FINAL TRANSCRIPT

Maple Leaf Foods Inc.

Fourth Quarter and Full Year 2021 Financial Results Conference Call

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PRESENTATION

Operator

Welcome to Maple Leaf's Fourth Quarter and Full Year 2021 Financial Results Conference Call.

As a reminder, this conference call is being broadcast live on the Internet and recorded.

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 — Investor Relations, Maple Leaf Foods Inc.

Thank you, Anas (phon).

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 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 Q4 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 might have.

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

Michael.

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Thank you, Mike.

Good morning, everyone, and welcome to our Fourth Quarter and Year End 2021 Earnings Call.

The worst kinds of storms happen to be those that come up quickly and unexpectedly. We faced that in our fourth quarter. Of course, this tempest was started by COVID two years ago, but the unexpected emergence and impact of the Omicron COVID variant drove it. Of course, extreme weather events like the flooding in BC didn't help, as it amplified the challenges. The third wave of COVID had a very substantial impact on our business. So what does that look like?

Imagine this. At our facilities, up to 30 percent of our teammates not able to show up for work on any given day. Raw materials and ingredients just mysteriously not arriving at our facilities. Literally hundreds of truckloads of product unable to ship due to a temporary lack of drivers. At our retail partners, depleted inventory levels, with no ability to rebuild them. Empty store shelves with product in the back of the store, but no people to stock it. All that within the backdrop of rampant inflation, volatile unpredictable commodity markets and unstable weather patterns. It's been pretty chaotic.

We're an organization that when faced with adversity, we tackle it head on, and this is no exception. What is unique about this particular storm and the world under stress is that it's really, really clear to all of us that this is going to pass very quickly. The absenteeism levels are declining. You can see the drop in case counts for the Omicron variant. Supply chains are stabilizing. It will pass very, very quickly.

Let me begin with our meat business. And I would like to start by looking at the year in total, the chaotic year that it was. I'm proud to say that in 2021 for the year, in spite of this unimaginable disruption, we kept our bearings. We remain focused and we delivered on our strategic objectives.

Financially, we delivered topline growth of 8 percent in 2021 on a comparable 52-week basis. Think of this, our Adjusted EBITDA grew in the year from last year's record level of $510 million to a new record level of $527 million dollars. Our EBITDA grew in the year from last year's record performance. Our Adjusted EBITDA margin for the year was 12.1 percent.

Perhaps most importantly, we achieved these results in a manner that will prove to be enduring. We grew branded sales, we expanded our leadership in sustainable meats, we increased our presence in the U.S. We continued our relentless quest of operational excellence. Our entire team is really proud of this in the face of chaos all around us.

On top of these strong operating results, we also made progress with our capital investments. We completed construction and have started production at the Winnipeg Bacon Center of Excellence and we're well into commissioning our new Indianapolis tempeh facility. Last but not least, we're on track to complete the construction of our state of the art London poultry facility later this year.

Let's be super clear about this. We're in challenging times, and we're not out of that storm yet. Many of the challenges of Q4 have carried over into the early part of the year, which should be obvious to everybody. We've got additional inflation in the first quarter that we have to price for. It's going to take us some time to work through these challenges, but our business is very well positioned to manage them.

Here's what we see today. We expect the effects of this instability will be fully recovered by Q2 2022. Q2 2022. In meat protein, our leading brands, our competency in revenue management and our strength of supply chain leadership all give me that confidence.

Barring any new COVID surprises, we're on route to hitting the lower end of our meat Adjusted EBITDA target of 14 percent to 16 percent by the end of this year. We're on the cusp of delivering an additional $130 million of EBITDA once London poultry and our Bacon Center of Excellence facilities are complete and ramped up. So we're very optimistic about what the near-term outlook is for our meat business.

Turning to our plant-protein business. You'll recall that in November we announced a thorough assessment of the category. We've made significant progress on this diagnosis and have developed a very deep understanding of why the category has slowed, as we described last November. Curtis is going to review this analysis in a moment. In a nutshell, it's clear that the category can't be expected to grow at the spectacular rates that we saw in 2019 and 2020. Instead, we expect the category will continue to grow, albeit at a more moderate but still attractive pace of 10 percent to 15 percent.

We've said all along that if the facts changed, we would change our strategy with it. That is exactly what we're going to do, armed with this new data. We intend to rapidly adjust our approach from investing for growth to profitable growth with an objective for the plant business to become EBITDA, Adjusted EBITDA neutral or better within 18 months.

We haven't nailed down all the details of this pivot. We have a general roadmap, and one that, quite frankly, I'm very familiar with. A right-sizing that involves some combination of SG&A spend, adjusting and right sizing our supply chain and adjusting our go-to-market strategies by individual category and brand. It's a very familiar playbook to us. That timeframe is highly realistic.

We expect that we'll be optimizing operations and other steps to calibrate our business model to this new view of the size of the market opportunity, and will be moving quickly to align on those steps that will get us there, and we'll be keeping you updated along the way.

With that, I'll now 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. I'll be with you when they complete.

Curtis, over to you.

Curtis Frank — Chief Operating Officer, Maple Leaf Foods Inc.

Thank you, Michael, and good morning, everyone.

