FINAL TRANSCRIPT

Maple Leaf Foods Inc.

First Quarter 2022 Financial Results Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to Maple Leaf's First Quarter 2022 Financial Results Conference Call. As a reminder, this conference call is being broadcast live on the Internet and 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. We will go over the instructions for the question-and-answer session following the conclusion of the formal presentation.

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

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

Thank you, Anas, 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 first quarter 2022 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 Q2 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.

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

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

Thank you, Mike, and good morning, everyone. Welcome to our First Quarter 2022 Earnings Call.

Much has happened since we last spoke in late February. It's astonishing these days how much can change in minutes, days, and weeks in today's world. I actually don't recall ever facing the extraordinary instability that we all see: a global pandemic, burgeoning inflation like we've not seen in decades, extreme disruption in supply chains around the world, and now emerging direct conflict in the world. Obviously, this is not a Maple Leaf story; it's a total societal and economic story, the environment that we're operating in today. In the middle of this chaos, we've demonstrated what I think is exceptional resilience. Our vision to become the most sustainable protein company on earth is more relevant than ever and our blueprint has guided the execution of this vision and is delivering results, creating value for all stakeholders.

The noise of today can be intoxicating, but here at Maple Leaf we're guided by a long-term lens and that's what we're focused on. We are focused on: first, our sustainability agenda, including our food, climate leadership, animal welfare, and community building leadership; number two, building our business in sustainable meat, including using this as a catalyst for geographic expansion; number three, we're focused on investing in our portfolio of market-leading brands, including in our very robust innovation pipeline; number four, we're focused on adjusting our investment levels and business model in our Plant Protein business, as we described last quarter; number five, we're focused on pivoting from construction to start up in over $1 billion of new plant assets; and finally, we're focused on deploying our capital for growth as we complete large organic capital projects and that frees up significant cash flow over the next few years.

That said, turning to our first quarter. We were really clear, and I hope you will agree we were very clear last quarter that Q1 2022 would be rough, and it was. We experienced the full force of the unstable external environment in the first quarter, we experienced the extremely high rates of absenteeism due to the Omicron variant, we experienced the global supply chain disruptions, the soaring inflation, and it was accentuated by one of the harshest winters and Manitoba weather that we've ever felt.

Setting all of these factors aside, oddly, there were some signals of underlying strength. Our meat protein revenues were strong and they grew by 7.5% compared to the same quarter a year ago. While the meat adjusted EBITDA margins were pressured, as you can imagine in these conditions, the fact is, and dare I say, only 300 points of compression from a year ago is actually quite an accomplishment if you can imagine trying to operate a business with a third of your people missing one day, half of your ingredient supply not showing up the next, and suppliers jacking the price by 15% of another set of ingredients the next day, all repeating itself over and over and over during the quarter. Equally, with the pricing now in the marketplace for Q2 and a stabilization of those effects, global conflict obviously aside, and I'll come back to that, we're still confident that we will get to the lower end of our 14% to 16% adjusted EBITDA margin by the end of the year. These are clearly unprecedented transitory effects in the first quarter and we're working our way out of that for the balance of the year.

Our London poultry facility remains on track to complete construction mid-year. Soon after, we will start commissioning the plant to have operations fully ramped up at the end of 2023. Once we achieve full operations, we expect London will add a further $100 million annually to our earnings. I look forward to touring the facility with the investment community once the facility opens. You'll be able to see firsthand how we focused on sustainability and animal welfare while also driving sustainable operating efficiencies and margin accretion.

I'm also really excited about the progress at our Bacon Centre of Excellence, which is ramping up and now producing saleable product out of Winnipeg. Once fully ramped up in the second half of 2023, we expect this new facility will also add an incremental $30 million annually to our adjusted EBITDA.

This quarter our plant business returned to growth for the first time since Q4 2019 and posted a record year-over-year growth rate, not a record, posted a year-over-year growth rate of 5.2%, mostly on the back of foodservice. At the end of February this year we announced our pivot from investing for growth, migrating into a profitable growth model with a goal for our plant-based protein business to become adjusted EBITDA neutral or better in the latter half of 2023. We are aggressively working our plan in advancing that work, keeping a view on maximizing our long-term value creation.

Curtis is going to provide more detail on how we are approaching this and we continue to fine-tune the details, but in broad strokes, the business model to achieve at least breakeven adjusted EBITDA is this: Our starting point for the business is a size of about US$150 million in 2021, although we do feel that we'll be slightly higher than that by 2023. We are targeting 30% gross margin, which is mostly accomplished by right-sizing our manufacturing footprint. And we're intending to reduce the SG&A to not exceed US$50 million. We're confident this new business model will result in sustainable profitable growth over the long term and we'll keep you informed as we continue this journey.

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. Curtis?

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

Thank you, Michael, and good morning, everyone.

