FINAL TRANSCRIPT

Maple Leaf Foods

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to Maple Leaf's Third Quarter 2021 Financial Results Conference Call. As a reminder, this conference call is being broadcast live on the Internet and being recorded.

All lines have been placed on mute to prevent any background noise. Please note that there will be a question-and-answer session following the formal remarks and we will go over the question-and-answer session instructions following the conclusion of the formal presentation.

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

Mike Rawle — Vice President, Investor Relations & Treasury, Maple Leaf Foods

Thank you, Michelle, and good morning everyone. Speaking on the call this morning will be Michael McCain, Chief Executive Officer; Curtis Frank, Chief Operating Officer; and Geert Verellen, Chief Financial Officer.

Before we begin, I would like to remind you that some statements made on today's call may constitute forward-looking information and our future results may differ materially from what we discuss. Please refer to our Q3 2021 MD&A and other information on our website for a broader description of operations and risk factors that could affect the Company's performance.

We have also uploaded our Q3 Investor deck to our website, which includes support material for the quarter. As always, the Investor Relations team will be available after the call for any follow-up questions that you may have.

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

Michael McCain — President and Chief Executive Officer, Maple Leaf Foods

Thank you, Mike. Good morning everyone and welcome to our third quarter 2021 earnings call. Some of you might be old enough, like myself, to recall a very classic television soap opera, As the World Turns. Well, it feels like that to us these days, and it was almost two years ago now that we experienced the birth of a global pandemic and the havoc that it brought to all of us. Now, the world keeps turning and there are two material topics that we feel we need to discuss with you today. The first is a world under stress in the aftermath of COVID. The second is growth rates in plant-based protein categories, which have, to be frank, evaporated.

While both of these require our attention, I can assure you that we are disciplined and focused in executing our long-range vision to become the most sustainable protein company on earth and building long-term value for all of our stakeholders.

Let me begin with the first of these two, a world under stress. Clearly, as vaccination rates continue to improve in most parts of North America, COVID related restrictions are generally subsiding. Life seems to be slowly recovering back to some kind of new normal, but the economy is struggling to rebalance demand and supply, characterised by a rapid rise in inflation, shortages of labour, and disruptions in the global supply chains. Nobody is immune to these challenges. I'm proud of our teams and business for many reasons, and near the top of the list would be their resilience, and this environment demands that. So far, we've been able to navigate this dynamic environment with minimal financial impact, but candidly, it's a new daily adventure.

In this environment, we believe there are three skills that rise to the top of an organisation's ability to navigate the constant turmoil. First, revenue management skills are required to stay ahead of the tide of inflation. We have invested heavily in this capacity in the Maple Leaf organization, demonstrating it clearly in our second quarter. We indicated last quarter that we expected a full recovery from the short-term margin compression quickly, and that's how it played out.

The second is exceptional supply chain agility with very tight operations. We demonstrated that at the start of the pandemic and it will certainly serve us well in this environment also, double-check. It's a core competence of Maple Leaf.

Finally, the companies who win in this environment will have leading brands that enable market leadership. Triple check. Our stable of brands is unrivalled in the Canadian food market. We have category leaders with leading market share, as well as a suite of strong regional players.

In our third quarter we delivered a powerful 13 percent revenue growth and 22 percent Adjusted EBITDA growth to $149 million, driven by a 90 basis point margin improvement over a year ago at 13 percent.

We should pause there for one moment. This type of sales growth is unheard of in what is often viewed as a traditional business with typical growth rates in line with inflation. Doing so simultaneously with margin growth is even more rewarding. Our strategies have been built for growth, top and bottom line, and it wasn't that long ago when we can all remember our EBITDA was less than $150 million for a full year.

Focusing on performance, in the last seven years, we've delivered a CAGR of nearly 6 percent annual top line growth, with Adjusted EBITDA growing at double the pace at over 16 percent. I don't know of many other scale food companies in North America delivering these kinds of outcomes, and it's a direct result of our clear, highly impactful vision of sustainability. That leaves me with great confidence in our ability to hit our Adjusted EBITDA margin target of 14 percent to 16 percent in 2022, and the return on capital in our significant investment in the poultry business and our Bacon Centre of Excellence will be at least 200 basis points layered on top of that shortly after.

Back to a turning world. The single most important question that shareholders have asked me over the past two years is, what would it take for you to alter your investment in plant-based protein? My response to that question has been consistent. The facts underpinning our investment thesis, namely growth rates, would have to change.

Well, that may, and I underlined may, be the case now. In the past six months, unexpectedly, there has been a rapid deceleration in the category growth rates of plant-based protein. Of course, our performance has suffered in the middle of this, but the more concerning set of facts are rooted in category performance, which is basically flatlined.

What does this mean for Maple Leaf and our plant-based business going forward? In short, we are taking our time to fully do our analytical homework, to deeply understand why this is the case. To be clear, there's a fair amount of COVID noise in the market now and we can't discount that. However, it isn't only COVID noise and we're going right back to square one with the consumer to fully understand what has changed, if anything, and why. It's going to be this diagnostic, this analytical rigor, that will inform our investment choices going forward because it's important for us to match the investment rate with the investment thesis.

