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PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to Maple Leaf's First Quarter 2020 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 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, President and Chief Executive Officer; and Geert Verellen, Chief Financial Officer. To adhere with current social distancing measures and Maple Leaf's work-from-home policy, Michael, Geert and the Investor Relations team have each dialed in from our respective homes. While we have taken additional precautions to minimize potential technical disruptions, we have asked for your patience and understanding over the course of the call.

Similar to last quarter, we have uploaded our Q1 investor deck to our website, which includes support material for the quarter.

Our call this morning will end promptly at 9:00 a.m., but the Investor Relations team will be available after the call for any follow-up questions or any detailed modeling questions you may have.

I would remind you that some statements made on today's call may constitute forward-looking information, and our future results may differ materially from what we discuss. So please refer to our Q1 2020 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?

Thank you, James. Good morning, everyone, and thank you for joining Maple Leaf's First Quarter 2020 Earnings Call. I hope that you're all keeping safe and healthy in these difficult moments. In a moment, we'll discuss the performance of our business during the first quarter as well as our outlook for 2020 and beyond, and then we'll open the call to questions.

However, prior to reviewing our results, I'd like to speak for a moment on COVID-19. This is a pandemic that has created a challenging, unpredictable and unprecedented moment in history, and we've been singularly focused on managing through the effects of this pandemic across our organization. Government has designated the food supply system as critical infrastructure, and this status is guiding our behavior. We're committed to feeding consumers in this crisis.

At the moment, as an essential service, our responsibility to our people, our customers and broader society has never been greater.

As we navigate through this environment, we are guided by 3 priorities. First and foremost, protecting the safety of our people while we operate our critical infrastructure; secondly, maintaining the security and continuity of our supply chain, so that we may continue to fulfill our essential role in providing food for Canadian and international markets; and third, supporting vulnerable communities.

When the spread of COVID-19 first began to escalate within North America, Maple Leaf quickly enacted its pandemic response plan, along with associated business continuity and contingency plans. For our people, we acted early at all of our sites to implement additional precautionary measures, including spacing and screening procedures at our plants. Our people's efforts have been heroic, and we've implemented premium compensation for our frontline team members to reflect this. We were early in recognizing the threats and established appropriate crisis teams to support our work.

As a result of this early action, we were able to maintain business stability and continuity. Unfortunately, we have identified some cases of COVID-19 amongst frontline team members that work in our processing facilities. In consultation with Public Health and the Canadian Food Inspection Agency, we immediately put our playbook to work and implemented appropriate precautionary actions as required.

The science of this disease continues to evolve. We applied the best science and guidance updated by the Center for Disease Control and protocols for handling positive COVID cases to protect our people and ensure the ongoing operation of our supply chain.

The application of these protocols required us temporarily to suspend operations at a small number of facilities over the past several weeks for as little as 24 hours to about a week. Each situation is different, as you can imagine, and local decisions are based on very disciplined local and situational risk assessments. The health and safety of our people comes first, and we only restart operations at affected sites when it is safe to do so. At the same time, we are doing all we can to minimize risk, including sharing best practices with our industry peers, as we work collaboratively through this crisis.

We have learned a great deal over the past several weeks and are further refining our protocols on an ongoing basis as a result. Our contributions to the war effort itself have been directed to people who are on the front lines of health care, helping those most affected and also the most vulnerable in our community. We've donated $2.5 million to the Frontline Fund, and would encourage anyone on this line to do the same thing. Working with hospital foundations across the country, this fund will support the professional and personal needs of our courageous health care workers through this crisis.

We've also stepped up our long-standing commitment to reducing food insecurity with a $2 million fundraising campaign under the theme,#ApartTogether, with proceeds going to Food Banks Canada and Community Food Centres Canada. Maple Leaf is committing $1 million towards this campaign. We are also redirecting advertising spend to promote this effort on TV and social media.

Now turning to our business. As you would expect, COVID-19 has created some volatility, and we are seeing these effects on our industry and our business. There's been a migration of demand from food service to retail. As you may recall, retail is about 75% of our business in general. This migration, while being net neutral to overall volumes, is highly disruptive because of its largely distinctive supply chains. Impacts, including insufficient retail capacity in some select categories and pressure on agricultural commodity prices upstream, have been seen. We are responding

As you would expect, demand has been volatile with pantry loading in retail and a sales decline in the foodservice segment. In April, following the close of Q1, we've seen corrections that we believe are en route to more stable environments. We've seen increased operating costs. The critical measures that we've put in place to protect our people and manage our supply chain did, in fact, increase our costs. We are managing these costs, and our teams are adapting extremely well.