Following the backdrop that Michael provided, I'll go ahead and share some further context to unpack our operational performance in the quarter. As Michael mentioned, our meat business had an absolutely fantastic year. Not only did it grow at 8.1 percent on a 52-week comparable basis, it also earned over $527 million of Adjusted EBITDA in one of the toughest operating environments we have ever faced.

In this regard, I continue to be inspired by the resiliency of our team and of our business model. Our fourth quarter meat protein sales grew to $1.1 billion. This topline growth continues to be driven by the strategic drivers that underpin our blueprint, including leveraging our leading brands, growing sustainable meats, and continuing our expansion into the United States.

We saw growth in both retail and the food service channels. In retail, it was led by our flagship brands, Maple Leaf and Schneider's, demonstrating the sustained benefits of our brand renovation. Not only did total branded sales grow, but our market share grew as well, led by our Schneider's brand in prepared meats, and our Maple Leaf and Mina brands in fresh poultry, a sure testament of the strength of our operating model in an enormously difficult operating environment.

Sustainable meats, which now makes up over 15 percent of our meat business, delivered another outstanding quarter. Sales grew at a healthy pace while at the same time expanding margins. We have now grown RWA sales for nine consecutive quarters. To support our growth trajectory, we have expanded our leadership in our RWA hog production, increasing the number of RWA hogs we raised under our care.

As of the end of 2021, we have achieved our goal to convert 100 percent of our company-owned barns to our industry-leading advanced open cell housing system, a milestone for animal welfare and a critical and important step for us on our way to becoming the most sustainable protein company on earth.

The strength of our sustainable meats business continues to provide a meaningful point of differentiation for us, enabling expansion into the US market, as evidenced by a 30 percent increase in U.S. meat sales in the quarter on a comparable 52-week basis. While we posted a healthy adjusted EBITDA margin of 11.1 percent, the result was obviously somewhat disappointing, given the momentum we had coming out of Q3. Candidly, we did not fully anticipate the impact that COVID-19, especially the rapid onset and emergence of Omicron, would have on the entirety of our supply chain.

Looking more closely at the results, margins were pressured in the short term by four transitory factors. Number one, extraordinary levels of absenteeism. Number two, significant supply chain disruptions. Number three, inflation in labour, freight, packaging, and ingredients beyond what we have expected. Number four, commodity market headwinds. I'll expand on each of these briefly.

Within Q4, we were impacted by abnormally high levels of absenteeism due to COVID-19. Reduced labour availability challenged our service levels in the short term and also required us to forego the production of some labour-intensive value-added and higher-margin SKUs, such as specialty fresh pork cuts destined for export to Japan.

On a positive note, we managed to keep all of our facilities open throughout the quarter, despite the emergence of the highly contagious Omicron variants. When the tragic floods in BC close transportation routes to critical markets, our team quickly pivoted to find alternative routes for delivery, mitigating much of the impact to our bottom line.

We have also experienced a sharp uptick in inflation. Higher than expected inflation in the quarter impacted a variety of areas, including freight, packaging and ingredients. Drawing on the strength of our brands and our competency in revenue management, we have already taken steps to mitigate the impact of these higher inflation rates going forward, including communicating price changes to our customers, which we expect to be reflected in the markets early in the second quarter.

Finally, commodity markets within the quarter were a headwind of approximately 90-basis points as compared to the five-year average. While the pork complex was in line with the five-year average, poultry was in fact challenged by higher feed prices, which drove the regulated price for poultry higher, narrowing processor spreads in the short term as wholesale bird supply exceeded demand.

We are seeing these factors carry over into the early part of 2022, but we do expect demand and supply to rebalance in the coming months. While we are not quite fully out of the storm, we can in fact see the storm passing. Thankfully, the floods are behind this and society seems to be finding its way to a new normal as we emerge from COVID-19 lockdowns.

As a result, we remain confident that we will recover from the transitory effects of this instability by Q2 2022.

Turning to our plant-protein business. The fourth quarter obviously saw a continuation of the category slowdown we flagged in the previous quarter. While we were quite encouraged by the adoption of new products that we launched in the quarter, the distribution we gained at several U.S. retailers, and the doubling of our food service business, our focus remains squarely on completing our assessment of the plant-protein category.

As Michael mentioned, we have undertaken a comprehensive analytical teardown of the category. We have analyzed new datasets, engaged experts and consumers alike, reviewed macro trends, and examined the data in detail by product, channel and segment. Based on this work, we are confident that we deeply understand the voice of the consumer and we have a renewed view of the category's future.

Not surprisingly, the results of our analysis show that after years of spectacular growth, the category has in fact stalled. The refrigerated category grew at 59 percent in 2019, 75 percent in 2020; but in 2021, the category was essentially flat, growing at only 1 percent.

We believe the hyper exposure of the category early on drove a significant number of consumers to trial plant-based protein products. In fact, trial rates were super high, penetrating 60 percent, 60 percent, of U.S. households. The consumers' needs simply were not met, and they did not repeat purchases. As a result, the category did not reach expected levels of habituation, had very high lapse rates, and very low buy rates.

