FINAL TRANSCRIPT

Maple Leaf Foods Inc.

Third 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 Third 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, Michelle, and good morning, everyone. Speaking on the call this morning will be Michael McCain, Executive Chair and Chief Executive Officer; Curtis Frank, President & 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 third 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 Q3 investor deck to our website, which includes support material for the quarter. As always, the Investor Relations team will be available after the call for any follow-up questions that you might have.

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

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

Thank you, Mike, and good morning, everyone. Welcome to Maple Leaf Foods' third quarter 2022 earnings call. You've all seen our operational and financial results for this quarter, so our goal this morning is to demonstrate that, notwithstanding very narrow, identifiable, and very short-term factors, we're at an important inflection point in our business.

Our goal this morning is to leave today's discussion with three, just three, essential takeaways. First, we hope that you take away a very clear and identifiable understanding of the external forces that are driving this short-term, highly-abnormal outcome with the confidence that these forces won't be with us for long, and but for a normalization of these pandemic and war-induced forces, we are right now, right now operating at the underlying commitment of 14%-plus adjusted EBITDA margins, targets that we set five years ago because of the structural health in our business today. Second, we hope that you take away, with the same confidence that we have in our plant-based business, that we will not only meet our commitment to adjusted EBITDA neutral or better by the end of 2023 as we transition the business model, we are now even working on initiatives that we feel could exceed this target and, long-term, after this transition is complete, this category, and remember it is just a food category, not a revolutionary new concept, this category will give us reasonable steady growth and be highly profitable as well. Third and finally, we hope you take away the confidence to know that we have effectively placed

$1 billion of brand-new assets on the ground in three new facilities and we’re on the cusp of pivoting these investments from cash out to cash in with a return on capital that you expect from us.

In our meat business, our adjusted EBITDA margin was 8.5%, roughly in line with the last quarter, but these three things are really, really material takeaways to drill into. So here are some of the highlights of what you’re going to be hearing this morning from Curtis and from Geert. You’re going to hear a quantified detail on why the short-term gap exists and what the outlook is. It’s solid and it’s an optimistic story. You’ll hear that we have closed over 50% of the gap in our adjusted EBITDA losses in plant-based protein, I prefer to call them investments, by the fourth quarter, just after six months, and there’s more detail going to be offered today on plans for the remainder of that gap. You’re going to hear from Curtis and Geert that we have over $1 billion of new assets and you’re going to hear that they’re now fully in start-up mode. You’re going to hear that this is actually two-thirds of our debt level in two facilities and they’re on the cusp of pivoting to generating $130 million of new cash flow. Finally, you will hear from Geert about a non-cash technical accounting adjustment in our plant business. I would urge you not to be distracted by this. It is simply a technical accounting valuation change driven mostly by a modelling assumption of rising interest rates. It is non-cash and it has no material consequences. In fact, many would believe it is a positive thing.

Great investors commonly separate the value of a company and the price of its stock at any moment in time. Inflection points, as you well know, are important to identify in this analysis. I believe our stock price today is not at all reflecting the underlying value of our Company due to the three factors that I described above, but we are at such an important inflection point. If you’re a potential buyer of our shares to take advantage of this, thank you for sharing in our confidence. If you are a potential seller of our shares, please know that we feel this price level represents a significant discount to the intrinsic value of the company due to the factors that I described above.

I'll now turn the call over to Curtis and Geert, who will unpack our operational and financial performance in more detail. Curtis?

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

Thank you, Michael, and good morning, everyone.

As Michael mentioned, the underlying health of our business continues to be quite resilient. Absent the temporary market conditions associated with emerging from a pandemic and the war in the Ukraine, we would be quite comfortable in declaring that our meat protein business is structurally operating at the lower end of our 14% to 16% margin target today and reminding you that we have an exciting outlook ahead as we begin to realize the benefits of our large capital investments.