Having said that, we do expect to see these increased onetime costs for a period of time, a short period of time, through this crisis. As well, we will have experienced some short-term supply shortages when the facility is temporarily off-line or has reduced output. These factors may materially -- may be material to a specific quarter, but are not material to the overall health of our business or our long-term prospects.

With the COVID-19 pandemic unfolding over the past 2 months, it could be easy to lose sight of the strength of our business prior to COVID-19. We did have a strong start to the year with 12.8% sales growth, driven by another quarter of double-digit increases in both our Meat and Plant Protein Groups. Our strength in retail volume in both Meat and Plant Protein did result in some uplift in the sales for the quarter. Excluding the impact of COVID-19, our results would be right on target with our growth expectations for the year.

The Meat Protein Group continued to build upon the momentum it developed through 2019. For the first 10 weeks of the year, strong volumes were driven by a combination of factors, including the successful repositioning of our flagship brands, as branded product was, once again, a leading contributor to growth.

Continued excellent results from sustainable meats added to our growth in the quarter. Our Raised Without Antibiotics platform continues to see strong double-digit growth in the United States and strong momentum here in Canada as well, accompanied by expanding gross margins. And higher sales in the Asian markets, primarily China and Japan, also contributed to our growth profile in Q1. Meat Protein delivered a 30% year-over-year increase in EBITDA and 160 basis points year-over-year increase in adjusted EBITDA margins to 11.3% in what were neutral market conditions in total in the pork complex. This underscores our continued progress towards our goal of 14% to 16% adjusted EBITDA margins by 2022. I should note that COVID-19 was dilutive to EBITDA margins in the quarter.

In Plant Protein, sales momentum continued through Q1, and results were in line with our expectations, over 25% growth for the quarter. This was driven by both greater distribution of new products and solid growth in our existing portfolio. This growth was also supported by our investments in advertising, promotion and marketing, which built brand recognition. We continue to see strong adoption of our Lightlife fresh burgers, grounds and sausages, assisted by new formulations launched in December to dramatically improve these products in taste and texture. We continue to build on this position with additional innovations under the Field Roast brand, including Breakfast Sausage Patties and Links as well as plant-based chicken nuggets, which were both released in February. These advances reinforce Greenleaf's position as the #2 company by market share and #1 brand by distribution in the U.S.' plant-based industry.

We've made great progress in Plant Protein in the last few quarters. We have 2 well-established brands with a broad portfolio of products and protein sources. We've got a great innovation pipeline with a skew to the higher-margin retail channel. We have deepened our insights in the plant protein market, our relationships with customers and consumers, and we've gained momentum in brand awareness. We continue to see sales traction, and we expect to achieve our targets for the year in 2020 in total.

So now I'll turn it over to Geert, who will discuss both these expectations and our financial performance in greater detail. Geert, over to you.

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

Thank you, Michael, and good morning, everyone. I'll begin today by discussing the company's consolidated performance during the first 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, CapEx and our outlook for the rest of the year.

primarily reflects the strong performance of our Meat Protein Group, which was partially offset by our continued strategic investments in Plant Protein. As a result, adjusted EBITDA margin for the quarter was 8.9%, a slight decline compared to 9.3% last year.

As mentioned earlier in the call, the pandemic's net impact on the first quarter was not material as it was limited to only a few weeks. During those few weeks, we witnessed increased revenues, a decline in gross margins due to higher production costs and increased expenses as a result of our efforts to support our communities. In total, COVID-19 was dilutive to our adjusted EBITDA margin in the quarter.

Adjusted operating earnings for the quarter were $45.1 million compared to $42.1 million in the prior year, driven by similar factors. Net loss for the quarter was $3.7 million or negative $0.03 per basic share compared to earnings of $50.1 million last year or $0.40 per basic share. Strong commercial performance across the business was more than offset by a $36.7 million impact from noncash fair value changes in biological assets and derivative contracts. Excluding these fair value adjustments, Maple Leaf's adjusted earnings per share were $0.21 compared to $0.20 in the prior year.