Our goal will always be to create long-term value. Make no mistake, we've done that in this business to date with a materially larger business than we acquired. Our investments so far have been well-placed. Our teams have done a remarkable job competing in this space. However, if the facts change—if the facts change, our forward investment thesis has to change with it. The outcome of our work will either be to inform our direction or affirm our direction and our commitments, or alter them based on a new set of facts and a new diagnostic. In either case, we have the foundation to both win and create long-term value that we seek.

We expect to complete this analysis over the next little while and we will be sharing our findings and our conclusions with you when it's appropriate. The world is certainly turning and I think we've demonstrated that we're prepared to turn with it.

Now I'm going to turn it over to Curtis and Geert who will share more operational and financial highlights from the quarter and our outlook for the remainder of the year. Over to you, Curtis.

Curtis Frank — President and Chief Operating Officer, Maple Leaf Foods

Thank you, Michael, and good morning, everyone. As you heard in our opening comments today, it is in times like these that great companies have an opportunity to differentiate themselves, and our team is doing just that. We are operating with excellence while playing to our strengths and our blueprint is proving to be more relevant and resilient than ever.

To be clear, our world is, in fact, under stress. We are experiencing inflationary pressures and supply chain disruptions unlike any of those we've experienced in the past. For example, pork prices are up 59 percent from pre-COVID levels. Natural gas prices are up 131 percent, and shipping container rates are up as much as six times previous levels. Additionally, the availability of labour has tightened materially. This is a daily challenge for us.

All of this said, I, too, am incredibly proud of how well our team has responded to date and I remain confident that we are very well-positioned to manage through the stress that lies ahead of us. Throughout the pandemic, the strength of our portfolio of brands has shone through as consumers continue to seek out products they know, love, and trust.

Our branded sales rose again this quarter. In fact, our branded sales have risen every quarter for the past two years. Looking forward, we remain confident that our brands are better positioned than ever to win in this market.

The power of our leading brands, along with the competency that we have built in our revenue management function, positions us well to succeed in this world under stress. We have the confidence and the skill to stay ahead of inflation as we have consistently demonstrated over time. While there can be slight lags between inflation and pricing actions, we have exhibited that we are able to maintain the structure and the margins in our business over time.

We have also demonstrated strength and resiliency in our supply chain. Not only were we able to keep our operations running safely throughout this pandemic, we were able to pivot quickly to manage the change in demand from foodservice to retail, protecting the security of food supply for North Americans.

This quarter, we are beginning to see the gradual reopening of the North American economy, and as channel demand shifts, our plants are once again responding appropriately.

I want to turn now to our Meat Protein business, which delivered exceptional performance in the third quarter. We continue to reap the benefits of the investments we have made in our brands, leveraging our brand renovation to establish meaningful points of differentiation in consumers' hearts and minds. This strategy is working. As I mentioned earlier, we have consistently grown our branded sales and we continue to innovate into our demand space platforms. For example, in Quarter 3, we doubled down on our leadership in protein snacking by launching a new line of Schneiders entertaining platters, the first premium ready-to-serve charcuterie platter and offering of its kind in Canada.

We also continue to build our sustainable meats portfolio, growing our position as one of the largest producers of raised without antibiotics pork in North America and poultry in Canada. Our sustainable meat sales continued to grow at double digit rates in the quarter, and sustainable meats now represent over 15 percent of our top line sales in Meat Protein. Here too, we continue to see a lot of runway for growth remaining.

Our strategy to expand in the U.S. is also paying dividends. We're leveraging our Greenfield Natural Meat Company brand that offers a suite of sustainability characteristics that are resonating with consumers and proving difficult for competitors to replicate. Greenfield's products are made from animals raised without the use of antibiotics. They are produced by a carbon neutral company, and they are humanely raised in a 100 percent gestation crate-free environment. Greenfield sales grew again by double digits this quarter, and in total, our sales to the U.S. grew at over 50 percent in Quarter 3.

Even in the face of the COVID-19 pandemic, we continued our pursuit of operational excellence. Just last month, we announced the construction of a new 73,000 square foot Bacon Centre of Excellence located on our Lagimodiere site in Winnipeg. This state-of-the-art expansion positions us to meet the growing consumer demand for pre-cooked bacon. By building this capacity in-house, we will increase operating efficiency while also reducing our reliance on cross-border co-manufacturing. Over the coming months, we are completing our testing and start-up programs and we expect to be in a position to manufacture saleable product before the end of this year.

While our Meat Protein group continues to fire on all cylinders, we are clearly disappointed with the recent performance of our Plant Protein business. The overall Plant Protein category and our performance along with the category has softened beyond our expectations. After achieving peak levels of growth midway through 2020, the IRI and SPINS data indicates that the Plant Protein category has declined in the range of minus 2 to minus 3 percent in each of the last two quarters. As we have communicated earlier today, we are taking some time now to review the drivers of this category slowdown. We are doing the analytical work with the consumer to first understand why this is happening, and then to determine what, if anything, has changed. Once we have these facts, you can count on us to either, A, affirm our investment strategy, or B, communicate our plans to alter our investment strategy.

In the meantime, we remain focused on advancing our playbook by entrenching our market-leading brands, continuously pursuing innovation, and investing in our product portfolio. In this regard, we made meaningful progress in the third quarter.

Firstly, our team added thousands of points of new distribution in the retail channel. This included expansion of distribution of items at Kroger, the introduction of our plant-based nuggets in the Club Channel at Costco, and the launch of a suite of Lightlife breakfast products, including links and patties at Walmart USA. At Whole Foods, we completed an exciting partnership to become the exclusive plant-based chicken provider for all of their North American prepared foods departments. Whole Foods markets will also carry our newest, plant-based chicken product, an unbreaded plant-based chicken made from pea protein that is versatile for a variety of recipes.