From a top-line perspective, we are executing our growth strategies with precision. Our meat protein revenue, which grew at 3.8% in the quarter, was driven by higher prepared meat sales, which were up 10% year over year. Our branded sales are growing, consumer demand for our categories remain strong, and we are not seeing consumers materially shifting away from our branded product portfolio. The volume response we have experienced following inflationary-based price increases is positively exceeding our expectations and we are very satisfied with the stability of our market share performance. Our US growth continues to be very robust as we grew prepared meat sales by 20% in the quarter. And our momentum continues in sustainable meats, where our sales in both prepared meats and poultry grew at over 10%, our Greenfield brand revenue grew at nearly 30%, and we now have a sustainable meats business that generates sales of over $725 million on an annual basis.

As Michael highlighted, we reported an adjusted EBITDA margin of 8.5% in our meat protein business, which, without the benefit of context, is clearly disappointing. That said, we continue to see margin compression as short term and transitory in nature. There are four temporary and clearly identifiable factors that contributed to this.

The first is pricing. As 2022 has played out, we have appropriately raised our pricing to reflect the inflationary costs that we have experienced and, as I noted earlier, we have been pleased with the performance of our brands in this environment. Our challenge has been in the lag between the time it takes when we feel the inflation to when we can price for the inflation. This was certainly the case in the third quarter where we implemented another round of price increases in September, partway through the quarter. Not having this pricing in place for the entirety of the quarter was worth roughly $11 million or 90 basis points of adjusted EBITDA margin in Q3. I consider this pricing now to be a green light, as it is now fully in place for Q4, and our current view is that we have, in fact, priced for the inflation that we expect to experience moving forward. Of course, if we do experience further inflationary pressure, we have the revenue management capabilities to respond again appropriately.

The second factor is the shortfall in the availability of people. We employ about 14,000 team members when fully staffed at Maple Leaf Foods. Like many other businesses, over the past few quarters we have been hamstrung by a shortage of workers. We estimate the cost of vacancies in Q3 was roughly $15 million or 130 basis points of adjusted EBITDA margin, which shows up in overtime, the cost of using temporary agencies, the loss of operating efficiencies compared to proven standards, short shipments to customers with lower than targeted service levels, and several other impacts. Here too I see us in green light status. We have responded aggressively by ramping up recruitment and retention by initiating a variety of focused programs such as solving commuting challenges, attracting recruits through social media, and leveraging the foreign worker program. This hard work is now paying off. In Q2 our vacancies had peaked at over 1,500 employees. At the end of September our vacancies were around 900 and with today's progress we are now down to around 600 vacancies in our network. Of course, there is naturally a lag time of training and the on-boarding process, so while there will be an excellent improvement in the fourth quarter, a full resolution won't be felt until early 2023.

Thirdly, there has been an unusual degree of margin compression in the Japanese market. We have over five decades of experience in this market and gross margins have compressed from what we would consider normal, say five-year average levels, by $25 million in the quarter or 210 basis points of adjusted EBITDA margin. We believe this occurred due to a decline in Chinese imports, which flooded meat into other global markets. The impact was exacerbated by a rise in freight costs and a rapid decline in the value of the yen. As global exports open up, freight costs decline, and pricing action in the market takes effect, we are moving toward a normalization of market conditions in Japan. It's important to note that price adjustments do have a longer sell-in period in Japan than most other markets so, while there is a longer lag time for the market to restore a balance, we do in fact see this market returning to normal. Since the timeline is less in our control, I'm calling it yellow light.

The last issue is of global pork markets. In the third quarter, pork markets operated at a level of profitability that was approximately 80% below five-year average market conditions. The difference between normal or five-year average pork markets and what we actually experienced in the quarter impacted our results by $15 million or 130 basis points of adjusted EBITDA margin. Our hypothesis for why this is occurring is simple. China, the largest consumer of pork in the world, has materially reduced its imports in the short term, putting pressure on every other market. This combined with the war in the Ukraine, which is leading to increased cost of feed grains, is pressuring packer margins in the short term. While we are not economists, we do have a high level of confidence that normal markets will, in fact, return. I would cite Rabobank Research, which expects trade to strengthen in Q4 2022 with more possible upside coming in 2023, supported by lower global pork inventories and the tightening of supplies. We also believe wider packer margins will be supported by a shrinking European hog herd and a gradual softening of feed prices. We are already seeing solid improvement in Q4, but not yet all the way back to normal, which is why I would describe this as yellow light.