I'll now turn to a discussion of Maple Leaf's 2 operating segments. Meat Protein sales for the first quarter were $981.4 million, an increase of 12.7% from the prior year. This improvement was driven by several factors, including strong retail volumes throughout the quarter, including a boost in late March due to COVID-19-related pantry loading; increased sales to Asian markets; a favorable mix shift towards sustainable meats and other branded products; and finally, the benefit of pricing actions taken during the third quarter of 2019.

Meat Protein adjusted EBITDA for the first quarter was $111 million, a significant increase of close to 31% from the prior year. This growth was mainly due to strong sales growth, coupled with the normalization of pork markets towards the 5-year average. These positive drivers more than offset several factors, including costs incurred by our response to the pandemic in late March. Adjusted EBITDA margin for the meat segment was 11.3%, representing an increase of 160 basis points over the prior year.

Turning now to our Plant Protein Group, where we continue to invest for growth in a high potential market. Plant Protein sales for the first quarter were $46.3 million, an increase of almost 26% from the prior year. This encouraging performance was driven by both broader distribution of our new products and strong growth in our existing portfolio. First quarter gross margin in the Plant Protein was 14.6% compared to 23.2% in the prior year and slightly higher than the fourth quarter of 2019. This margin compression reflects several short-term factors primarily related to heightened trade and promotion expenditure and supply chain costs. We remain confident, though, that we will increase this gross margin by the end of the year.

SG&A expenses in Plant Protein were $30.9 million and roughly 67% of sales, in line with our full year outlook, as we leverage strong brand awareness built over the second half of 2019. In addition, seasonality was also a factor, given that we are seeking to align our spending with key purchasing periods. As we've discussed, these costs represent our strategic investments in advertising, promotion and marketing, organizational capacity and our innovation pipeline. These investments are designed to establish a strong foundation for the future growth of the group, and we're pleased with our progress to date.

Maple Leaf's balance sheet remains strong with $641 million in net debt and $1.3 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.

During the first quarter, Maple Leaf invested $99.2 million in CapEx, including construction capital of about $57 million. These expenditures were primarily related to construction of our new poultry facility in London, Ontario.

With regard to our outlook, I should note that our expectations for both the second quarter and the balance of the year are based on certain assumptions regarding the future of our markets. As expected, the onset of COVID-19 has introduced a degree of uncertainty here. This includes volatility in the pork and poultry markets that has accelerated in the face of COVID-19. That said, we continue to see strong evidence supporting higher live hog prices over the medium term, and Canadian poultry markets should stabilize as we move through the year.

retail channel with lower sales from foodservice. We expect that incremental COVID-related expenses, such as labor, personal protection equipment and increased sanitation, could be up to $20 million for the second quarter. Obviously, where possible, we're looking for ways to reduce expenditures in other areas to mitigate some of this incremental expense. At this time, we're only assuming a significant increase in COVID-related costs for the second quarter. As we make our way through the next 2 months, we hope to have a better understanding of how to plan for COVID for the back half of the year.

While we deal with the challenges created by the pandemic, we maintain our strategic focus on profitable growth in the Meat Protein Group and investing in our Plant Protein Group. Now things can change quickly, but at this time, we see no elements that materially change the overall expectation for our 2020 performance, as outlined in February.

And just let me walk you through the highlights of that outlook once more. For our Meat Protein Group, we continue to expect to deliver mid to high single digit sales growth coming from momentum in sustainable meat and higher sales to Asian markets. Although it is unlikely to be linear, we expect to deliver gross margin expansion in meat in 2020. This improvement will be driven by mix benefits in prepared meats, pork complex conditions closer to the 5-year average and higher sales to Asian markets. This quarter, as a reminder, gross margin expanded by 90 basis points to 16%.

These factors, combined with continued SG&A efficiencies, are expected to drive adjusted EBITDA margin expansion in 2020, advancing towards our stated goal of 14% to 16% to be achieved by 2022. This past quarter, Meat adjusted EBITDA margin grew by 160 basis points to 11.3%, representing continued progress towards our target.