This challenge is not unique to Greenleaf, as all major brands and products across the category are experiencing similar challenges, which largely seems to be driven by consumers' experience in terms of taste, price, degree of processing, and ease of preparation. There is a cascading effect here, in the sense that wheat conversion and buy rates put pressure on retail shelf space and food service availability as customers became less inclined to hold significant space for the category. This was especially true during the pandemic when supply chains were challenged, forcing SKU rationalization and prioritization at the store or restaurant levels.

On the bright side, what this work is also showing us is that the category does in fact demonstrate strong underlying steady growth. The number of regular repeat plant-protein consumers has increased 220 percent since 2018. These buyers are spending 1.2 times more on plant protein than they did three years ago.

Of equal importance, there is a very high willingness from lapsed consumers to try plant-based protein again, as they remain quite curious and interested in the plant-protein category. So, while we see the category growing, we expect it to be at a more moderate but still attractive pace. We estimate the category will grow on average at 10 percent to 15 percent per year, reaching a market size of approximately $6 billion to $10 billion by 2030.

In keeping with our commitment to match our strategy to the market and the size of the opportunity, we are pivoting our approach and investment plans with a target to deliver neutral or better Adjusted EBITDA within the next 18 months. Our plant-protein business has a solid foundation, and I am confident that we will meet or exceed this target.

We have two of the leading brands in the category. We have healthy distribution and market share. We have an unrivaled suite of products and we have a robust innovation pipeline to help support us in achieving our goal along the way. We will of course keep you updated as we continue to make progress.

With that I'll pass it over to Geert.

Geert Verellen — Chief Financial Officer, Maple Leaf Foods Inc.

Thank you, Curtis, and good morning, everyone.

I will start with the Company's consolidated performance during the fourth quarter. I will then review both our meat and plant-protein groups. I'll conclude by speaking to some of our key financial metrics, capital expenditures and our outlook for 2022. As a reminder, our fourth quarter and full year results in 2020 included an extra week.

Note that commencing this quarter we have included an adjustment within Adjusted EBITDA for the startup expenses associated with our capital construction projects like London Poultry and the Bacon Center of Excellence in Winnipeg. As is Management’s view, these items are not considered representative of ongoing operational activity of the business. We believe that adjusting for startup expenses better illustrates the underlying performance of our business and reduces confusion while reading our financial statements. As a reminder, startup expenses include items such as training, product testing, yield and labour efficiency variances, duplicative overhead, and other temporary expenses required to ramp up production. So as a result, all our adjusted earnings metrics now exclude startup expenses.

A full reconciliation of reported and adjusted earnings can be found in the Non-IFRS Financial Measures section of our MD&A.

Sales in the quarter were $1.1 billion, about flat to last year. On a 52-week comparable basis, sales increased almost 7 percent from the prior year as favorable pricing and mix in the meat business were partially offset by the foreign exchange impact of a stronger Canadian dollar.

Adjusted EBITDA was $76.3 million, a decrease of $33 million. This decrease was driven by rising labour and production expenses in our meat business, lower gross profit in our plant business as well as the impact of an extra week in 2020. Adjusted EBITDA margin was 6.8 percent, a decrease of 290-basis points from last year.

Adjusted operating earnings were $30 million compared to $59.8 million last year, resulting from the same factors that I just noted.

Net earnings in the quarter were $1.9 million, or $0.02 per basic share, compared to $25.4 million, or $0.20 per basic share, last year. After removing the impact of non-cash fair value changes in biological assets and derivative contracts, as well as startup expenses from both periods, adjusted earnings were $0.09 per share for the quarter compared to $0.31 per share in prior year.

I'll now turn to a discussion of Maple Leaf's two operating segments. And let's start with meat. Sales in the meat-protein segment increased 50-basis points to $1.08 billion in the quarter. On a 52-week basis, meat-protein segment sales increased 8.2 percent. The increase was driven by pricing action implemented in prior quarters to mitigate inflation and structural cost increases, favorable mix shift including growth and sustainable meats, which more than offset the impact of an extra week in 2020 and the impact of foreign exchange.

Meat-protein Adjusted EBITDA was $120.7 million compared to $137.1 million in the prior year, representing a decrease of $16.4 million. This decrease was driven by labour and materials inflation and availability, lower volumes due to lapping the fourth quarter of 2020, which had an extra week, and market headwinds, despite good SG&A leverage of 134 basis points. Adjusted EBITDA margins for the meat segment was 11.1 percent, a 160 basis points decrease from last year.

Turning to plant protein now. Sales were $45 million, a decrease of 10.3 percent in constant currency, or 3.7 percent on a 52-week equivalent basis. Food service volumes grew in the quarter, as Curtis said; however, this did not offset pressure we experienced in both our core and fresh retail products. Plant-protein gross margin was a negative 21.9 percent in the quarter as a result of lower sales volumes, capacity, utilization, and raw material inflation. As we mentioned in previous quarters, gross margin continues to be heavily impacted by the capacity investments we have made ahead of growth. As a result, we would expect gross margin to recover materially with sales growth.

SG&A expenses in plant protein were $39.8 million, an increase from a year ago, primarily due to the timing of advertising and promotional spend throughout 2021.