Now here is the single most important point. Four factors contributed to this Q3 outcome. Only four. All four are quantifiable. All four are directly connected to our post-pandemic and war-torn economy, which can only be described as abnormal. Two of the four are green lights, two of the four are yellow light and are improving, and together they add up to a whopping $66 million or 560 basis points of EBITDA margin in terms of the impact to Q3. Apply normal conditions to our business and we would be operating at over 14% adjusted EBITDA margins now. Not in the future, but here and now today. Said differently, in answering the question of what would an investor have to believe to be true for Maple Leaf Foods to be reporting a 14% or greater adjusted EBITDA margin in the present, I believe the answer is a simple as two single items that we have confidence in. Number one, that pork markets will in fact become normal again and, number two, that the Company can hire and on-board approximately 600 more people.

I'll now go ahead and turn my comments briefly to the plant protein business, where we are well into our pivot from investing for revenue growth to delivering profitable growth. Accordingly, we set the goal of achieving adjusted EBITDA neutral or better by the end of 2023, en route to build a profitable plant protein business for the long term. To accomplish this task, we communicated there are three things we needed to get done, to right-size the SG&A, to right-size the manufacturing footprint, and to get the revenue management right in this inflationary environment. We are now 6 months into our 18-month transition and we have made tremendous progress. On the SG&A front, we have reduced our team size by 25% and right-sized our advertising and promotion investments to align to our new view of the category. At the same time, we are beginning to see the results of our efforts to improve price realization and efficiencies within our plants. Based on this momentum, we expect our adjusted EBITDA losses in the fourth quarter to be approximately half of those a year ago. Half of those from a year ago. That is 50% of the journey completed in only six months.

The remaining gap will be closed with five initiatives, each of which will show up in gross margin. The first is right-sizing our manufacturing footprint and optimizing our plant operating costs. In this case, excess plant-based footprint is mostly being redirected to further processed poultry production, as we have excess demand today without the capacity to fill it. The second is product cost savings and formula optimization. The third is a redesign of our outbound distribution model. The fourth is revenue management, including an inflationary-based price increase that was fully executed in the month of November. And lastly, we will look to further reductions in discretionary costs. Finally, we are not stopping at adjusted EBITDA neutral. We won't be satisfied with breakeven. This category deserves profitability just like every other food category. Our team is now focused on the initiatives that we have in mind that can contribute to exceeding our targets, although it is obviously premature to speak to these today.

The last item that I'd like to address this morning is an update on our construction capital projects. At this point we are proceeding extremely well, both in terms of spend and also the timing of our ramp-up. We completed the construction of the London poultry facility slightly ahead of schedule. Equipment testing has begun, new people are being hired, and the production of salable product is scheduled to start up in only a few weeks. From there we will start to ramp-up by carefully transferring production from our St. Mary's, Toronto, and Brampton facilities in sequence and then closing those legacy facilities in due course. By the end of 2022, the London poultry plant will employ approximately 600 team members, of which 350 will be transferred from our St. Mary's facility. The plant will ultimately employ about 1,600 people once fully ramped up. Despite the challenging labour market, hiring for the London facility remains fully on track at this stage. When fully ramped up, the London poultry project will add an incremental $100 million of adjusted EBITDA annually. The benefits will come from adding capacity and capability for higher-margin value-added products to meet growing demand; increasing operating efficiency through technology, enabling lower costs; and the consolidation of three subscale plants into one world-class facility.