In the Plant Protein Group, we continue to expect to deliver sales growth of approximately 30% in 2020 based on an acceleration during the year, consistent with our long-term target. We mentioned already that we did not expect this growth to be linear, and that the first quarter would likely be lower. Over the balance of the year, we anticipate growth to accelerate as we continue to expand distribution points and launch new products. We expect growth to be driven by continued new product innovation, brand innovation in both our Lightlife and Field Roast brands and increased distribution points. We continue to expect our Plant Group's gross margin to expand relative to 2019 as the business continues to grow and we optimize operational efficiencies and minimize start-up costs. There's more work to be done, though, but we remain confident in this target for the balance of the year.

We continue to anticipate SG&A expenses in plant of roughly $150 million over the course of the year, largely driven by continued investment in advertising, promotion and marketing. This will include continued spend on talent and operations to develop our organizational structure as well as research and development to support product innovation.

We're adjusting our capital outlook for the year. Expenditures in the first quarter were lower than planned, partially as a result of large construction sites, such as London poultry being temporarily shut down as part of the government's measures to fight COVID-19. Based on what we know now, this construction site will be closed until the end of May. Over the next couple of weeks, we should be getting more clarity on what sites can continue, but it is reasonable to assume that our capital spend for the year will be at least $50 million lower than what we communicated in February. We do not believe that this will result in a meaningful delay in terms of completion of the London or Shelbyville plants now.

In short, Maple Leaf has a stable, resilient business model. We have been extremely vigilant to maintain business continuity, and we are fortunate to be in a line of business that is somewhat protected from the devastating COVID-19 impact in other areas of the economy. With confidence and discipline, we will continue to execute on our long-term strategy.

I will now turn the call back to Michael.

Thank you, Geert, for that comprehensive review. To carry on from what Geert concluded with, we are extremely fortunate to be in what is a relatively secure and stable industry.

As I stated at the beginning of this call, we're pleased with the progress that we've made in the first quarter, with strong performance from both our Meat and Plant Protein Groups, keeping us on track for our long-term targets. While there's some degree of uncertainty in the near term, I am confident that we possess the organizational discipline and the expertise to manage through this unprecedented time. It's critical infrastructure as well as a company that is resilient in a time of great uncertainty, Maple Leaf also has a responsibility to serve the broader community and to be a leader in supporting at-risk communities, our frontline workers and other stakeholders.

I'd like to conclude by expressing my profound gratitude for our frontline team members, who come to work every day to make the food on which we all depend. I'm humbled and I'm grateful for your commitment and inspired by the dedication of all our people to persevere and succeed in this environment.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Irene Nattel.

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

Thanks and good morning everyone. And again, thank you for the enhanced disclosure. Obviously, all of the problems that we're seeing in the U.S. with very large plant shutdowns and here in Canada as well, have raised a lot of questions. I was wondering if you could just take a couple of minutes, Michael, and walk us through -- I mean, you said you have a couple of some closures in smaller plants. But any differences in the way in which you operate your larger facilities? And I know it's just really tough, but the probability in your mind of -- or the risk in your mind of one of the big plants going down.

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

Well, thank you for that question, Irene. And I am absolutely going to avoid doing any compares or contrasts or differences in this situation because every single situation is different and unique. And it's based on the local risk assessments that are a very complicated and integrated assessment of the plant's status combined with the community status. And those decisions are made collaboratively with Public Health and the CFIA. And it is virtually impossible for me or others, and inappropriate to try and opine on any differences, and I hope you can understand that.

The -- what I will say is that I believe that we were very early in recognizing the risk that this pandemic would create and, accordingly, adopted very rigorous protocols for our people. And there's a range of those protocols that accomplish objectives like working from home, where possible; social distancing; very aggressive screening in our facilities; appropriate protocols throughout the facilities that we've described many times before; following the application of CDC guidelines around temperature checks and PPE amongst our -- including masks-- amongst our frontline teammates.

So all of those, I think, collectively, the fact that we were early adopters and work very collaboratively with Public Health and the CFIA in terms of the community component of these things, I think, helps to mitigate the risk in our supply chain, and, I think, has contributed to a relatively stable and secure outcome to date.

But right now, I believe we're in -- I think we're in pretty good position right now, pretty good shape certainly relative to others, but there's a certain sense of unpredictability to that going forward.

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

Understood, Michael. And also, presumably, as we enter a period, if you will, of even higher risk, as the economy and people start moving around a little bit more, all of these protections presumably will remain in place?