Following the backdrop that Michael provided, I'll share some further context to unpack our operational performance within the first quarter of 2022.

Starting with our meat protein business, our growth strategies of leveraging our fully renovated brands, expanding our leadership in sustainable meats, and growing our presence in the US market continued to be very rewarding. Top-line sales in the meat protein business grew at 7.5% year over year, putting us on track to deliver our full-year target. Our leading brands are proving resilient and demand for our products has been relatively inelastic to date.

In high-inflationary environments such as the one we are experiencing today, it is not unusual to see trading down to less expensive products for a short period of time as consumers adjust to new retail prices. Within Q1 we did not experience this trade-down effect; in fact, we grew our branded sales and we increased our market share in both prepared meats and in fresh poultry. We attribute this outcome to the strength of our leading brands and the competency of our revenue management team, who have been working to optimize the consumer response to inflation.

Consumers continued to migrate towards sustainable meats offerings and we continued to leverage our leadership position in this high-growth and high-margin category to meet their needs. Our leadership extends into the US market, where our sustainable meats offering has established a solid competitive advantage, leading to enduring growth. Our sustainable meat sales have now surpassed $700 million annually and we continue to grow very rapidly. This past quarter our sustainable meat sales in prepared meats grew double digits and our Greenfield brand led the way with over 30% growth.

In our last call at the end of February, we highlighted that we fully expected to experience temporary margin compression this quarter and that is exactly how the quarter played out with an adjusted EBITDA margin of 9%. There were three material but transitory factors that impaired and impacted our margins.

The first factor was the rapid onset of the omicron variant of COVID-19. The result was a tornado of severe short-term implications, including dramatically elevated levels of employee absenteeism at our facilities, disruption of production schedules, reduced labour efficiency, added overtime costs, and lower service levels. To put this in context, we faced absenteeism rates of as much as 30% in our manufacturing plants. We were also impacted by a shortage of truck drivers and we experienced incoming shipping delays to all of our facilities. Throughout the quarter, our labour availability gradually normalized and we do not expect to experience lingering challenges related to absenteeism into the second quarter.

The second factor is the sustained effects of inflation. In February, we spoke about the acute levels of inflation we were experiencing in labour, commodity costs, packaging, ingredients, and freight costs. We shared that we had initiated a price increase to the market, effective for the beginning of April. That pricing action is now fully in market and we will realize the benefits in this second quarter, which will contribute to a significant and sequential recovery of our margins from Q1. What we have obviously not priced for are the potential implications of the war in Ukraine and we are examining this closely, at which point we will respond with further pricing action as it becomes necessary.

Lastly, our operations in Western Canada were plagued by abnormally disruptive winter weather conditions, impacting our ability to transport hogs and finished goods. We obviously expect this will fully normalize heading into the spring.

I'm quite proud to say that, despite this incredibly challenging environment, we were able to deliver exceptional top-line growth while continuing to advance our strategic priorities, setting us up well for the remainder of the year as we progress toward delivering the lower end of our 14% to 16% adjusted EBITDA target.

Turning now to plant protein, our focus remains squarely on the pivot from investing for growth to delivering profitable growth. This quarter our top-line sales grew by 5.2% in US dollars, led by accelerating growth in the foodservice channel, driving brand penetration and awareness, and by strength in our Field Roast brand in the retail channel where our retail market shares showed a sequential increase as compared to Q4 of 2021.

Within the quarter we launched several new products in retail, which we are really excited about. Our Lightlife Tempeh Cubes come in at new product format designed for ease of use with the goal to make tempeh more accessible to a broader group of consumers. Tempeh Cubes come marinated in three delicious flavours and can be found at Whole Foods, Sprouts, Albertson’s, and SoCal.

We also debuted a new Field Roast Cantina-style plant-based queso that has been a tremendous success in consumer testing. This cheesy dip delivers a creamy smooth flavour that mimics traditional queso but is a dairy-free alternative. Field Roast queso is now available at a number of retailers, including Kroger, Giant Martins, Albertson’s, and select natural retail channels.

We also delivered several wins within the foodservice channel. In the US we launched Field Roast Chao Cheese at all 240 Biggby Coffee stores with Chao Cheese being featured in store on their signature vegan bagel. We also announced a partnership with the leading caterer York Street Market, who will feature Lightlife and Field Roast in a number of their menu items. In Canada, Mary Brown’s added Lightlife chicken tenders at over 200 locations and our Field Roast Italian sausage crumble was added to the menu at all 410 Booster Juice locations.

While we made progress in growing sales, gross margins were disappointing at a negative 14% in the quarter. I would note that gross profit for the quarter also included start-up expenses of $2.2 million associated with our tempeh facility in Indiana, which are excluded in the calculation of our adjusted metrics.