At our Bacon Centre of Excellence, we are producing salable product now and shipping to customers today. This facility will provide meaningful contributions to adjusted EBITDA margins with an annual benefit of $30 million when the plant is fully ramped up, which we expect to occur in the second half of 2023. The benefits will come primarily from improved operating efficiency and the addition of incremental capacity to meet the growing demand for pre-cooked bacon. Just a few weeks ago, we were proud to announce that product from the Bacon Centre of Excellence is now available on shelf at more than 25 retailers and that we have secured volumes with a number of food service customers, including A&W, another iconic Canadian brand that shares our commitment to bring sustainable, great-tasting food to Canadian consumers.

Finally, we are ramping up production at our new tempeh facility in Indianapolis, which is ahead of schedule and we are already delivering greater throughput at this facility than we had initially anticipated.

With that, I'll turn the call over to Geert.

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

Thank you, Curtis, and good morning, everyone.

Before I start with the quarter, I want to address the press release that we issued Sunday night. Over the weekend we experienced a cyber-security incident which has led to a system outage in our business. Our team of IS professionals are working diligently with the help of third-party experts to resolve the situation and our business and operations teams are doing a remarkable job finding manual workarounds to keep our operations going to try to minimize the impact. And while we expect the full resolution of the outage will take time and result in some operational and service disruptions, we will continue to work through this with our customers and vendors.

Turning to our third quarter results, I will begin by discussing the Company's consolidated performance and I will then turn to a more detailed look at both our meat and plant protein groups. I will then conclude by speaking to some key financial metrics, capital expenditures, and our outlook for the remainder of 2022.

Sales in the quarter were $1.2 billion, an increase of 3.6% from last year as favourable pricing and mix in the meat protein business were partially offset by lower hog volumes processed and lower plant protein sales. Pricing actions implemented to mitigate inflation more than offset lower volumes. Adjusted EBITDA was $76.7 million, a decrease of $41.3 million from last year. This decrease was driven by market headwinds, rising labour and production costs due to inflation, labour vacancies, lower gross profit in our plant business, and higher feed costs, partly offset by price increases. The adjusted EBITDA margin was 6.2%, a decrease of 370 basis points from last year. Net earnings in the quarter were a loss of $229.5 million or a loss of $1.86 per basic share compared to earnings of $44.5 million or earnings of $0.36 per basic share last year. After removing the impact of non-cash impairment charges, non-cash fair value changes in biological assets and derivatives, as well as start-up expenses from both periods, adjusted earnings were loss of $0.01 per share for the quarter compared to earnings of $0.38 per share in prior year. During the quarter, and as part of our annual impairment testing work, we recognized a non-cash goodwill impairment charge of approximately $191 million associated with (inaudible) business, which was largely due to the increase in the discount rate as a result of current economic conditions, including a significant interest rate increase. Our assumptions used in this calculation are consistent with the long-term sales growth outlook for the category, as well as the gross margin and adjusted EBITDA targets we have set for this business earlier in the year. It is also important reemphasize that this is a non-cash charge and has no impact of our business ability to execute on our strategy, operations, or cash flow generation, and we remain committed to a plan to achieve adjusted EBITDA neutral or better in the latter half of 2023.

I'll now turn to a discussion of Maple Leaf's two operating segments. As Curtis mentioned, sales in the meat protein segment increased 3.8% to $1.2 billion in the quarter. The increase was driven by pricing actions implemented in prior quarters to mitigate inflation and structural cost increases and a favourable mix shift, including growth and sustainable meats, partly offset by lower volumes. Meat protein adjusted EBITDA was $100.9 million compared to $151.3 million in the prior year or a decrease of $50.4 million. This decrease was driven by market headwinds, labour and materials inflation and availability, higher feed costs, partially offset by pricing actions. Adjusted EBITDA margin for the meat segment was 8.5%, a 470 basis point decrease from last year.