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

Yes. Well, that's the -- that's certainly our intention. And I think our communities, in general, have really not landed on exactly what those reentry strategies should be, either for critical infrastructure or noncritical infrastructure. And I think that's work in process. Right now, we're just concentrating on incredibly vigilant application of our protocols to date. I believe that the risk profile in our supply chain is less today than it was 30 days ago, largely because I believe that it's clear from the data that the social distancing in Canada has been effective, and I think all of the modeling suggests that.

And our protocols in the supply chain are 30 days more mature today than they were a month ago. So I believe that the risk profile to the supply chain today is less than it was 30 days ago. But I would say that in the next stage of this evolution, as the economy begins to open up, we will have to carefully craft with Public Health and the CFIA and industry partners exactly what that looks like in the next stage. For sure, our priorities won't change, which are: number one, protecting our people while we operate this critical infrastructure and protecting business continuity.

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

That's very helpful. And just one other question, if I might. You alluded to this in your discussion around your relative mix between foodservice and retail. Can you just spend a couple of minutes talking about the ability, and it sounds like it's a good one, that you have to really to pivot the product and the SKUs away from foodservice to retail and your ability to meet the demand as we move forward?

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

Well, generally, we've been able to meet the demand of the increase in retail versus generally. So -- which is why I think our volume in total is going to be neutral, maybe a slightly positive bias, but, call it, for the purpose of this discussion, neutral in that foodservice decline retail game shift.

But I would tell you that, Irene, it's very, very category-specific. So there are some categories that we have the capacity to meet the retail growth while the foodservice contracts. There are some other categories that we're more restricted on. But we're -- in those categories, we are taking steps, as I alluded to, around optimizing our retail production output through things like SKU optimization and other operational tactics that are -- that have been very effective.

So in general, I think the macro theme is we're in pretty good position to be able to take advantage -- or to be able to not take advantage of, but to really shift with that channel disruption.

Operator

The next question comes from Michael Van Aelst.

So I just want to touch base specifically on more of the Brandon facility. Given that if one plant was to go down that could have a bigger impact, it would be Brandon. So there aren't many cases in Manitoba. So certainly, that is a positive going for you. But what would be your -- what would happen to your pork supplier or how would you adjust your business, your supply chain if Brandon had to -- was forced to close down for any period of time?

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

Well, I hesitate to speculate because these things are so dependent on local risk assessments. And there are very difficult circumstances that are certainly being experienced in other parts of North America, where the impact, if extended, goes right back to the farm. And it affects producers in the way that are relatively obvious that we're seeing throughout North America. That's happening in all of the species in protein.

So speculating, Michael, on exactly what that would look like would be very challenging because it's so specific to the -- to individual circumstances. What I would tell you is that we're in the Brandon facility like all of our facilities. As I said -- mentioned -- said to Irene, I think we're in a stable and secure position as of today. Manitoba happens to be in a very good position in terms of their outcomes, their public health outcomes.

But in addition to that, we've got just -- we've got very, very, very vigilant, rigorous protocols in place at the Brandon facility as we do in all of our facilities today. But they -- the team in Brandon have done a very good job at applying those protocols. And I've got confidence in them. It doesn't -- the situation is -- again, is very integrated to the community and the community status. And in that community, I think we've got a very stable situation at the moment.

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

But Michael, what -- like, let's say, it were to shut down hypothetically for a week or 2, would you be able to source raw pork from other sources, given the tight supply there right now to continue manufacturing your prepared meats?

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

Yes. I believe we would, I believe we would. Certainly, there would be -- it depends on the market conditions at the time, but I believe we would, yes. And we operate with inventory, right? So I think there's some inventory components of that as well.

We -- so the short answer is -- Michael, is would it be disruptive? Of course, it would be disruptive. But the -- I'm just not going to speculate on what the various scenarios would be and what worst-case scenarios would be because I don't -- I just don't know what the profile of that would look like. But right now, I believe we are in, relatively speaking, very secure position relative to our industry.

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

Okay. And would you be able to quantify the dilutive impact of COVID to EBITDA margins in the first quarter?

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

It was slightly dilutive, Michael, not significant. Just slightly.

Yeah, it's really small, Michael.