Secondly, we started to see the benefits of a gradual recovery in the foodservice channel later this summer. Our new Lightlife Chicken 2.0 version, the first refrigerated, plant-based chicken of its kind, launched at all 575 KFC Canada locations in July. Pizza Pizza added the Lightlife plant-based chicken bites and chicken sandwich at over 400 locations in August, and our Field Roast Pepperoni had a successful launch with Little Caesars in July and it's now available at 522 Little Caesars outlets nationally across the United States.

Finally, this quarter, we continued to support our brands. In September, Lightlife debuted a new breakthrough national advertising campaign supporting its recent brand renovation. The campaign focuses on simple ingredients for a full life and highlights Lightlife's approach to producing nourishing food made of simple, recognizable, plant-based ingredients.

We are encouraged by the sequential improvement that we experienced within the quarter as our shipments accelerated from month to month throughout July, August, and September. Additionally, both Lightlife Tempeh and Field Roast Chao cheese, two very important growth drivers in our portfolio, delivered double-digit growth in shipments within the quarter.

Nevertheless, our Q3 results as a whole remained below our expectations.

While a step back to validate our strategy remains warranted, it is clear that whatever the outcome, the foundation that we have built in a leading market position, strong brands, product innovation, and recent wins in the market, will continue to serve us well in this category. We will look to complete this analysis over the next little while, and remain committed to share our conclusions when appropriate.

With that, I'll pass it over to Geert.

Geert Verellen — Chief Financial Officer, Maple Leaf Foods

Thank you Curtis, and good morning everyone. I will begin by discussing the Company's consolidated performance during the third 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 our outlook for the remainder of the year.

Sales were $1.2 billion, an increase of 12 percent from the prior year, with higher sales in Meat Protein partially offset by lower sales in Plant Protein.

Adjusted EBITDA was $115.4 million, up almost 40 percent from the prior year. Adjusted EBITDA margin was 9.7 percent, an increase of 189 basis points from last year.

Adjusted operating earnings were $68 million, compared to $36.9 million last year.

Net earnings were $44.5 million, or $0.36 per basic share, compared to $66 million, or $0.54 per basic share last year, largely as a result of a net gain from noncash fair value changes in biological assets and derivative contracts in the prior year. IFRS requires the recognition of these gains and losses, but we believe they do not accurately reflect the underlying earnings of the business. Without these noncash changes, adjusted earnings were $0.36 per share for the quarter, compared to $0.17 per share in the prior year.

Sales in the Meat Protein segment increased 13.4 percent to $1.15 billion. Pricing action implemented at the beginning of the quarter to mitigate inflation, as well as higher fresh pork and poultry sales volumes, and a favourable mix shift towards branded and sustainable meats, more than offset lower prepared meat volumes, decreased sales to China, and a foreign exchange effect.

Meat Protein Adjusted EBITDA was $149 million compared to $122.6 million in the prior year, representing an increase of almost $27 million or 21.8 percent. Drivers of this increase included strong commercial performance and effective commodity hedges, including a favourable product and channel mix attributed to expansion of sustainable meats and other branded products.

Adjusted EBITDA margin for the Meat segment was 13 percent, a 90 basis points increase from last year.

Over the next 12 months, our construction capital projects, the Winnipeg Bacon Centre of Excellence, the Indiana tempeh facility, and London poultry itself will start to come online. As planned for in the underlying compelling business cases, we will be facing start-up costs for these facilities for the next 12 to 24 months. Any incremental costs related to the start-up of these facilities, or in the case of London poultry, the double overhead we will be incurring as we concurrently ramp up London and ramp down the legacy poultry plant, will have a significant impact on our Adjusted EBITDA. We will call out these costs every quarter since we view them as expected one-time expenses connected to the investment itself and not as a part of the ongoing operations or reflective of the underlying health of the business.

In this third quarter, we incurred $2 million of these start-up costs and had accumulated $4.1 million year-to-date. These costs reduced our Adjusted EBITDA margin for the Meat segment by 18 basis points in the quarter and by 12 basis points year-to-date. The costs are predominantly related to the Bacon Centre of Excellence in Winnipeg which we finished, as we said, constructing a few weeks ago.

Turning to Plant Protein, sales were $48 million, a decrease of 6.6 percent or a decrease of 1.2 percent in constant currency. We did see growth in foodservice volumes, but this did not offset pressure we experienced in both our core and fresh retail products. Plant Protein gross margin was a negative 6.8 percent in the quarter as a result of lower sales and capacity utilisation.

As we've mentioned in previous quarters, gross margin is heavily impacted by the investments we have made in capacity ahead of volume growth. As a result, we would expect gross margin to recover materially with sales growth.

SG&A expenses in Plant Protein were $34.4 million and down significantly from a year ago, primarily due to the timing of advertising and promotional spend.

Let's have a look at the balance sheet now. As per plan, net debt increased to approximately $1.1 billion. As we've mentioned before, this net debt is mostly used to fund our strategic capital expenditures. About $821 million of our net debt is related to construction capital, and that is a term we use for investments on the balance sheet that are not contributing to returns today, but will within the next few years.