Turning to plant protein, sales there were $43.6 million, a decrease of 12.3% in constant currency compared to the same quarter a year ago. The decrease was driven by lower retail volumes as consumers adjust to higher prices, partly offset by pricing actions to offset inflation. Plant protein gross margin was a negative 22.5% in the quarter as a result of low sales volumes, low capacity utilization, and raw material inflation. This was a slight improvement from the negative 24.7% in the second quarter of this year. As we mentioned in previous quarters, gross margin continues to be heavily impacted by the capacity investments we have made ahead of anticipated growth. SG&A expenses in plant protein were $19.9 million, a decrease of approximately $14 million from a year ago, driven by lower people costs as well as lower advertising and promotional expenses. Sequentially, SG&A decreased approximately $6.4 million from last quarter as a result of headcount reduction and lower advertising and promotion spend we decided on at the end of the second quarter of 2022.

Moving to capital projects now, during the quarter we invested $76 million in capital expenditures. This investment included about $48 million in construction capital, which is primarily related to the construction of the London poultry facility. On the balance sheet, net debt increase to approximately $1.5 billion. This debt primarily relates to the over $1 billion in construction capital we have invested in aggregate in our Bacon Centre of Excellence in Winnipeg, the new tempeh facility in Indianapolis, and of course the new poultry facility in London, Ontario. In short, after years of investing in high-quality, high-return capital construction projects funded by debt, we're about to flip the switch, if you will, and start to reap the benefit of these investments. As we close the chapter on the construction of these large and lucrative long-term investments, we look forward to using the cash flow toward other capital allocation priorities, such as optimizing our debt level, investing in other growth opportunities, continuing to grow our dividend and returning capital to shareholders.

During the quarter, we activated share purchases under our current NCIB program and, through today, returned approximately $30 million to shareholders through the purchase of approximately 1.3 million shares. We will continue to do so in the coming quarters as we believe current market valuations present a substantial return opportunity for us.

I'll wrap up with an outlook for our business for 2022. In meat protein, we expect mid- to high single-digit sales growth in 2022, driven by continued momentum and sustainable needs, brand leadership, and growth into the US market. Longer term, and taking into account the factors described earlier, we expect to achieve adjusted EBITDA margin expansion to a 14% to 16% target range once markets normalize. Our CapEx expectations for 2022 were lowered from prior forecast to be approximately $375 million, down from the $400 million to $500 million range previously stated. Approximately 50% of this will be construction capital, mainly related to the completion of the London Poultry facility and other projects to add growth and capacity in areas such as expanding our RWA hog barns and the construction of further processed poultry production line at the Walker, Brampton, Ontario prepared meats facility.

Going forward, the Company will distinguish two types of capital expenditures. Maintenance capital will consists of non-discretionary investment required to maintain the Company's existing operations and competitive position. Growth capital are discretionary investments meant to create stakeholder value through initiatives that, for example, expand margins, increase capacities, or create further competitive advantage. For 2023, the Company expects total capital expenditures to be in the range of $275 million to $325 million. Approximately $150 million of this will be maintenance capital, with the remainder being growth capital. This growth capital will mainly consist of an increase to our further processed poultry capacity at our Walker Drive plant to meet a pipeline of demand that has very attractive growth and margin prospects; an increase in our RWA hog barn capacity, which will enable further growth in sustainable meat; expansion of our capacity in snack kits, which is a high-margin consumer category for Maple Leaf; and an upgrade to our smokehouse operations with attractive returns.

The Company expects depreciation and amortization for 2023 to be approximately $250 million, mainly as a result of large construction projects now coming on line.

I will now turn the call back to Michael.

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

Okay. Well, thank you very much, Curtis and Geert.

We are certainly living in a dynamic and uncertain time. We continue to execute against our purpose, our vision, and our strategies at Maple Leaf Foods. We believe we are excellent operators with a very talented, extremely talented team of people. We've made prudent capital investments that will provide superior returns for our business and we've revisited our strategy on the plant protein business to drive it to adjusted EBITDA neutral or better in the last half of 2023, reflecting our current view of that market. These are all elements that have a short-term impact on the performance of the Company but are absolutely not indicative of the long-term value of Maple Leaf Foods. We remain firmly convinced of the long-term value creation of our strategies and, as a result, are convinced that Maple Leaf shares today trade at a significant discount to fair value. We believe there's material upside for shareholders, old and new, to be achieved here, and to the extent this discount continues we intend to use the Company's balance sheet prudently to invest in buying back our own shares.