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

Okay. And then I don't -- this will be a tough one maybe, but last night, President Trump ordered all the food plants to stay open essentially. We've seen spreads -- processing spreads really right up in the face of 25%, 30% reduction in processing and slaughtering capacity in the U.S.

Do you think that -- in your view, do you think that processing capacity can recover quicker with this order? Or do you think it's the fact that people are homesick and the employees might not want to work in this environment, might keep production capacity or slaughtering capacity down for an extended period of time in the U.S.?

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

I think it will aid the recovery of their processing capacity, but I don't necessarily believe that that recovery will be overnight or quick. But it will obviously aid the recovery. I think it recognizes the critical infrastructure that the food supply represents. I mean in a situation like this, I just can't imagine the stress on the society that would occur if our food supply system becomes dysfunctional. And that, I think, recognizes that criticality.

And so obviously, Michael, it will aid in that, but I just don't know. I do not know their individual plant circumstances, the integrated nature of their outbreaks with the community and what the local judgments or risk assessments that are being applied that might influence their ability to bring back those supply chains. They're just so local, but I cannot offer an opinion on that, other than just saying that, broadly speaking, recognizing the criticality of the infrastructure, will aid the recovery in some way. But I just can't opine on exactly how.

Operator

The next question comes from Derek Dley.

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

Just wanted to talk a little bit about your export markets, namely China. So given what we saw last year with the ASF and the reduction in the hog herd, have you guys seen or heard of any sort of changes there in terms of China being able to start to rebuild that hog herd? Or has COVID-19 led to further delays on that front?

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

I've seen no evidence of any change from the last time we spoke. Of course, they will work towards rebuilding it, but we feel that -- as the industry feels -- that that's years away. And certainly, Q1 was the first full quarter where we were back in the Chinese market, and we saw significant increases to our exports into that market over the course of the quarter. But I have not seen any fundamental change from the last time we spoke, Derek.

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

And would you expect that, given some of the tariffs that we've seen in the U.S., that you guys are gaining market share? Or other countries are gaining market share within that Chinese market?

Well, by definition, the fact that we've had such strong growth, it feels a little bit like that. But you look at the data coming out of the United States, their exports into China, I think last time I saw the data was up 100% into China so -- from the United States. Now that will obviously be impacted by the more recent -- in the last couple of weeks, the recent contraction of their processing capacity. There the -- they've seen 25%, 30% reductions in the U.S. processing just over the last couple of weeks. So that will obviously impact their export capacity into that market.

But again, I don't -- I can't opine in terms of how long that will persist for, given the -- what -- the volatile situation that they're facing. But what I do know is that we are, at Maple Leaf, active exporters into that market. We're maximizing the opportunity to sell into that market as much as we can. And I think that we expect that to continue.

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

Okay. In terms of just the consumer purchasing behavior that you've seen in sort of the early stages here of COVID-19, have you seen any changes in purchasing behavior? Are consumers looking to buy more of sort of legacy products or what they're used to? Or are folks trying new products, maybe trying more of your PPG products? Can you just comment on what you're seeing there?

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

What we've seen, as I said in my remarks, we've seen growth in retail, contraction of our foodservice business, although some data points are showing that the foodservice business more recently in the last few weeks are starting -- they're getting some small amount of rebound in the foodservice channel in the last few weeks, I think, which is good news for them.

In terms of consumer behavior, yes, I think there is some evidence of people migrating to traditional products. We've seen real strength in categories like wieners and sausages, sliced meats, bacon, some weakness in deli products. For example, as you can imagine, the deli operations and most retail outlets are not functional or significant reductions. Some categories like lunch kits tend to suffer with people, with families at home.

Certainly, from a broader perspective, we've seen tremendous growth coming in -- more coming into the second quarter than the first in our plant-based business. I think that's been -- that continues to accelerate. But some of that is just due to the seasonality that as we -- as the second quarter comes into a more seasonal sweet spot for that category as well. So teasing out how much of that is a consumer behavior-oriented versus seasonality is very difficult. But we are seeing very robust plant-based business and in line with our expectations in our meat platform.

So those are the headlines. Derek, I don't -- I'm not sure if that addresses your question, but it's -- those are the headlines.

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

Yes. That's great.

Operator

The next question comes from Mark Petrie.