As Michael mentioned, we are spending the time necessary to design and execute a renewed strategic plan for our plant-based business with a target of being adjusted EBITDA neutral or better in the latter half of 2023. We are designing the cost structure to breakeven at the current size of our business of about US$150 million, a solid base from which we expect to grow further. We will plan to deliver a gross margin of 30%, which we remain confident is very achievable. The main barrier here has been excess footprint, which we built ahead of growth, which has not yet materialized. As a result, the path to achieving a 30% margin is built on normalizing for this excess footprint. We will do this by leveraging opportunities to repurpose the footprint into our meat business, along with some minor right-sizing activities at our legacy plant-based facilities.

The only structural barrier to accomplishing this task is in the new facility in Indiana, which was built to support the tremendous high-growth and high-margin opportunity in the tempeh category, where we continue to have very strong and leading market share positions. Once through the start-up phase, which is well underway, we expect volume growth and lower operating costs at this facility will close the balance of the gap.

Simultaneously, based on our current revenue size of $150 million, our plan includes right-sizing our SG&A to be less than US$50 million. We are confident we will get there by right-sizing our administrative functions to about 15% of sales or lower, which we would consider a normal structural level for a business of this profile. The balance of SG&A will be invested in brand development and promotional support.

In summary, our plant protein business has a very, very solid foundation from which to grow and we remain confident in our ability to pivot to profitable growth as we chart a new path forward.

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 first quarter. I will then review 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 2022.

Sales in the quarter were $1.1 billion, a 7% increase from last year, as favourable pricing and mix in the meat business were partially offset by lower hog volumes processed and the foreign exchange impact of a stronger Canadian dollar.

Adjusted EBITDA was $66.8 million, a decrease of $32.7 million. This decrease was driven by rising labour and production expenses, supply chain disruptions in our meat business, lower gross profit in our plant business, and higher feed cost. Adjusted EBITDA margin was 5.9%, a decrease of 351 basis points from last year.

Net earnings in the quarter were $13.7 million or $0.11 per basic share compared to $47.7 million or $0.39 per basic share last year. After removing the impact of non-cash fair value changes in biological assets and derivative contracts, as well as start-up expenses from both periods, adjusted earnings were $ 0.03 per share for the quarter compared to $0.27 per share in the 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 7.5% to $1.1 billion in the quarter. The increase was driven by pricing actions implemented in prior quarters to mitigate inflation and structural cost increases, favourable mix shift, including growth in sustainable meat, which more than offset the impact of lower hog processing volumes. Meat protein adjusted EBITDA was $97.5 million compared to $123.9 million in the prior year, representing a decrease of about $26 million. This decrease was driven by labour and materials inflation and availability, supply chain disruptions, and the higher feed cost we already called out. Adjusted EBITDA margin for the meat segment was 9%, a 320 basis point decrease from last year.

Turning to plant protein, sales were almost $45 million, an increase of 5.2% in constant currency compared to the same quarter a year ago. The increase was driven by higher foodservice volumes as well as pricing taken in late 2021 to offset inflation. Plant protein gross margin was a negative 14% in the quarter as a result of low sales volumes, low 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 or, alternatively, by us more deliberately using this capacity in the meat segment of our business. Gross profit for the quarter also included start-up expenses of $2.2 million associated with construction capital projects related to our Indianapolis tempeh facility, which are included in the calculation of adjusted operating earnings. SG&A expenses in plant protein were $30.8 million, an increase of approximately $2 million from a year ago, primarily due to higher consulting and labour costs, partially offset by lower advertising expenses.

On the balance sheet, net debt increased to approximately $1.3 billion and this net debt is mostly used to fund our construction capital, which is, as you know, a term we use for investments on the balance sheet that are not yet contributing to returns today but will within the next few years. During the quarter we invested over $89 million in capital expenditures. This investment included about $55 million in construction capital and that was primarily related to the ongoing construction of the London poultry facility. We still expect the London poultry facility to be completed by the second half of 2022. When fully ramped up 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-add, higher-margin poultry products. It would also add operating efficiencies through lower costs and consolidation of our three sub-scale plants into one at-scale facility.

The Winnipeg Bacon Centre of Excellence expansion started producing saleable product early this year and in the second half of 2023, once ramp up is completed, we expect this plant will begin to add incremental adjusted EBITDA of about $30 million each year. The benefits will come primarily from improved operating efficiency and incremental capacity to meet the growing demand for pre-cooked bacon.

I'll wrap up with an outlook for our business for 2022, for the remainder of this year. 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. You will note that these outlook elements are unchanged from what we previously disclosed and so in meat protein we expect mid to high single digit sales growth driven by continued momentum in sustainable meats, our core brands, and growth into the US market. In addition, we expect to hit the lower end of our 14% to 16% adjusted EBITDA margin target by the end of the year. Our CapEx expectations for 2022 remain unchanged at a range from $400 million to $500 million and approximately 50% of that will be construction capital, mainly related to the London facility and other smaller projects to add growth in capacity in the prepared meats business.