During the quarter, we invested almost $153 million in CAPEX, including construction capital of $123 million primarily related to the construction of our new poultry facility in London Ontario, and our Bacon Centre of Excellence in Winnipeg. The Winnipeg expansion is currently commissioning and our London poultry facility is still expected to be completed in the second half of 2022, after which we will commence testing. As we noted in our disclosures today, the London poultry plant investment is now expected to be $772 million, a $52 million increase, primarily due to cost increases on equipment and labour, as well as productivity challenges related to COVID-19.

I'll wrap up with an outlook for our business for 2021.

Our expectations are based on certain assumptions, primarily the continued normalization as COVID-19 restrictions subside, and a pork complex in line with the five-year average. As you can see from the outlook slide in our presentation, as well as our MD&A and other materials, our full year outlook for Meat Protein remains unchanged. On a full year basis, we continue to expect to make progress towards our Adjusted EBITDA margin target of 14 percent to 16 percent in 2022.

As we revisit our strategy in Plant Protein, we expect to maintain consistent investment in SG&A in line with our guidance at the beginning of the year. Driven mostly by the lower than expected growth in the Plant Protein category, we do not expect to meet our sales growth targets for the second half of 2021, and we will not have a further view on near-term sales growth until we have completed our category reassessment. As stated earlier today, we will come back to you with our thoughts on the Plant Protein business when we are ready.

On CAPEX, we continue to advance construction at the new London poultry and Indianapolis tempeh facilities, and are currently tracking towards the high end of our guidance range of $550 million to $650 million for the year.

I will now turn the call back to Michael.

Michael McCain — President and Chief Executive Officer, Maple Leaf Foods

Thank you, Curtis, and Geert.

Let me finish where this call began. Our vision for Maple Leaf remains relevant. It remains enduring, differentiating, and important to the world, and we are delivering on the shared value creation that we aspire to.

We're very well-positioned to manage these uncertain times, as we've demonstrated over the last several years. Our Meat Protein business is delivering results that reflect our journey of profitable growth, strong brand differentiation, and our focus on sustainable meats. In Plant Protein, we will be thorough in challenging our assumptions about the growth rates of this market, the expected returns, and the appropriate level of adjustment, if a change is required. We will share our findings in that regard and our conclusions with you in due course.

I want to close by thanking all of our team who have demonstrated their skill and competence and commitment through these times. We are an essential service and our team has continued to show up day after day, operating our facilities, protecting the welfare of our people while ensuring we maintain the continuity of supply. We are 20 months into this pandemic and every day, week after week, they've shown up. I've never been so proud of the commitment of our team and of our people than I am at this moment.

With that, I will open up the line for your questions. Operator?

Q & A

Operator

Thank you, sir.

Ladies and gentlemen, we will now begin the question-and-answer session.

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

Michael Van Aelst — Analyst, TD Securities

Hi, good morning.

Michael McCain — President and Chief Executive Officer, Maple Leaf Foods

Hey, Mike. How are you?

Michael Van Aelst — Analyst, TD Securities

I'm great, thank you.

Congratulations on the great Meat results. I just wanted to start off by asking a little bit more about the plant-based review. I'm kind of curious because it seems like you have two different brands that are going in different directions right now. The Field Roast brand seems to be doing well and having success more in the vegan market, and then the Lightlife brand seems to be doing okay on the tempeh side, but not very well on the switch market, I guess, from the other flexitarian type market.

I'm wondering if the review is going to be as granular as looking at the different brands and whether you need to be in the same category in all these categories and to have all these brands, or if you could possibly consolidate as well.

Michael McCain — President and Chief Executive Officer, Maple Leaf Foods

That’s a great question, Mike, and thank you for that. To your question, is it going to be granular, the answer is yes, but I think we need to start at the top of the iceberg here.

The fundamental question at hand is this category has decelerated across the board. It's decelerated in the fresh case. It's decelerated in the refrigerated case. It's decelerated in retail and foodservice, and there's no aspect or there's no lens on that deceleration that kind of pinpoints an outcome or a strategic decision in advance of understanding. The most important question is why has it decelerated. To answer that question, I think where we started was we all have lots of opinions. We can do kind of some macro outside looking-in kind of diagnostics and arrive at these opinions, but we are very disciplined in our strategic thinking, and we need to start with the why the deceleration is occurring and start with asking the consumer. We need to understand the consumer's behavior, in general, to address the category performance first.

That will inform the choices that we make going forward. That will inform our investment level, investment thesis, matching the growth trajectory with the investment thesis. That will inform the brand choices, as you referred to, like, how does that show up in the Lightlife brand? How does it show up in the Field Roast brand? That will inform our supply chain strategy. It'll inform most aspects of the strategic choices that we have to make, but it has to start with analytically, empirically answering the question, why has it decelerated, teasing out all the different influences, being consumer-driven, and then coming to either an affirmation of the growth rate going forward, or an adjustment to the prospective growth rate going forward, and then making our strategic choices.

Mike, does that make sense?

Michael Van Aelst — Analyst, TD Securities

Yes, that makes sense. Just to be clear, apart from the spending side of it, is the review also going to take into consideration the potential for bringing in a joint venture partner or even divesting these assets?

Michael McCain — President and Chief Executive Officer, Maple Leaf Foods

No. That's not what we're doing at all. We started down this path with an investment thesis. We're not losing money in the plant-based business. We are investing in this plant-based business, but it was rooted in the thesis of a sustained, long-term growth rate, 30 percent or greater.