Let's turn to the balance sheet now, where net debt increased to approximately $1.1 billion. As we mentioned before, this net debt is mostly used to fund our construction capital, a term we use for investments on the balance sheet that are not contributing to returns today but will within the next few years.

For the full year, we invested over $629 million in capital expenditures. This included about $494 million in construction capital primarily related to the construction of the London and Winnipeg facilities. The Winnipeg expansion started producing saleable product early this year. The benefits will come primarily from improved operating efficiency and incremental capacity to meet growing demand for pre-cooked bacon. At the end of a 24-month ramp-up period, we plan to realize about $30 million incremental Adjusted EBITDA from this line.

Our London poultry facility is still expected to be completed by the second half of 2022. When fully ramped up, which is expected to be by the end of 2023, this facility is expected to contribute incremental Adjusted EBITDA of about $100 million annually. This state of the art facility will increase our processing capacity for value-added higher-margin poultry products. It would also add operating efficiencies through lower costs and the consolidation of three sub-scale plants into one scale facility.

Yesterday, our Board of Directors approved an 11 percent increase to our quarterly dividend to $0.20 per share, commencing in the first quarter of 2022. This is the eighth consecutive year of dividend growth, showing our commitment to disciplined capital allocation. It also shows the confidence we have in the Company's business plans and cash generating potential.

I'll wrap up with an outlook for our business for 2022. 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.

In meat protein, we expect mid- to high single-digits growth, driven by continued momentum in sustainable meats, leveraging our brands and growth into the U.S. market. In addition, we expect to hit the lower end of our 14 percent to 16 percent Adjusted EBITDA margin target by the end of 2022, resulting from growth in sustainable meats, brand renovation and operating efficiencies.

In plant protein, we will run the business for profitable growth, targeting to deliver a neutral or better Adjusted EBITDA within the next 18 months.

We estimate 2022 CAPEX to range from $400 million to $500 million; approximately 50 percent of that will be construction capital mainly related to the London facility and other projects to add growth and capacity in the prepared meats business and to expand hog production.

With that, I will now turn the call back to Michael.

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Great, thank you, Curtis and Geert.

Let me finish where this call began. Our vision for Maple Leaf remains relevant, it remains enduring, differentiating, important to the world. And we are delivering shared value creation. Very well positioned to manage through these uncertain times, our meet protein businesses delivering results that reflect our journey of profitable growth, strong brand differentiation, and a focus on sustainable meats.

In plant protein, our analysis has given us a clearer picture of the category, and its future, and is allowing us to recalibrate our investment in strategy to align with the market opportunity. We've got the skills and the resources needed to execute this pivot. It's a playbook that's very, very familiar to us, notwithstanding the fact that we have choices to make in the next few months. I look forward to updating you as we continue this journey.

I want to close by thanking our team. We are an essential service and our team has continued to show up day after day after day, operating our facilities, protecting the welfare of our people, while ensuring we maintain the continuity for food supply. We are entering the third year of this pandemic, and every day, week after week, they've shown up. I've never been more proud of the commitment of our team and our people than I am at this moment.

With that, I'll now 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 Mark Petrie. Please go ahead.

Mark Petrie — Analyst, CIBC

Good morning. I just want to start with the plant-based business. Obviously, I understand work is underway. Just given the substantial gap between today's run rate and breakeven, could you just talk about the biggest changes that will get you to breakeven EBITDA? How much of that move will be recovery in gross margin versus OPEX reduction?

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Well, it will be all of the above, Mark. Thank you for the question. As I said, this is a playbook that's very familiar to us, but we have a number of choices that we have to make along the way to make sure that we adjust the business model in an appropriate way. Clearly, let's start with the level of SG&A investment, and we have to right size that and that can be done relatively quickly.

With respect to the go-to-market strategy, there are some choices that we need to make from a category perspective in terms of individual subcategories and brands that will affect both the supply chain and how we show up in the marketplace. So, we do have some choices to make there.

Finally, what the biggest driver of our gross margin variants is underutilized footprint. So, we'll have to right size the footprint that we have assigned to the plant-based business; a big chunk of that actually, which is a big, huge, enormous benefit of our approach to the supply chain that we've taken over the last few years, is that we have significant opportunities to just repurpose a big portion of that excess footprint into other opportunities that we've forgone in our core meat business.

We have the opportunity to right size the footprint and repurpose a big portion of that, actually, and other growth opportunities for us over the course the next 12 to 18 months. So, some combination of those three levers will be applied. Again, it’s a very familiar playbook for us. It's not a complicated one, but there are some choices that we need to make. We want to make those choices very deliberately and carefully, and make sure that we make good choices to right size it.

Ultimately, we've got very high confidence in our ability to just size to shoe to fit, and we feel we can do it comfortably within 18 months. Maybe we will exceed that, but comfortably within 18 months, and then go from there.

Mark Petrie — Analyst, CIBC

Okay. Thanks. That's helpful. Maybe just digging in a little bit, I guess, on the gross margin side, specifically is where this is relevant. In the plant category, we've seen somewhat different sort of consumer and competitive dynamics in fresh versus core. When you think about the potential for Maple Leaf, how would you characterize the opportunity between those two segments?