I will now turn the call back to Michael. Michael?

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

Thank you, Curtis, and thank you, Geert.

I'd like to finish the call today with a view on shareholder value. Our goal is to create value for all stakeholders in balance, but today, of course, it is about the shareholder. Our view is that the equity of Maple Leaf Foods is seriously undervalued and, while of course that is not ours to determine, we do see a clear path to surface this value in three ways. The first is through pivoting the business model in plant protein from a heavy investment state to a moderated and EBITDA positive investment posture, which will occur in the latter half of 2023. Secondly, we now have, and I'll pause for a moment on the statistic, 21% of our balance sheet today is in unproductive assets. Unproductive assets, 21%. That's defined as new plants that are in start-up mode. It's a remarkable statistic. In the next two years, these assets will go from unproductive to highly productive, generating the returns that we expect and that we invested in. And the third is once these two significant milestones are achieved, and they will be, we see the need to change the channel on the narrative of Maple Leaf Foods.

Maple Leaf Foods has been carefully, carefully engineered to not be a commodity meat company. We are a brand-focused CPG company and we need to up our game in demonstrating this. We expect to demonstrate it by delivering best-in-class operating margins, which the combination of our current performance and the returns on new plant start-ups will absolutely deliver. We expect to demonstrate this by generating significant cash flow, which will rapidly reduce the debt from our current investment period on our balance sheet. We expect to demonstrate this by continuing to show best-in-class organic growth rates, continuing to do that, and we expect to demonstrate it by enhancing our focus on exceptional brand portfolios and our innovation pipeline.

In short, we've gone through an extended investment period and then we expect to change the channel on the Maple Leaf narrative, and that's what we will accomplish. Our vision for Maple Leaf Foods remains relevant, enduring, differentiating, distinctive, and important to the world. In the face of ongoing global challenges, our vision to be the most sustainable protein company on earth has never ever been more relevant.

So now we'll open up the call for questions, please.

Q & A

Operator

Thank you, Mr. McCain. Ladies and gentlemen, we will now conduct the question-and-answer session. If you would like to ask a question, press star then the number one on your telephone keypad. If you would like to withdraw your question, press star two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment please for your first question.

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

Derek Dley — Analyst, Canaccord Genuity

Hi, everybody. Good morning. Just a question for me on the meat group. Obviously you guys maintained your guidance for what's effectively Q4 at the lower end of the 14% to 16% range, but it's a little bit difficult to understand where margins are likely going to lie in Q2 and Q3. I understand you said sequential material improvement, but can you help us get an idea of what that could look like? Are you seeing improvements on the labour side? Are you seeing improvements on absenteeism? Have you priced through enough to combat inflation? Can you just help us with the more near-term outlook?

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

Sure, Derek. Look, I'll do my best, and we have very high levels of confidence and currently all of our forecasts and forecasting machine, if you will, reflects this belief in this forecast. It does obviously come with a health warning, as virtually 100% of the businesses I would suggest of any consequence which say the same thing, that in these conditions, particularly around global conflict that has emerged in the last few months, that there is a health warning on all of our forecasts. That doesn't take away from our confidence; it just says that there is a predictability issue as it relates to the very volatile global situation we face with the conflict in Europe today.

Having said that, let me give you the components of the progression. In the first instance, we effected our price pricing changes based on the forecasts of inflation that we have. They were effective at the beginning of the second quarter and all of those pricing actions are now in effect as we speak. So they went in, they went in as planned, they were accepted, and it's done. Check.

Number two is on the absenteeism component. By the end of the quarter, and it started to normalize in early March, I'm going to say, so we had that effect for largely in and around roughly, right, two-thirds of the quarter, of the first quarter, but it started to normalize in March and coming into the second quarter was fully normalized. Now the caveat to that progression is, while the absenteeism has normalized, we, like almost every single other business in North America, have a shortage of people today. And that does show up in our supply chain, but it has much less effect. And the reason is because absenteeism is unplanned. Vacancies can be planned. They can impact you, but absenteeism is unplanned, vacancies are planned. So it's a much less significant effect, but I would tell you it's still an effect, and to respond to that we are taking steps to dramatically increase our hiring capacity in the organization, but it's a tough hiring environment out there today.

On the supply chain components of it, while our supply chain has normalized, most of the rest of the world has normalized as well. One of the components of stabilizing that is assuming higher inventory levels of the ingredients where you have concern, the ingredients and the components. So we accept slightly higher inventory levels of raw materials and ingredients knowing that there might be more disruption. The historical norm, as you can imagine, in supply chains, is as close to just in time as you can get, and in this kind of environment you need to adjust with more buffer stock through the supply chain. So that also is more normalized.