We said, from the very first instance, that if that changed, we would change with it. It's clear in the last three to six months that has changed. The question is, is it changed for good or is this a transitional change? We don't know the answer to that. We need to find it out, but no, we're not considering those other dimensions.

Michael Van Aelst — Analyst, TD Securities

Okay. Thank you.

Then on the Meat side, you had very good top line, as you mentioned, and very good margin expansion. Within that margin expansion, you talked about two opposing forces. One, the pork complex, and two, the challenges on poultry. Can you just give a brief caption of those opposing forces and how they're trending so far in Q4, and how long you expect some of the respective forces to continue in poultry and pork?

Michael McCain — President and Chief Executive Officer, Maple Leaf Foods

We have never made market calls. I think it's inappropriate for us to make market calls, Michael. Here's what I would point to.

We've built our business to be largely immune to these various market forces. If you look at our performance, our quarterly performance over the last five years, I believe anybody would look at that chart and say, "That's astonishingly consistent," astonishingly consistent in the face of what pretty commonly is some pretty big movements in the underlying market forces. We have a balanced portfolio. We have exposure to a number of those market forces, but we've insulated ourselves, both through the balance in our portfolio, and because we are a branded CPG organisation focused on value-added.

While there were a couple of opposing forces in the third quarter, I suspect there'll be other quarters in our future that will have similar opposing forces. By and large, they've all balanced out, and by and large, we've demonstrated astonishing consistency in our results. I don't see that changing in terms of the consistency as a result of market factors that we've built to be largely immune to.

Michael Van Aelst — Analyst, TD Securities

Okay. Thank you. I'll leave it to the next analyst. Thank you.

Operator

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

Derek Dley — Analyst, Canaccord Genuity

Hi. I just want to follow up on the Meat business. Thirteen percent growth in the quarter, obviously very impressive as you guys noted, but can you just comment, how much of that—what was the mix of that? Obviously, you would've had a big price increase that came in place in Q3. What was the magnitude of that?

Michael McCain — President and Chief Executive Officer, Maple Leaf Foods

Pricing in the inflation in the category was, obviously, a significant driver of 13 percent. We don't aspire to maintain 13 percent on an ongoing basis. As we pointed out, our seven-year CAGR is in and around the 6, I think, so we've been consistent in the mid to high single digits. Thirteen percent is clearly abnormal and the delta there is largely the inflation in the category.

We did get volumetric growth, not in prepared meats. It was mostly in pork and poultry. The prepared meats business was down, but down very modestly actually because of the kind of COVID impact year-over-year, and up significantly from the pre COVID numbers of 2019, which is an important metric for us, Derek.

The benefit obviously for us was, and I think where we were really satisfied in the quarter is that we were able to increase our margin profile at the same time as we matched that, kind of kept ahead of the inflation that the category experienced, as we indicated we would the last time we were together.

Modest volumetric growth, obviously, keeping ahead of inflation, moreso this quarter than normal which is probably the delta between mid-high single digit growth rates and the 13 percent. It was obviously price and inflation.

Derek Dley — Analyst, Canaccord Genuity

Yes, that's helpful. In terms of that price, and obviously there's other inflationary forces happening that you called out earlier, but when we look at lean hogs, the pricing on lean hogs has come down quite a bit I guess since Q2, when you would've thought about putting in this price increase. Have you been able to hold that pricing in the MPG?

Michael McCain — President and Chief Executive Officer, Maple Leaf Foods

Yes, we have. The lean hog markets come down a lot more than cash markets have come down and it's very cut specific, but yes, we have.

I would say, if you look at the underlying fundamentals of the meat markets, I think with the supply challenges, the supply chain challenges combined with the fact that the USDA is forecasting next year some pretty significant contraction in the hog supply, this decline that we're getting seasonally in the fourth quarter we think will be relatively short lived.

Derek Dley — Analyst, Canaccord Genuity

Okay. That's helpful as well.

Just one more. When we look at the U.S. growth, obviously very strong. I think you called out 50 percent in Greenfield. I see 30 percent overall for the business. Can you just talk about where you're seeing this growth? Is it a function of increased brand awareness? Is it more retail partners? I guess along that line, can you comment on how many stores you're selling your products in now in the U.S.?

Michael McCain — President and Chief Executive Officer, Maple Leaf Foods

Curtis, maybe you'd want to kind of provide the colour on that one?

Curtis Frank — President and Chief Operating Officer, Maple Leaf Foods

Yes. Hi, Derek. Good morning. Our growth in the United States was actually over 50 percent in the third quarter, 52 percent. I think what you saw in the materials we put forward was it's really been driven by our Greenfield brand and our sustainable Meats portfolio in the United States. We've now got a $600 million book of business in RWA overall, and we had our eighth consecutive quarter of double-digit growth in sustainable meats. As I mentioned in my comments, sustainable meat is now 15 percent of our portfolio.

What's happening in terms of our ability to deliver growth is there are a number of levers that we're seeing positive momentum. The first is, we are expanding the distribution of our products with retailers in the United States, so bringing on more retail customers, and we did that in the third quarter as well. The number of items that each individual retailer carries in the United States is also growing, and we're putting new products and new innovation into the market, including some pretty significant uptick in our kits and protein snacking business in the United States. It's a combination of those factors.