We will now open up the line for your questions.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press star followed by the one on your touchtone phone. You will hear a three-tone prompt acknowledging your request and your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press star followed by the 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 Michael Van Aelst. Please go ahead.

Michael Van Aelst — Analyst, TD Securities

I'd like to start on the cyber attack, and I'm sure there's some details that aren't available, but can you give us an idea of what the cyber attack is now preventing you from doing and what you're doing as a workaround?

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

I think the headline is, Michael—first of all, good morning. It's nice to hear your voice, obviously.

Michael Van Aelst — Analyst, TD Securities

Good morning.

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

We have very seasoned professionals both in our response teams in business continuity and also in our IT professionals. They are focused on recovering the integrity of the systems as rapidly as we can and the business continuity team is figuring out process-by-process manual workarounds, which we've tested, in most cased have done before, and are implementing as quickly as possible, in fact are implemented now. So this is not something that is unexpected in industry today as much as it's a scourge of modern technology, but I feel very confident in the team of people that we have in place to ensure the continuity of the business in this situation and the technology team's focus on recovery. So, you know, steady as she goes.

Michael Van Aelst — Analyst, TD Securities

So maybe a little bit in more detail, if possible on like are you able to produce the product? Like what are the biggest challenges? Is it production? Is it in shipping?

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

Our facilities all ran yesterday.

Michael Van Aelst — Analyst, TD Securities

Again, is it hurting your output levels at this point?

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

Well, in day one I don't think we ran optimally for sure. On day one I can guarantee that. But we all walked away from our calls last night thinking how impressed we were with how much they got done in the matter of one day. And every day will improve after that. So the short answer is steady as she goes and, yeah, we're continuing to operate and expected to operate. That was our plan and has been our plan all along, as any responsible company prepares for this.

Michael Van Aelst — Analyst, TD Securities

Okay. And is it affecting all aspects of business from payrolls and accounts receivables to shipping and anything like that?

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

There are some functions affected more than others, of which I won't get into the granularity of that, but it is comprehensive. But that's fine. We have workarounds for all of the above.

Michael Van Aelst — Analyst, TD Securities

Okay. All right. Thank you. And then on the labour situation, it's encouraging to see the progress that you've made so far, 900, I guess, employees or vacancies filled since April. It sounds like you're confident that you're going to fill the other 600 over the next two months. Are you that close to filling those roles? And then how long does it normally take to train employees so that they're efficient?

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

Yeah, it's a great question, Michael. So, what's very interesting about the hiring regime, and we track this weekly, we've had a very significant uptick in our rate of hiring just in the last six weeks. And I mean six weeks. Today we are hiring or on-boarding somewhere in the vicinity of 80 to 100 a week now. 80 to 100 a week. So achieving a, for all intent and purpose, full complement is, we think, just around the corner, which is why Curtis described it as green light.

There is an on-boarding and efficiency/training component on that, but I think you can measure that in like in the 30-day to 60-day window, not something that's going to take an extensive period of time.

Michael Van Aelst — Analyst, TD Securities

Okay. So, when we look at that 130 basis points hit in the quarter, it sounded like initially, it sounds like, from earlier comments, that that was going to be completely gone to start 2023 and I just want to make sure that I'm understanding that right, because I'm not sure if the 30 to 60 days would push you kind of partway through Q1 before you actually get, you know, remove that margin impact.

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

When you're down to trying to time it according to the month, Michael, I think you're probably attaching a little bit too much precision to this. I think Curtis' comment was that we believe this will be resolved early in 2023. Exactly which week and how early in 2023 is probably more precision than is warranted. Does that make sense?