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

I just wanted to follow-up quickly on your comment with regard to channel shifts being largely neutral to volume. What period were you referring to? Or is that just a general comment of what you're seeing in the business?

That's a general comment, but I think that is more reflective of what we would expect in the second quarter as that channel shift kind of normalizes.

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

Right. Okay. So foodservice wasn't severely impacted in Q1?

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

Well, it certainly was in the back half of March, the last 2. All of these shifts basically accelerated and impacted our results in the last 2 weeks of the quarter, where we saw dramatic declines in our foodservice business and a bit of a hoarding effect in retail.

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

Okay. Well, I guess -- so I guess my question is maybe, like was your shift -- was your ability to shift your capacity from foodservice to retail, is that relatively quick? Or is there a bit of a lag in that?

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

No. Relatively quick in most categories, not all. As I said, it's very category-specific, but we did take steps late in March and then through the early part of April to streamline our productivity measures in our retail portfolio in the last part of March and into early part of April. So relatively swift where it's possible.

There are some places, Mark, where it's not possible. An obvious example is in bacon. There was a very material difference between the packaging formats and the process formats in bacon in foodservice versus retail. We're not a large foodservice bacon provider. We are dominant retail, but it's more difficult to take advantage of the growth in retail in that business. We didn't suffer a large foodservice decline because we're not a significant foodservice operator in bacon. But it's more difficult to take advantage of the retail growth in bacon because of the -- just because of the differences in the packaging format as an example.

There are other categories where we had more opportunity either through available capacity or easier ability to adjust in those. So it's very category-specific.

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

Yes. That's helpful. So the other question I had was just with regards to sort of trade spend and also marketing spend. I'm just curious about how that's sort of been affected through the course of the pandemic, how that's evolved. And I guess, sort of both in meat and Meat Protein and in Plant Protein, if you could separate those. And if -- and sort of how you've adjusted tactics and strategies and then if that affects the overall level of spend. Or if that's just -- if it's just really a change in sort of how you're approaching it.

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

There's some in the SG&A. There will be some offsetting costs, but not really that material, some offsetting costs in our SG&A. It's not an appropriate period of time to be advertising in certain aggressive ways. But on the other hand, we've converted large chunks of our advertising investments to both support our community efforts around the Centre for Action on Food Security and, in some cases, where we are continuing to advertise around the message itself.

not -- in our supply chain, but not material.

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

And I would add, Michael, that on the Plant side, we're executing as we said we were. I mean the trade spend and the SG&A spend that we have on our Plant side is exactly in line with what we said in the beginning of the year, that the trend would be for the full year. So we continue to invest in brand building, et cetera, but there, it's much more commensurate with the rate of innovation introductions and new product launches than anything.

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

Okay. And I guess just sort of following up on that last point. Do you think that this sort of surge in retail demand overall has led to any kind of change in the pace of new trial in the plant-based category? Or is this -- is that all just sort of on track as you would have expected and that it's not affected?

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

I wouldn't say that it's not affected because that would be too much of a bright line. There's some effect, but it's not material. We're marching forward with our plans as expected. So there's clearly -- from a tactical perspective -- there's some impact category-by-category, product-by-product, customer-by-customer, but it's not really all that material, Mark. We're continuing forward.

Operator

The next question comes from Peter Sklar.

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

I just want to talk about packer margins for a second. As you know, the packer margins in the U.S. have really widened out with these plants that have gone down. So my question is, how integrated is the Canadian pork market with the U.S. market? So if packer margins are expanding in the U.S., does that translate into the same dynamic in Canada? Or are there certain structural issues for port to cross over the border?

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

So it is -- Peter, to answer your question, there are -- I'd answer it in a couple of different ways. First of all, it's directly linked. So it's not a question of is it influential. It's directly linked to the Canadian market. And the Canadian market operates in complete sync with the U.S. market in that regard.

Having said that, it's -- when you look at the packer margin expansion, I would encourage you to also look at the devastation in the lean hog price, which we operate in a whole continuum of pork complex that has lean hog margins. And price in lean hogs, it wasn't that long ago, we're trading, say, in May or June in the 80s and 90s, and they went down into the 30s for a period of time. So now that's recovered slightly, but it's still trading in the low 50s.