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

I'd really rather not come to an assessment of subcategories in those choices, Mark, because we're finding some great growth in places like our plant-based pizza toppings segment, in plant-based poultry alternatives, and so on and so forth. Obviously, I think the story of the burger, per se, has been told, and it's a story that has had very, very mixed outcomes, for reasons that we understand.

Those other product categories could show up in the fresh case; they could show up in the produce case. Those are some of the choices that we need to make, and there's some brand implications to each one of them. So, I don't think, Mark, that the outcome here is an opportunity that will be dependent on which space in the grocery store, the individual categories show up in, or which brand to show up in.

Does that make sense?

Mark Petrie — Analyst, CIBC

Yes, no, totally. It makes a ton of sense. Then just last one on meat protein, regarding the price increases that are sort of underway now. I mean, how do you think that positions you in the market, and what are you seeing? I mean, in general, you guys have been leaders on price, and the increases in the last few months have been widespread and absorbed. How do you think this plays out sort of with this latest round?

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Well, I'm not concerned about it at all, to be honest with you, Mark. I mean, we've become really, really, really good at revenue management. Revenue management is not pricing as much as it is optimizing the entire suite of revenue levers that are available to us. It's a huge skill set in our organization today. I think the real demonstration of that is in our fourth quarter, notwithstanding some of the operational challenges. We're an operationally sensitive business, and when 30 percent of your teammates, 30 percent in some locations, don't show up on any given day, you can imagine how that has an impact operationally in your business and the performance of your business. It's just unheard of, really, in some ways.

In spite of all that, our prepared meats business grew in the quarter. We had volumetric growth in the quarter. So, connecting those two dots, that's a pretty extraordinary accomplishment, actually, and I think is testament to the fact that we've been very good at revenue management today. We've had substantial price increases already. I'm very, very confident that by the time we wrap this up and it gets fully executed, which is basically the first part of the second quarter, on the inflation component of it, that we'll see a full recovery in the second quarter and probably make up some ground as well.

It is important to note, Mark, in these types of environments that we live in a relative world, and relatively speaking, this kind of inflation is existing all around us. It's existing all around us, and probably the last thing that changes people's food habits. Again, I just have good confidence in it; it's just a timing issue.

From an operational perspective, Mark, I would point out that absenteeisms that peaked out very unexpectedly, to be blunt, absenteeism levels in our facility and our supply chain that peaked out to the back half of fourth quarter, upwards of 30 percent in some locations, most of them over 20 percent, 25 percent, continued on into the first quarter. It’s not quite fully recovered yet, but it's almost fully recovered by the end of February.

You can see that things, it's a storm, came up quickly, passes quickly; just kind of head down, manage it as best you can, and the economics of the inflation gets passed on and will be in effect in early part of the second quarter. So, this is just one of those moments where it is what it is, and I'm just not concerned about it at all.

Mark Petrie — Analyst, CIBC

Understood. Appreciate all the comments, Michael, and all the best.

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Thank you.

Operator

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

Irene Nattel — Analyst, RBC

Thank you. Good morning, Michael. Good morning, Geert, Curtis.

I just want to follow up on that last conversation about inflation, because I get the first part of it, absenteeism and all the rest of that. But as we see accelerating inflation across the consumer space, can you just spend a minute talking about what historically—because it's not the first time, it's been a long time, what types of behaviors you've seen in consumers, the reaction, how that plays into your mix and your margins, and also sort of the tone of the conversations with the retailers?

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

The tone of conversation with our customers is not any different than it's ever been. Which is there's always an element of dialogue that goes back and forth. Obviously, there's a dynamic tension that goes with that dialogue, but there's nothing new about that. That's been around for multiple decades and will be around for another few decades, Irene. So, there's nothing new really about that. I think how we tend to manage through that dialogue is we are very granular in our analytics. I think that makes that conversation very fact-based and tends to relieve a lot of that tension.

The history and pricing in food, obviously we're testing some new ground with these inflation levels. But go back through the history of our ability to price through inflation and I think you'll find, Irene, it's really solid. It's really solid.

Sometimes, I think we end up absorbing a small amount of volume impacts maybe for a short period of time, because we're the only national-branded company in Canada. We obviously have a leadership role when it comes to category pricing, and we have to maintain that. Typically, others may have had the same cost impact, maybe even higher than us. So, their motivations are certainly to follow, but that's theirs to decide.

Historically, there has been a lag effect in terms of private label following the brand leadership; that's historically been the case. They’re temporary and transitional. It's just a normal rhythm and nothing out of the ordinary. Factoring all of those normal patterns in, while the number is a little bit higher in this quarter, it's higher in everything in a consumer’s life, and we live in that relative world and relative value proposition. So, I don't see that changing extensively.

In spite of all of that, we're very confident we'll have full recovery in the second quarter in terms of normalization of our supply chain and kind of recovery of the inflation. We've already executed the pricing for effect in early April.

Irene Nattel — Analyst, RBC

That's really helpful. Thank you. And if we could just turn back to plant, please. The commentary was fascinating around what you've learned about the category. So, particularly when we think about expectations (inaudible) on taste and price and degree of processing and ease of preparation, which is, I think, what you said, how do you turn that around so that sort of change the consumer perception, basically sort of provide products of opportunities that address those elements?