And finally, the market conditions, I think, that we experienced in the first quarter, the volatility is tending to be more stable. The health warning obviously is the lingering or ongoing potential, not known today but potential impact of the war in Ukraine, but from what we see today we feel the combination of all those things will make a substantial progress to getting back on track in the second quarter and the third quarter and the fourth quarter. And structurally, the most important thing is structurally we are confident in that outcome. And our projections today have us achieving that outcome.

So I don't know if that colour helps. It's not specific quarter by quarter, Derek, but I hope it helps provide some colour and some confidence in that transition.

Derek Dley — Analyst, Canaccord Genuity

Very helpful and sounds encouraging. On the plant-based side, looking at just SG&A this quarter, sequentially you showed some strong improvement on the SG&A side, but what I gather is you haven't really started to implement any of the cost-reduction initiatives that you've outlined over the last couple of quarters that are coming. When should we expect to see some of these cost reduction initiatives materialize?

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

You'll start to see them over the balance of this year. Again, I'm going to resist providing quarterly market markers. That's not been our history and it's not our approach to this business, so we don't want to provide quarterly markers. The first quarter was $31 million. It's really, really important to take into account there's a distinct seasonality in this business and so there will always be quarter to quarter seasonality that has to be taken into effect and clearly the first quarter would be the low ebb in that seasonality, Derek. But you will see progression in that cost structure as the actions that we take unfold. And there is no grass growing under our team's feet here as we speak and so they are fully working towards this agenda and that should unfold over the course of this year, in parts. The SG&A, obviously, will likely be a faster timeline than adjusting the manufacturing footprint but, as Curtis articulated, that too is something that you'll see some progress over the course of this year, more coming into the early part of 2023.

Derek Dley — Analyst, Canaccord Genuity

Okay. Thank you very much.

Operator

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

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

Hello, George.

George Doumet — Analyst, Scotiabank

Hey, good morning. So thank you, Michael, for the extra metrics you guys provided for the plant breakeven. I think last conference call you mentioned that there might be some choices that we need to make from a category perspective. It looks like volumes could be flat to down slightly. So can you talk a little bit about what those changes you're contemplating look like?

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

No, not really, just simply because we don't want to offer any competitive or customer implications around that. But it's more about category projections, George, where we have to match the footprint, the manufacturing footprint, to more accurate and detailed category choice. Because when we, you know, we have a macro perspective, the micro perspective gets down into line number X at plant number Y has to be right-sized to Z to accommodate the projections for these five SKUs sort of thing. It is that level of granularity that we are in the process of transitioning to and it really is not prudent for me to get down into that level of granularity.

George Doumet — Analyst, Scotiabank

Okay. Understood. And maybe just a quick follow-up for Curtis. On the 30% gross margins that you guys are targeting at plant, how much is the tempeh facility supposed to contribute to that, like the ramping up of that facility?

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

Hi, George. We're not intending at this point to kind of segregate or disclose the individual building blocks. I mean that one is obviously going to take a little bit of time. But given the growth in the category, and I think important to note, inside our own business we had double-digit growth in tempeh this past quarter and that continues to be a material growth driver for us. We're very confident in the investments we made. Adding the capacity and building to full capacity will obviously take some time, but that component we're entirely confident that, as we head towards the back part of 2023, we'll be in a really great position as well, particularly given, as well, the innovation we launched that I talked about, which we're really excited about the market is as well. So I don't think you'll get the clarification you're looking for in terms of a precise number, but we're certainly headed in the right direction there from a tempeh point of view. And the category fundamentals continue to support the investment thesis that we have in the tempeh category.

George Doumet — Analyst, Scotiabank

Okay, thanks.

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

I would add, George, to that, that the start-up of the tempeh facility, as I've said a thousand times in the past, start-ups are unpredictable in timeline. The early evidence of the start-up of the tempeh facility is on the positive side of that curve, not the negative side of the curve. The start-up has actually gone quite well, operationally.

George Doumet — Analyst, Scotiabank

Thanks for that. There's obviously been some significant developments in the poultry markets lately. Just wondering, are we going to need to take additional, maybe if you can quantify the additional amount of pricing we may need to take above and beyond what we took in late March and just maybe talk a little bit about the supply and demand imbalances in that market.

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

Yeah. Clearly, George, what I think you're referring to is the outbreak of avian influenza in Canada and the United States. What's really important to understand, there is no risk to consumers here. This is an outbreak that affects the health of the birds, but there is no impact on or risk to consumers. But it does affect the poultry supply. It's a very contagious viral infection that occurs in chickens, turkeys, and other bird species, and in fact the source of it is mostly wild bird migration.

We have a significantly enhanced containment protocol across the entire industry in Canada today versus a number of years ago and we are leaning on that as an industry, collaboratively. Maple Leaf has increased its very strict biosecurity procedures to help prevent the spread of AI in areas where it currently exists and all of the appropriate containment actions are in place. That said, to the point in your question is clearly, as 2022 unfolds, predominantly as the back half of the year unfolds, there will be supply implications and reductions in supply that will influence the market.