Where we're really excited is we continue to see a long runway for growth, and we see that because, number one, category penetration remains low. It's about 3 percent in Canada, 4 percent in the United States for sustainable meats in its own penetration in the category. We know that consumer demand continues to grow. This segment in the category is growing at double digits, and we have security of supply. We have availability of supply. I think I've talked about this on previous calls; our ability to utilise the whole animal and utilise the entirety of the carcass in terms of innovating into new products in the portfolio and expanding items is also beneficial to us. We've got lots of momentum in the U.S. and continue to be really bullish on the runway that we have for growth in the future.

Derek Dley — Analyst, Canaccord Genuity

That's great. Sounds great. Thank you.

Operator

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

Irene Nattel — Analyst, RBC Capital Markets

Thanks and good morning, everyone.

Michael McCain — President and Chief Executive Officer, Maple Leaf Foods

Morning, Irene.

Irene Nattel — Analyst, RBC Capital Markets

Morning, Michael. Just starting with plant, a follow-up question, please. On prior calls you've noted that the level of support can kind of be dialed up or dialed down in response to what you're seeing in the market. Given the slowdown that you called out in the rate of growth, should we be expecting perhaps a decline in the magnitude of support as you go through your analysis?

Michael McCain — President and Chief Executive Officer, Maple Leaf Foods

No. Let's touch the headline. I don't think it's a wise decision to alter your thesis until you've altered your thesis, so to speak. I think that would be kind of dangerous in its potential outcomes, to start, stop, start, stop. I think we need to be more disciplined than that.

Irene Nattel — Analyst, RBC Capital Markets

Understood. Any sort of early thoughts as to what's going on and also how long it'll take you to go through this analytical process?

Michael McCain — President and Chief Executive Officer, Maple Leaf Foods

Curtis, you want to try and take that one?

Curtis Frank — President and Chief Operating Officer, Maple Leaf Foods

Hi, Irene, good morning. Yes, sure.

Irene Nattel — Analyst, RBC Capital Markets

Good morning, Curtis.

Curtis Frank — President and Chief Operating Officer, Maple Leaf Foods

I'll start with your second question in terms of how long. I think you heard Michael talk about this earlier. We're going to do the analytics and our diagnostics properly. That starts with the view of the category, the consumer, taking an honest view of our own execution, and then assessing our strategic options in response. I expect that that work will continue here over the next number of weeks and I think it would be fair for you to expect that at our next earnings call, we have a very meaningful update, but it will not be an advance of that. I don't see it being in advance of that. Over the next two or three months, I expect we'll be able to conclude our work.

I'm sorry, you had a part two to that question, Irene? You had two parts of that question. Could you just repeat the second one for me?

Irene Nattel — Analyst, RBC Capital Markets

Yes. It was around any early thoughts or ideas around what might be going on.

Curtis Frank — President and Chief Operating Officer, Maple Leaf Foods

Yes, but none that I'd prefer to share. The reason for that is I think opinions right now are dangerous. This is an organisation that relies on facts and data to drive decision-making, and I think it would be premature for us just to put opinions and points of view forward.

The easy thing for us to do, Irene, is just pin it on COVID. We mentioned in our comments that there's more going on than just the COVID experience, but we really need to get the facts to understand exactly what it is that's happening and build confidence in our outlook for the future. I think it's more important that we assess the facts than it is that we share our points of view and opinions right now. I hope you're okay with that.

Irene Nattel — Analyst, RBC Capital Markets

Yes, fair enough.

Then just one final question, if I might. You called out, I think, 18 basis points of margin headwind in Q3 just around the early commissioning of Winnipeg. As we look forward into 2022—and I recognise that the answer is there's no way of knowing for sure—but presumably, in your budgets, you have some sort of an idea of a range of start-up costs as you commission London and as Winnipeg gets dialled up. Would you be able to share that with us just so the market has an understanding of what's reasonable?

Michael McCain — President and Chief Executive Officer, Maple Leaf Foods

Geert, do you want to take that?

Geert Verellen — Chief Financial Officer, Maple Leaf Foods

Sure. Hello, Irene. Good morning.

Irene Nattel — Analyst, RBC Capital Markets

Good morning, Geert.

Geert Verellen — Chief Financial Officer, Maple Leaf Foods

Irene, we're actually in the process of gathering all that data and we expect to be able to tell you more about that in our next call. We wanted to start flagging it now because we believe that this first plant already had an impact, as you saw 20 basis points or 18 basis points in this quarter, but it's too early for us to start anticipating for next year because we're still finalizing our budget for next year. I want to make sure that we get the right information pulled together, so stay tuned.

Irene Nattel — Analyst, RBC Capital Markets

All right. Thank you, Geert.

Michael McCain — President and Chief Executive Officer, Maple Leaf Foods

The only thing I would add, Irene, what I would add is you have experienced with us many plant start-ups, and they are all challenging, a hundred percent of them, and to some degree unpredictable in that whatever number we said today would be the start-up cost will be wrong. Could be wrong high, could be wrong, low, it will be wrong. But none of them is the difference material to the investment decision thesis; they've all had great outcomes, every single one of them, regardless of whether that start-up period takes 12 months, 6 months, 18 months. As long-term shareholders and value creators, we think it's important to look beyond that, but what Geert is going to do over the course of the next year or more is isolate what those anticipated and actual start-up costs are so that our investor partners can kind of pull that out and look at it as part of the investment returns, not underlying operations.