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

That’s a great question. That speaks to some of the work that still has to be completed, which is how do we take these insights and modify our go-to-market strategy to optimize that very question. Obviously, that will show up in different types of products, maybe, that deliver different and more sophisticated taste experiences. I think they're just going in and saying, let’s try and give you a burger that's sort of almost as good; probably is not the right answer. It’s, how about a totally different plant-based experience, might be a better outcome to address a more sophisticated palate that’s looking for just a good taste experience, and not something that is a pretend taste experience.

So, undoubtedly, to your question, Irene, that will affect our innovation pipeline and the work that we do there. That'll unfold over the course of the next not just few months but next few years. It’s also important to point out we believe there is underlying good news in this. Curtis alluded to the underlying good news.

The underlying good news is that, even though there was very high lapse rates, only 20 percent of the trialers converted, it’s a pretty low rate; but those that did convert have some degree of loyalty and habituation that is growing. If you model that out in all the various channels, it does point to an opportunity growth rate in the 10 percent to 15 percent, which happens to be the same growth rate that we actually pegged when we bought Lightlife in 2017. We kind of concluded at the time it will probably grow in the low teens.

This is not a guess. We've done lots of modeling that underpins that growth rate range based on the assumptions of lapse rates, trialers, habituation rate, the growth in habituation and repeats, and so on and so forth: 10 percent to 15 percent, Irene, is still one of the strongest growth categories in the grocery store. It's not 40 percent like we experienced or expected maybe a year ago. It's not 40 percent; that was spectacular growth, but 10 percent to 15 percent is a pretty good gig.

We said we'd adjust our business model to suit, and that includes the innovation pipeline that you pointed to, and our go-to-market strategy, but also right-sizing the balance of our cost structure and investment profile. When we do that, it's a great category, growing at 10 percent to 15 percent. There's not many in the grocery store, not many categories growing at that pace even, even if it's not 30 percent or 40 percent.

Irene Nattel — Analyst, RBC

That's helpful. Thank you, Michael. So, listening to all of this. I'm trying to understand what the cadence of the improvement in financial performance looks like between, let's call it, a mid-40s EBITDA loss and a breakeven over 18 months. I guess, yes, given all the work that needs to be done, given presumably capital that will need to be invested in the physical footprint on the manufacturing side, I mean, can you give us any help in terms of what that looks like, the path from here to there? I guess the slope of that line.

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

I’m going to resist giving you the slope of the line. I think we've put a hard line in the sand that we hope to get it done within 18 months. I'm hopeful that we can do it sooner than that, but let's call it 18 months. If you want to hold us to account, that’s the number to hold us account to. I want to resist at this stage giving you a slope of the curve until we complete some more of the analytics, but we'll update you when that's complete, Irene.

I think there are various degrees of pace here. The SG&A piece of it is probably the fastest. Building out the innovation pipeline and the go-to-market strategies takes a little bit of time, not a lot, but a little bit of time. Right-sizing the supply chain, again, we have lots of opportunities to utilize footprint. We're passing on opportunities today because we didn't necessarily have the footprint. We've been reserving capacity and footprint for an opportunity that hasn't materialized to the degree that we expected. We can now release that capacity for other growth opportunities in the organization, and they're plentiful.

It's a bit of a luxury that we planned for it in this way. When we took the decision a couple of years ago to start building our supply chain in the same footprint as our meat business, it gave us that flexibility. That will take a little bit of time. That one is probably the hardest to judge the slope of the curve between now and 18 months from now, because we've got some choices to make. We want to make long-term choices; we're not going to make short-term choices. We got to make some long-term choices. Depending on what those choices that we make can impact the slope of that curve. That's why I'm hesitant.

Irene Nattel — Analyst, RBC

Understood. Thank you.

Operator

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

George Doumet — Analyst, Scotiabank

Good morning. I wanted to ask you a little bit about the poultry margins. Obviously, they've been a little bit soft in the quarter. Just wondering how long do you think it'll take to normalize. Any commentary maybe around the bird flu outbreaks that we're seeing in the U.S., and risk to operations there?

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Curtis, do you want to take the poultry one?

Curtis Frank — Chief Operating Officer, Maple Leaf Foods Inc.

Sure. Good morning, George. Thank you for the question.

We did see, as you know, a market impact in the poultry business in the fourth quarter, approximately an overall market impact of about 90 basis points. Basically, we're in a situation where we've got higher feed grains that are driving higher live costs of poultry to what's essentially, I think, record levels.

We're moving, as you would expect, in the value-added components of our business to adjust our pricing in response. As Michael said earlier, our prepared meats pricing takes effect early in April, poultry late in March. So again, by the end of the first quarter and heading into the second quarter.

On the value-added components of the business, we do expect within our brands the impact of higher costs to be to be reflected in our market prices. So, while we're trailing the five-year average today, we certainly expect some of that to, obviously, spill over into the first quarter, George.

As supply and demand starts to more closely come in line—which has been problematic, particularly given the COVID effects that we experienced here in the fourth quarter and early in the first. As that supply and demand equation starts to come into balance, again, which we fully expect it will, I think we'll be in a much better position heading into and beginning in the second quarter, again, as our pricing takes effect.