It's too early today to provide a financial implication or a projection about that, but there are two moving parts, one negative and one positive. The negative is there's a cost attached to the reduced supply. The positive is it happens to be very supportive of the market pricing in all of North America in poultry and will likely be bullish revenue. The sum total of those two, we feel today, will not be material to our results. While it's an evolving situation, right now it looks like it will not be a material financial impact on our results. But because it's an unfolding situation, we can be certain about that, but that's what we see today. And our containment efforts are nearing the end of what we see as the outbreak. So we feel better about making that statement today than we even did, say, 30 days ago.

George Doumet — Analyst, Scotiabank

Okay, great. Thanks for your answers. I'll pass the line.

Operator

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

Peter Sklar — Analyst, BMO Capital Markets

Good morning. Hi. On the meat protein group, on these prices that just became effective, given the state of the world as it is today in terms of where inflation stands on your influence, like is that enough? Like the world just seems to be inflating so rapidly, I'm just wondering if you're behind already and, given the state of the world where it is today, if we can expect further price increases. Or have you caught up with this?

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

It's a great question and thank you for asking. We feel we're well positioned today is the short answer, respecting the health warning that you heard from Michael earlier, which is there is lots to unfold, particularly given the implications of the conflict in Ukraine.

I think what we're most pleased with, Peter, is the fact that, if you look at the Q1 results, I acknowledged it in my comments that it's not uncommon to see consumers trade down for a short period of time when there's significant inflation in the market and that we're certainly not seeing any evidence of that today. In fact, our brand health is incredibly strong. We were able to grow our market share, from a tonnage point of view, in both our prepared meats business and within our poultry business. So, so far, demand has been inelastic. And I think, practically speaking, what that means is if we need to move price more aggressively in the back part of the year here, we will do so once the facts and supporting materials become available. But at this particular point we feel confident in a more fulsome recovery in the second quarter and we feel like we're well positioned, respecting that there's lots yet to unfold over the balance of the year, particularly in the feed complex as we start to more fully understand the implications of what's ahead given the conflicts we see in the world today.

Peter Sklar — Analyst, BMO Capital Markets

Okay. And then I just have one question on the plant protein group and the restructuring that you're going to be undertaking there. The $50 million guidance you gave for operating costs, SG&A, that would involve a very significant reduction in advertising and marketing cost, so can you talk about like what is the dollar amount of advertising and other marketing support you'll be drawing down and how do you know that the brands are going to, like the remaining marketing and advertising that you're going to have in this restructured company is going to be sufficient to sustain these brands? Like how do we know that there's still going to be enough marketing and advertising to support the brands?

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

Well, I would say, and these are experiential comments, Peter, but I mean you just take the math that Curtis supplied. We expect our administrative SG&A, which is all of the administrative functions, to be in and around the 15% or less of the $100 million, $150 million book of business, which means that the SG&A would be, sorry, the advertising and promotional activity, the brand support activity, would largely exceed in and around $25 million or more, as Curtis articulated. That will clearly support the brands. I think it would be hard-pressed to support a 30% or 40% growth rate with that, but we have a much more moderated view of our growth expectations. And similarly, expectations are a fraction of what they were, for reasons we described last quarter, six months ago.

$25 million as a brand investment level remains to be seen, but experientially I would tell you that that is probably in the magnitude of probably in the range of five to eight times, five to eight times what it was when we acquired Lightlife in 2017. So it's a scale up of 700% from what we acquired in 2018. And experientially, a $25 million brand business to support the growth rates, brand investment to support the growth rates that we are now expecting, not what we used to expect but now expecting, experientially I believe that that is completely in line, if not ambitious. So I have very good confidence in that. But, again, these things are experiential benchmarks, not any individual facts that I can point to.

Peter Sklar — Analyst, BMO Capital Markets

Okay. And just lastly on that, like I forget how you're accounting works, like promotional support. Is promotional support in that $25 million to $30 million number or does promotional support kind of come off sales, so it's kind of netted off sales?

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

Yeah, good question, Peter. The promotional support that's directly connected to the trade, that comes off gross profit. This is consumers' promotional support that is not directed to the trade, goes into SG&A, ad, and promo.

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

That's correct.

Peter Sklar — Analyst, BMO Capital Markets

Okay. So that 30% margin you're projecting is after promotional support net of promotions?

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

After trade promotional support.

Peter Sklar — Analyst, BMO Capital Markets

Okay, got it. Those are all my questions. Thanks, Michael.

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

Okay, thanks.