Irene Nattel — Analyst, RBC Capital Markets

Fair enough. Okay. Then I'm just going to ask one more question, which is, as you think conceptually about the start-up challenges, the start-up process of Winnipeg and London, how would you compare those to, let's say Hamilton, for example?

Michael McCain — President and Chief Executive Officer, Maple Leaf Foods

Materially less. The Hamilton start-up, important to recognise, was a very complex construction process in and of itself because it was time constrained, followed by the fact that it was a very complicated supply chain strategy, going from multi-plant to centre of excellence kind of plant architecture. Multi-category, I should say, multi-category plants into centres of excellence. The phasing was challenging. There were all new processes applied in the Hamilton facility, so each product had to be re-engineered actually. Every new individual SKU was a new start-up. That's not the case in London poultry, for example. London poultry is like we're closing plants, yes, but there's no SKU re-engineering, for example. There's no new processes. There's some mechanical challenges, there's some technology challenges, but there's no fundamental re-engineering of product on new process equipment. So, a combination of those factors.

I would say it's materially less, but plant start-ups are always a bear, always. They're like SAP installs. They're all tough. It's just a question of some are tougher than others, but we build that into our investment returns. We build reasonable, in fact, conservative estimates into our returns calculation, and we still get double-digit unlevered returns on capital, and inclusive of the start-up costs, and so we expect it. It's just we have to run those through the income statement during that start-up period.

Irene Nattel — Analyst, RBC Capital Markets

Understood. Thanks, Michael.

Operator

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

Peter Sklar — Analyst, BMO Capital Markets

Thanks. Good morning. Going back on the review you are undertaking for the plant-based business, it sounds like from your commentary what you'll be doing is you really want to get at why the category has slowed to no growth. I assume that's going to be utilising a lot of consumer research. But I'm wondering also, should your review and study not also extend to a consideration of your brands, in particular, the Lightlife brand? What does the brand stand for? How much brand equity is there? How does it stack up against the other major brands that are in the category? If you could just talk a little bit, whether or not your review is going to, like the scope, is going to extend to really thinking hard about your brand.

Michael McCain — President and Chief Executive Officer, Maple Leaf Foods

Yes. Absolutely, yes, Peter, it will. As Curtis highlighted, it'll start with a view of the category and the consumer. It will also include our execution inside the category, and then what the implied strategic choices are out of that. The answer is yes.

Peter Sklar — Analyst, BMO Capital Markets

Just thinking about the Lightlife brand, I'm just wondering, my understanding is—and I'm just wondering what your thoughts are on the brand, Michael—is that the Lightlife brand has been around for a long time and has very strong brand positioning with vegetarians and vegans. I'm just wondering if the boundaries of the brand and what it stands for don't extend to a meat substitute product because it's been so entrenched with vegans and vegetarians. Is that something you've ever thought about and do you think that's been an obstacle for the brand?

Michael McCain — President and Chief Executive Officer, Maple Leaf Foods

No, I don't think it's an obstacle for the brand, Peter. It has lived in the produce section as opposed to the meat section. That, obviously, predisposes it to the vegetarian and vegan community, but most of the growth has been in flexitarians and produce, as well as meat. That's where the growth is, and their business is basically meat alternatives targeted at those consumers.

We've had some executional success. We've had some executional failures. We will be assessing all of that. Don't want to prejudge what the outcomes are going to be, either in terms of the category assessments or the executional assessments, but we are going to undertake that and that will inform our choices.

Peter Sklar — Analyst, BMO Capital Markets

Okay. Then just lastly on this topic, you had this ad campaign. I forget what the campaign was called, but it was a very hard hitting, aggressive campaign, where you really went after your competitors and called them out because they don't have the clean ingredient profile that you have. I've only seen it in print. I'm just wondering how that campaign has worked out. Were you happy with it and are you still continuing with it?

Michael McCain — President and Chief Executive Officer, Maple Leaf Foods

It's hard to tease out the performance of a campaign in the middle of a category that is fundamentally changing, and that's some of the work that we have to do. We continue to believe, anecdotally, that the positioning is a solid one. I still think it's a solid one and I think their execution was pretty good. Was it perfect? No, of course not, but I thought it was pretty good.

At the end of the day, we want to be informed by facts on these things, Peter, not our opinion outside looking in when there's lots of conflicting things going on.

Peter Sklar — Analyst, BMO Capital Markets

Right. Okay, and just the last question, sorry, over to the Meat Protein Group. Can you just talk about the cadence of price increases? What is the timing of when you normally put through price increases? I believe it's later in the year that you normally do. What is your ability to put through price increases outside of the normal cadence, given all these inflationary pressures that we have?

Michael McCain — President and Chief Executive Officer, Maple Leaf Foods

Curtis, would you like to speak to that?

Curtis Frank — President and Chief Operating Officer, Maple Leaf Foods

Sure. Just to start with the direct answer to the question, our normal cadence is to change our pricing in the fall of each year on an annual basis, just to reflect the inflationary environment and capture the forward-looking view of inflation. If you think back over the past little while, we took a cost increase last fall, Peter, to embed the structural components of COVID-related costs into our business and into our operating plans for 2021. Then in prepared meats, we pulled our fall increase forward into July, so I think that answers maybe your question with respect to what's our ability to move outside of that window. We pulled forward what would normally have been our fall increase into July, and we were obviously forced to do that with respect to rapidly escalating meat markets and meat costs. We had committed that we would recover in Q3 and that's exactly what you've seen happen, so we moved forward our increase.