George Doumet — Analyst, Scotiabank

Okay. Just the commentary on bird flu outbreaks you've seen in U.S. Just kind of your thoughts there.

Curtis Frank — Chief Operating Officer, Maple Leaf Foods Inc.

Yes, there's been obviously an emergence in Avian influenza in the United States. No material impacts to date within the Canadian markets. I don't expect in the short term for it to have a material impact on markets; more domestic impact in the United States than certainly into the Canadian domestic market today, George, just given the supply-managed nature of the business.

George Doumet — Analyst, Scotiabank

Okay, thanks. Maybe just a follow-up on the plant business. It seems, Michael, your comments are suggesting that we may be a little bit quicker to move on reducing SG&A and OPEX, but the gross margin recovery could take longer. I guess that's a function of repurposing capacity. Can you talk about that stuff like repurposing capacity? Is that six- to nine-month process? Could you give any preliminary thoughts in terms of timing and what exactly we could do that?

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Well, it's just that, George: right-sizing and then repurposing footprint. There's a very high level of commonality in the equipment and certainly the footprints available. As I said, there's some categories. Take poultry as an example. I mean, we're at capacity in our further process poultry lines. We’re fully at capacity. The same footprint is used, and the same equipment, same lines used, to produce the plant-based product line. We've been turning down business in plant-based poultry simply because we've been reserving that capacity for growth in the plant-based side. That’s one example. There are dozens of others like that.

I am going to resist kind of putting a slope of the curve estimate out there at this stage, George, because it really is premature. This is a playbook that's very familiar to us. It's not a complicated playbook. I feel very confident in the time horizon. There will be a slope of the curve. It won't be an extreme hockey stick, in my view, but I just don't want to put a timeline in the different components, or what that slope of the curve is between now and 18 months.

I know that will be desirable for you, but I just don't want to that. It'd be irresponsible without us completing the work on which choices that we have to make. We just know that there are some choices that we have to make along the way, and they can be time dependent. We want to make the right choices.

George Doumet — Analyst, Scotiabank

Understood. Okay, thanks. (Inaudible). I'm not necessarily asking for 2023 CAPEX, but maybe how should we think of the normalized levels. So, maybe just maintenance and a bit of an (inaudible) CAPEX once our poultry plant is done.

Geert Verellen — Chief Financial Officer, Maple Leaf Foods Inc.

Sure. Good morning, George. If you look at the magnitude of the CAPEX this year, it's really reflective of the finalization of the last phases of London. That's why you get to the $400 million to $500 million.

I think, looking beyond, it is safe to assume that our CAPEX levels will be roughly $250 million lower than that. So, that will immediately give a sizable bump in our free cash flow generation from that on. Now, that being said, that is based on our plans today, and taking into account that our big construction capital is going to be finalized this year.

George Doumet — Analyst, Scotiabank

Thanks for that.

Operator

Thank you. Your next question comes from Michael Van Aelst. Please go ahead.

Michael Van Aelst — Analyst, TD Securities

Thank you. I just want to follow up on a few things. First, on the poultry side. You talked about having supply and demand needs to rebalance. What is it going to take for that to rebalance? Do you have to count on the government to adjust the supply quotas lower?

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Curtis, do you want to take that?

Curtis Frank — Chief Operating Officer, Maple Leaf Foods Inc.

The supply gets reset, Michael, in the context of the regulatory environment every eight weeks. We naturally see the supply and demand attempt to be rebalanced in the poultry business every eight weeks. So, that certainly is helpful.

I think what we need to see is just the COVID implications of lockdowns and the responses that we've seen here in Q4 and in early in Q1 start to subside, which there's certainly positive signs that we're headed in the right direction. That's just going to drive stabilization and consumer behaviors and some return to normalization. Again, I think we're largely headed in the right direction.

Michael Van Aelst — Analyst, TD Securities

Okay. If it adjust every eight weeks, have they already made an adjustment that gives you, I guess, some optimism for the coming months?

Curtis Frank — Chief Operating Officer, Maple Leaf Foods Inc.

Yes. You always have to keep in mind, Michael, the adjustment is forward looking. You're predicting consumer behavior in a forward-looking window. What's difficult to predict is what's happened with the emergence of Omicron here in the last little while. Certainly, a number of weeks prior to heading into Q4 we wouldn't have predicted what happened with Omicron.

So, as we're looking forward, yes, I'm quite confident that we will, in fact, see a correction in supply demand and balance in the allocation process. At the same time, we're mindful of what's happened during the last little while, and we're staying on top of it, obviously. And the industry, I should add.

Michael Van Aelst — Analyst, TD Securities

Okay. Then question on the Bacon and the London contribution to EBITDA. Given that you're backing out the duplicate overhead costs, are you expecting London or the Bacon facility to contribute to EBITDA margin expansion in 2022?

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Geert, do you want to take that?

Geert Verellen — Chief Financial Officer, Maple Leaf Foods Inc.

Sure. Well, in a very small way, yes. But think about it. The ramp-up plans are sufficiently long because we take a very prudent approach in unplugging one part of the business and plugging in a new asset. So, we're taking our time for very good reasons. What we do know is that we're going to incur some of these startup expenses. What we do not know is the slope of the benefit ramp-up, I would say, because of that prudent stance.

