate. I honestly don't -- it was -- what it was not, it was not connected to kind of current run rates or growth rates or projections. There was nothing in consideration of that. I just -- I personally don't believe that the -- in a brand development investment exercise like this, the difference in $150 million and $180 million is really not that material.

Okay, got it. My next question is Capex. You did provide CapEx guidance for 2020. But the capital is really moving around from a timing perspective. Can you give us any kind of preliminary indication, even if it's a wide range on how 2021 is going to look?

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

Peter, this is Geert again. I think 2022 or 2021 is a little too early. We're very confident about the $650 million to $700 million. A big chunk of that you'll see continue into next year because the biggest part of that is related to construction capital, and within that bucket, it's mostly London poultry. But as Michael and I have indicated this morning, a big part of the thinking will be related to Shelbyville. And those plans are being solidified over the next couple of quarters as we get a better view of what, ultimately, that plant will need to be. We're finalizing our plans for next year. At this moment, it's too early to give you a specific number for next year, but I think that's a bit of the framework you should be using.

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

Okay. And then just lastly, on the meat protein side of the company. The Ontario packer margin was very strong during the quarter. Does that -- do you directly benefit from that? Or are there other things that could mitigate it? Hedging strategies, et cetera? Or would that have flowed through to your financial results in the quarter?

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

Peter, I turn your attention to Page #12 of the material that we sent out.

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

Yes, I'm looking at it, that's why I'm asking the question.

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

Yes. Well, but there are 3 components to that. The pork processor margin in the middle was strong, but the hog production margin on the left-hand side was weak relative to 5-year average, and the by-products were weak relative to 5-year average. So on balance, to look at the impact for the quarter, it was about 40 basis points relative to 5-year average. For the year, it was 110 basis points negative for the quarter, so I think it's important to look at all 3 of them. This is the market condition in aggregate that we experienced for the quarter and for the year.

Operator

Thank you. Ladies and gentlemen, that concludes your conference call for today. We thank you for participating, and we ask that you please disconnect your lines. Have a great day.