There are many ways to change. We often talk about regular price as the only lever to change price. The reality is in a high functioning revenue management capacity, there are many levers that we can pull on a consistent basis to optimize the outcome with the consumer. One of them is regular costs, but there are things like a feature and promotional costs, a pack-sized architecture, promotional depth and frequency. Again, when you get this right, it's really about optimizing the offer to the consumer.

Tactically, we have moved pricing even this fall. There would be areas where, beef, for example, we saw a pretty significant escalation in the fourth quarter and we've adjusted our pricing. Ham would be another example for festive seasons heading into the Christmas period. In poultry, we've moved twice actually this year in response to rapid feed markets escalating very quickly.

The net of all that is to say, yes, we pulled our increases forward. We've done a great job at staying ahead of inflation. We feel like we're really well positioned today, but at the same time, in our comments we mentioned things are changing literally daily, and if we need to change along with that, we're also well positioned to do that as well.

Peter Sklar — Analyst, BMO Capital Markets

That's good. Thanks, Curtis.

Operator

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

George Doumet — Analyst, Scotiabank

Good morning, guys. I wanted to talk a little bit about the poultry market. Maybe you can talk a little bit about the headwind there. I don't know if you have the margin impact, but anything that's been happening. Obviously, feed prices are up, but anything on the volume side. Just kind of wondering if that pressure is continuing to Q4?

Michael McCain — President and Chief Executive Officer, Maple Leaf Foods

Curtis, do you want to take that?

Curtis Frank — President and Chief Operating Officer, Maple Leaf Foods

Yes. From a market to conditions point of view, the challenges in the third quarter were strictly driven by the fact that we're in a situation where feed grains drove the cost for live chicken, to what was essentially a record or an all-time high. We responded with pricing actions in the value added and branded components of our business, as I just outlined actually, as you would expect that we would. We did see commodity market value strengthen, but they didn't fully offset the run-up in live market costs. As a result, what we saw as poultry margins trail what would've been a five-year average or the equivalent of a five-year average.

That's really what happened within the third quarter.

George Doumet — Analyst, Scotiabank

Okay. Into the fourth quarter, I guess that margin pressure has kind of subsided as the commodity values recover?

Curtis Frank — President and Chief Operating Officer, Maple Leaf Foods

I think our response to that earlier was appropriate in the sense that there are two things that are important in looking to the fourth quarter; one, I don't think it's appropriate for us to provide an outlook or guidance to share our view of market conditions in the fourth quarter. Secondly, if you look at the consistency of our margins over time that we’ve built, we're very proud of the fact that we've built the balance portfolio that's far less exposed than it once was to market conditions, and we're in a situation where we've got a value added CPG, a branded portfolio that's far less exposed to market conditions than maybe others, or we had been many, many years ago.

George Doumet — Analyst, Scotiabank

Okay. Staying within the Meat segment, but just maybe taking a step back, that business has consistently delivered kind of that mid to high single-digit growth cadence in the revenue line. Anything maybe stopping it from doing that next year?

Michael McCain — President and Chief Executive Officer, Maple Leaf Foods

George, I think we've got six or seven years in the mid-high single digit growth rates. We're really pleased with that. When you benchmark that against other food companies in North America of any size, I think you'd find that's two to three times what their growth rates are experiencing, and it's been experienced over a longer period of time, like the last five, six, seven years.

The key drivers of that have been sustainable meat and certainly, our plant-based protein in the total company, but sustainable meat, but also a few underlying, value-added growth levers like our kits business, like the poultry business, continues to grow, and so on and so forth.

Those underlying growth drivers are not changing. We don't expect those to change next year. We don't expect them to change.

The only caveat to that is we're living in some pretty uncertain times right now with a pretty unstable world, and we think we're managing that, relatively speaking, incredibly well. Incredibly well. But, as I said in my remarks, it's a daily adventure.

The underlying drivers are consistent and we don't see those changing for the foreseeable future, not just next year. We think those have got legs for many, many years ahead of us, but we are living in an unstable world.

George Doumet — Analyst, Scotiabank

Okay. Got it. Just the last one for you, Michael. On the last conference call, you mentioned on Plant, that you're hoping for a path to profitability by 2023 or 2024 kind of time period. Do you think that's still possible under the reassessment that you guys are currently undergoing?

Michael McCain — President and Chief Executive Officer, Maple Leaf Foods

Yes, for sure. I don't think that changes. I just think what that path is and the strategic choices that we make en route to that path is no different.

George Doumet — Analyst, Scotiabank

Okay. Got it. Thank you.

Operator

There are no further…

Michael McCain — President and Chief Executive Officer, Maple Leaf Foods

Thank you. Thank you, Michelle. I want to thank everybody. I would like to just reiterate our pride and the confidence in our Meat platform, and the consistency by which we've delivered on the vision for the organization to become the more sustainable protein company on earth, and our discipline that we're applying to the Plant-based category as we said we would under these circumstances.

Thank you for your engagement and your questions. I look forward to updating you on all of these matters the next time we're together in, I think, February. Thank you and we look forward to the next time.

Operator

Thank you, Mr. McCain. Ladies and gentlemen, this does conclude the conference call for today. We thank you for participating and ask that you please disconnect your lines.