So you have to look at the -- as we put in our materials this quarter, you look at -- in the first quarter, it was net neutral. It's too difficult to call exactly how all 3 of those components, the lean hog or the hog production, the packer spread or processing and the byproducts, the combination of all

With respect to Maple Leaf, the third part of this is, though, is Maple Leaf operates with a very, very high proportion of value-add in our product mix. And what that means is -- to Maple Leaf is that while the packer margin and hog production margin and byproduct markets has an influence on our performance, we don't have either the low lows or the high highs as a result of those changes in markets. We have a much more stable and predictable profile against those markets because of our high value-added mix. It will be influenced by it, to some degree, as we've disclosed every quarter, that we won't have the extreme volatility that, that might represent in our portfolio.

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

Right. Okay. And then just as a follow-up, with the issues that they're having in the U.S. in their pork plants, I would assume in the U.S. they're looking for products. So has that impacted your export of your branded prepared meats business into the U.S. grocery channel? Like is there additional demand for your product?

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

It hasn't to date. We've got great demand for our products in the United States, but not really connected to what's going on with their supply chain. Most of our demand growth in the U.S. has been as a result of our double-digit growth in sustainable meats. We've had great success in the Greenfield brand in the U.S. marketplace in sustainable meat. And our sustainable meat portfolio is driving our growth in the U.S. marketplace, not COVID-19.

The -- having said that, with the contraction in capacity in the United States, I think it's fairly accurate to say that it's likely the contraction of capacity of, say, 25%, 30%, very short term, is more likely to affect their exports than the domestic market. So I suspect that they will protect their domestic supply chains at the expense of their exports. But I don't -- I can't say that for certain, but I wouldn't think that's logical.

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

Okay. And then just lastly, just seeing you double your sales to China, like there's so many moving parts. There's all the trade issues, there's the COVID issues, the issues they've had with -- obviously, with their domestic hog production. Like bottom line, like what is it that's really allowed you to double your sales to China? Is it all of the above?

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

Yes, demand. We've -- their demand, which started to materialize in middle of 2019, we were not able to access that demand in the first instance because of the restrictions that were placed upon the Canadian industry by China from -- in Q3 and 4 of 2019. That changed, as you know, in early December of 2019. And so that's -- it's a demand-led shift. There's -- the supply shortage in China is 15 million to 20 million tons per annum. And Canada's role in that is de minimis, relatively speaking. So there's a -- our ability to fulfill that demand is restricted only by the -- our availability of product to sell, which is obviously limited by our own supply.

Operator

The last question comes from George Doumet.

There seems to be a second wave of pantry loading in the U.S. because of, I guess, all the headlines and talks around supply disruptions out of the plant. So I'm just wondering if you're seeing anything improving, if at all, in Canada.

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

I'm not seeing that to date, George, but I couldn't say that, that wouldn't happen. I think, certainly, the media has been more attentive to the supply chain challenges in the U.S. than in Canada because -- largely because they've had more supply chain challenges than in the United States than in Canada. But I can't say that, that wouldn't occur again.

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

Okay. Just one last one for me. On the higher supply chain costs that you guys called out in the plant-based business, can you maybe give a little bit of color on what they were and how they would look like, I guess, in the environment where you do see the higher demand that you've called out for in Q2?

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

Well, the -- yes, Geert. Why don't you take that one, Geert? Go ahead.

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

Yes. So we called out additional trade spend and supply chain costs. And we do believe that as we continue the growth cycle that we have right now with the growth numbers that we are seeing in April, we're going to be able to better source that and better organize that. So we're confident that we can get that down or better on the control such that we can get the gross margin up.

Operator

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

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

Okay. Well, thank you very much for everybody joining today. Again, these are unprecedented times. I'm very, very proud of the dedication and commitment of all of our team members to both meeting our obligations as critical infrastructure, but also contributing to the war effort in the ways that we have and been supportive, as our teammates have been, to all of the societal requirements and obligations during this time. So it's an unprecedented period, but I think we have demonstrated the resilience of our business model and the strength of our people through this. And I'm very proud of them in virtually every way.

So thank you for all of your support. We look forward to reporting significant improvements on both public health and our business results in the future. And there will be a time when we can be together again. So thank you for your support, and I look forward to connecting with you next quarter and -- as we work our way through these challenges. So thank you, and I look forward to the next time. Have a great day.

Operator

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