Operator

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

Michael Van Aelst — Analyst, TD Securities

Hi. Good morning. I just want to clarify one thing. When you made the comments on the meat margin improvement by the back half of the year, were you implying a ramp up over the course like from where we were in Q1 to Q4 or were you kind of implying that Q2 would be back to more of a normal run rate and then you'd see incremental improvements through your strategic initiatives to get to that 14%?

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

No, I think, Michael, I think it's more, important to recognize there is a natural seasonality to our business. So there is a ramp up, but there is a natural ramp up in the seasonality of our business. So we do expect, clearly, that the back—the back half is always stronger than the first half in Maple's results. It has been for 25 years. It's just the natural seasonality of our business. So we're trying to reflect that. But there are no structural elements of return or projects. There's nothing structural that has to occur in the back half to deliver on that. It's just like we just need to get to normalization. That's all.

Michael Van Aelst — Analyst, TD Securities

Okay. And Q2, as you said in response to other questions, Q2 you've passed on the cost increases, you've got labour back in check, supply chain somewhat, you know, you're not dealing with winter weather in Manitoba, hopefully. So your Q2 is kind of back to a normal level.

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

Well, it is, and I think I articulated this, is that we still have significant vacancies across the network, as every other business does in North America, of all industries, and that has some effect on us, Michael. But we have, I think, as the year progresses, that effect will be reduced. So, you know, if anybody in the financial services market wants a job in a meat processing plant, you know, we're hiring. So, yeah.

Michael Van Aelst — Analyst, TD Securities

All right. When you talk about the potential consequences from the conflict in Ukraine, are your concerns more around the lines of increased ingredient costs and feed costs or supply chain or are you just talking about, if things escalate, what happens to the global economy, that type of thing?

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

Well, it really is, and you can comment on that as well as I can. It's all of the above, isn't it, Michael? I mean I open up the newspaper every morning and with a little bit of new layers of shock and awe about the actions taken, the implications that it has. It's a very globally unsettling situation and that affects all of them, all of these factors.

You start with the grain complex, which affects all food. The number-one wheat exporter is attacking, in an extraordinarily and tragic way, the number-three wheat exporter. What impact does that have? Well, I guess that depends on how does the grain crop look in Brazil to offset that? Too many things done to determine. For the whole food complex. Not just you know, not meat, for the whole food complex.

What's going to happen to energy? Well, I guess that depends on what steps does Russia and Europe and every other actor take and what are the offsetting impacts in the energy complex? How does this impact the supply chain? I don't know. What happens if the war escalates? What if it escalates? I mean there isn't a thinking person in the modern world that isn't worried about the prospect of escalation. And on and on and on.

And these things are, like we're just not good enough to be that predictive in these types of unsettling situation. We're not that good enough. We'll tell you what we know today, but we're not that, and I don't think anybody has the skills or competence to forecast with assurance, in any business at any time, in these conditions. But we'll tell you what we know today and what we know today is that we see meeting the goals and objectives that we state. Which in and of itself is an extraordinary accomplishment if you consider that we expect to meet that in the current operating conditions. No excuses.

So I just don't want to, Michael, I don't want to not attach a health warning that all business leaders should be applying to any forecast that they apply today.

Michael Van Aelst — Analyst, TD Securities

Understood. Are you doing anything differently in terms of hedging? I mean you said you're increasing your inventory levels, but for feed costs and things like that, are you hedging any more to try and offset…?

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

No. No, not really. The challenge in our case, Michael, the unpredictability here could go either way. I can point to scenarios, you know, you want to do some scenario planning, and it's just, it could go either way. And as soon as you start using derivatives, you could lock in and think that you're doing the right thing and it goes the other way and you're doing the wrong thing. And ultimately, our ultimate hedge, in spite of all the complexity, is the fact that we have pricing authority in the marketplace. And we want to be really cautious disconnecting that.

Michael Van Aelst — Analyst, TD Securities

Right. Right. I guess I was just looking at the grain cost, particularly on the poultry side, and seeing how that's run up over the last few months and wondering if you priced it adequately for Q2 or not.

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

Well, I think Curtis articulated that. We feel we have, you know, but I don't know. We feel right now, based on everything we know right today, feel the answer is yes. Could know something different a month from now.

Michael Van Aelst — Analyst, TD Securities

Okay. Sounds good. And then last question is on plant-based protein. I guess last quarter you talked about a 10% to 15% industry growth rate is what you expect, but clearly it sounds like you might be getting out of some SKUs and you're setting your cost base for your 2021 revenue run rate. So would that imply that you expect either some offsets, so if you can continue to see some growth in demand for things like tempeh, that might be offset by, in the short term at least, by SKUs that you may be getting out of and therefore maybe we shouldn't be expecting you to get anywhere near like an industry growth rate until—?