Will they start to contribute? Yes, absolutely, but it will not be meaningful in 2022, I would say. Definitely not for London, because the construction is only going to be done in the second half of this year.

Michael Van Aelst — Analyst, TD Securities

Okay, because if you did do some of the back of the envelope math, your $130 million of increased profits coming from London and Winnipeg should give you something like 250 basis points higher margins and meat by the time we get to 2024. So, that puts you at the top end your range, if not a little bit higher, that 14 percent to 16 percent range. So, you’re comfortable in that conclusion?

Geert Verellen — Chief Financial Officer, Maple Leaf Foods Inc.

Absolutely. I mean, that's what we've been saying all along, especially on London. So, you should look at it as an add-on, a cherry on the cake, if you will, of when we get to the 14 percent to 16 percent range with the operations we have now. Then you count the $130 million as incremental on top of that in the future, once we're fully ramped up.

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Michael, the colour commentary on that is this. We set that 14 percent to 16 percent range five years ago. When we set it, we assumed that the London poultry plant would be operational and contributing to that 14 percent to 16 percent. We're going to hit the low end of that range without that. That's a pretty big accomplishment, actually. I think one of the charts in the deck that was circulated for you shows that in the last five years, we've had a 5 percent growth in our top line and a 15 percent growth in our EBITDA line on a CAGR basis, at least the last five, six years.

I think that's underpinned by the strength of the strategic direction and the business itself and our execution. To Geert’s point, we've achieved that goal that we set five years ago, or we expect to, without that big building block, and now that building block will be on top of that. So we're pretty jazzed up by the conclusions, actually, and the trajectory.

Michael Van Aelst — Analyst, TD Securities

Okay. Just to be clear on the London transfer of production, I seem to recall that the original guidance was that the last poultry plant would be closed first half of 2024. If that’s case, correct me if I'm wrong, how do you get to your total $100 million dollar contribution by the end of 2023?

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

I think we said 18 months, did we not, after plant commissioning was where the guidance that we gave? Was that not right Geert? Is that not our previous guidance?

Geert Verellen — Chief Financial Officer, Maple Leaf Foods Inc.

The way you need to interpret this is—I think it's very clear in the materials, is that the $133 million is on an annual basis. So, once we declare the plant fully ramped up and the clock starts ticking to create that annual impact.

Michael Van Aelst — Analyst, TD Securities

Right, but you're saying you're getting $100 million from poultry starting, I guess, at the beginning of 2024, like the end of 2023?

Geert Verellen — Chief Financial Officer, Maple Leaf Foods Inc.

That is based on the planning right now. Once fully ramped up, as we unplug plants and plug them back in, we will update that information to you, but that's the plan right now.

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

You've been around Michael, for long enough to know, as we all do, the plant startups, we think that 18 months is a decent placeholder. Over my 40 years of history starting up plants, I tell you that some of them come in faster than that, and some slower than that, for very unpredictable reasons.

I think it's a decent place holder. Everybody really needs to put a health warning on that. It could be better; could be slightly worse. None of it has any impact in terms of the overall long-term value creation that this asset is going to have for the business.

Michael Van Aelst — Analyst, TD Securities

Okay, thank you. Just last question is on plant-based protein. With revenue growth not trending at the 10 percent to 15 percent now, and with revenue growth somewhat needed, I'm sure, to get to that breakeven point in 18 months so that you can improve your gross margin as well, how quickly can you adjust your strategy should that 10 percent to 15 percent revenue growth not come to fruition over the next 18 months?

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Relatively quickly. I don't know that I want to tie that down into number, like in months, but relatively quickly, Michael. I don’t think that the materialization of that number—I mean, ultimately, if we come to a conclusion that over the passage of time the category is not going to grow at all, it’s going to be completely stagnant, which I think would be just a nonsensical kind of a conclusion, I think based on the date in where the categories at, but if we did, then we just have to readjust it more aggressively, right-size it more aggressively. It would be very different playbook. Again, I don't think anybody would see that happening. Ten percent to 15 percent is a good solid growth rate expectation for the category, and one that we should build our right-sizing model to.

Michael Van Aelst — Analyst, TD Securities

Are you willing to provide any kind of revenue mix for that plant-based business between fresh and the rest, burgers and grounds versus the rest of the business at this stage?

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

No.

Michael Van Aelst — Analyst, TD Securities

All right, thank you.

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Thanks, Michael.

Operator

Thank you. That is all the time that we have for questions. I would now turn it back to Mr. McCain.

Michael McCain — Chief Executive Officer, Maple Leaf Foods Inc.

Okay. Well, thank you very much for your time and attention.

I want to reiterate that I'm very proud of our team in persevering through what are incredibly tense and challenging moments in our business. They've done just a remarkable job, I think, on balance to set record years in a row in our meat-protein business, to be able to readjust in such a fact-based way, and our plant-based business, I think, is a real credit to the entire team. I'm super proud of them.

I look forward to updating you as this unfolds over the course of the next few (inaudible). I think we're on a really, really positive and inspiring trajectory at this moment. So, thank you, and we'll look forward to chatting the next time we're together.

Operator

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