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

No. No. And it's a great point and thank you for raising that, Michael. We do not see getting out of any material component of our business. So there's no top line or category or exit here in any way, or any material way I should say. There is always assortment optimization in our business. Always. The only effect of the $150 million revenue projection, even though we do expect some growth, is to make sure we have a conservative planning assumption. That's all. In any planning assumption, if it ends up being 10% growth for the next 18 months, it's not that much higher than $150 million, and normal supply chain components should be and can and will be able to handle that, the delta between $150 million and normal growth rates. I think our expression of $150 million as a planning assumption to restructure around was just simply to be conservative, no more, no less.

Michael Van Aelst — Analyst, TD Securities

Perfect. Thank you, Michael.

Operator

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

Irene Nattel — Analyst, RBC Capital Markets

Thank you and good morning. Just a couple of quick questions for me. The first one is, if we do the math on the administrative expenses in the plant protein, it kicks out a number, let's call it $22.5 million. How much higher than that is the current administrative run rate in plant?

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

So, there's a lot of people and structure and implications behind that question, Irene, so I'd prefer not to segment that, if you can respect that, please. But it is higher, of course, and we just, we haven't done that today.

Irene Nattel — Analyst, RBC Capital Markets

Is it substantially higher, Michael?

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

Yeah, some parts of it are, but I just, I would rather, I'd just rather not go there, Irene. Suffice to say that the, you know, if we get in the 12% to 15% range, that's a competitive administrative operating structure for a business of that size. Been there, done that, have done it many times before, and it's just a question of sizing the shoe to fit. We've built structure to handle a business much larger than that and that didn't materialize and now we just have to right-size it. Been there, done that, done it lot of times before. It's a competitive level and we're confident we can support the business on everything other than adding promo for that rate, at that rate.

Irene Nattel — Analyst, RBC Capital Markets

That's helpful. Thank you, Michael. And then just a second question again on plant. The 30% gross margin, I understand that there is going to be similarly some right-sizing of, let's call it, capacity for plant. Do you currently have the demand on the meat side or the volume on the meat side that can effectively absorb that incremental capacity that you're going to repurpose?

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

The short answer is yes. It is not necessarily immediately like today. Like it's not call up and order it today. But let me give you an example. I'll give you two examples, and there are many, like dozens of similar examples, but I'll give you two just to illustrate.

We have been constraining our demand in, for example, further process poultry. The further process poultry business, particularly in food service in Canada, is on fire. It is the cornerstone of most QSR menu strategies today is growth in further processed chicken. Chicken sandwiches are the in thing. And we, frankly, don't have the capacity and we've had to turn down business and we've been unable to meet the burgeoning demand in that category. Most of the footprint at two of our plants, for example, has the swing capacity with minor adjustments in the equipment. There are some equipment alterations that are required to exactly meet that capacity with the demand. So there are some adjustments, so it's not an immediate turn of the switch, but the footprint is flexible and, for the most part, the biggest chunks of the equipment is flexible, with these adjustments, to be able to run the specific SKUs that are in play. And there is a lead time. You can't just call up a customer that you've been constraining demand and call them up and say, hey, can I fill that demand tomorrow? There is a plan that goes into that as well. So there is some lead time attached to that. But if you look at, for example, the Walker Road facility today, the majority of that footprint we have it singularly identified to attach that to the burgeoning growth in the further processed poultry business.

A second example would be growth in and changes that we've been intending to do in Montreal at the Viau facility and there are some growth opportunities there that we have, frankly, been looking for footprint. And again, that footprint can overlay specifically what we've been reserving for Greenleaf. There is a lead-time attached to it, but it very specifically can be attached to that.

The bulk of the gap between, Irene, the best way to think about that 30% gross margin is the delta between the price of your product and the raw material ingredients. That's your true margin. In between that you have basically labour cost, that's not a problem, and your overhead. The delta has been in our factory overhead where we overbuilt the supply to match to growth that isn't materializing and we have to right size it. And that's what we're doing. There is some time attached to that. It takes some time in both developing the alternative products and converting the capacity. But there is definitely a path to accomplish that.

Irene Nattel — Analyst, RBC Capital Markets

That is very helpful. Thank you, Michael.

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

Thanks.

Operator

Thank you. There are no more questions at this time. Mr. McCain, back over to you.

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

Okay. Well, thank you very much and, as I said in my closing remarks, we are very focused on the high level and long-term view and, over the course of the next couple of years, we will be going through an interesting transition and pivot point from a period of extensive investments, and I think really wise and effective and high-return investments, into a period of harvesting those investments over the course of the next two years, both in our plant-based business and in converting 21% of our balance sheet from unproductive to highly productive. And when we marry that with what is genuinely the real narrative for Maple Leaf, I think the next several years is going to be quite attractive for our business.

So thank you for your time and we will, in the middle of all this global chaos, we'll look forward to giving you the latest and greatest update the next time we're together. So thank you and we'll look forward to checking in in another quarter.

Operator

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