Michael Van Aelst — Analyst, TD Securities

Yeah, that's fine. Thank you, Michael. I'll get back in the queue.

Operator

Thank you. The next question comes from Mark Petrie. Please go ahead.

Mark Petrie — Analyst, CIBC World Markets

Good morning. I know you commented on this in the prepared remarks, but hoping you can go into more detail about the retail environment and what kind of behaviour you're seeing from consumers, I guess specifically sort of the reaction to the high amounts of inflation in the store and what trade down are you seeing. Is there a change in private label penetration? And any different reaction to this price increase versus the previous rounds?

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

Good morning, Mark. It's Curtis. I hope you're doing well. I'll maybe take this one. I think the best way to characterize this is as no material change. We're not seeing significant trade down in the moment. The consumer is proving to be actually quite resilient. You would have seen in our results, from a sales growth point of view, our prepared meats business sales grew at 10%, our brands grew at 9%, our Greenfield brand grew at 30%, our US market was up materially in and around 20%, so sales growth was really robust. On the volume side, if you combine the foodservice and retail channels together, Mark, our volume was actually flat year over year in the quarter, and we see that as a pretty significant and positive sign that the consumer response has been quite resilient. So, no material trade down experience in our portfolio at this particular stage.

I think what's also important to note is our market share performance has been really stable. It's relatively flat in the moment, but if you did kind of one level down, there's some really encouraging signs from the perspective that our core categories are experiencing actually share growth within the quarter. So that would be categories, Mark, like wieners and bacon and smoked sausage and kits, which is an important and growing category for us. On the sliced meat side, our share in the quarter was relatively flat. And again, given the labour challenges and the supply chain difficulties we had in our Heritage facility in Hamilton, we were quite pleased with. And then there are a couple of maybe more promotionally-sensitive categories, things like canned meats, where our share was slightly down in the quarter. So, all in all, consumer has been very resilient and we’re very, very pleased with the volume performance at this stage.

Mark Petrie — Analyst, CIBC World Markets

Okay, thanks. And specific to sustainable meats, I mean, obviously, that business or that segment continues to grow. Have you seen any evidence of sort of consumers trading down within that segment to sort of traditional meats and the growth is sort of new accounts or greater depth of assortment with existing customers as opposed to sort of sell-through in the sort of previous winners or is the whole category sort of performing well still?

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

No, the category is performing incredibly well. We’re so excited about the results, Mark, particularly in the inflationary environment we’re in. We did have, as I noted, I think, in my opening comments, double-digit growth in both prepared meats and poultry in sustainable meats. We’re growing in both Canada and the US market. In our presentation materials you might have noticed that we now have the number-one selling bacon SKU in the United States in the sustainable meat segment is actually our Greenfield applewood bacon item. So we’re quite proud of that. And sales in both markets have been incredibly robust despite the inflationary environment. So we’re really, really happy with where the sustainable meats momentum is added. We have now a $725 million business. As Geert mentioned in his comments, we’re adding small amounts of capital where required to continue to support the growth on the hog operations side, so the algorithm continues to be really, really sound.

Mark Petrie — Analyst, CIBC World Markets

Okay, great. And then just last one. Obviously the export markets are volatile and clearly very challenging, specifically with regards to your business in Japan. How is that tracking in Q3 so far and what sort of visibility do you have to an improvement there?

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

I'll take that one, Mark. We have in excess of four decades of experience in the Japanese market and it clearly is a very lucrative relationship-based market for Maple Leaf Foods and is lucrative most of the time, not all of the time. There are three factors, we believe, that are contributing to the compression short term in that market. The first is the global import-export/trade environment in China. As China's imports declined as radically and dramatically as they did, we saw a flood of meat ending up in other markets, and certainly the first stop was Japan. The second was the logistical costs of getting meat from here to there in ocean freight and the third was the very rapid weakening of the yen.

We are seeing improvements in all of those. As Curtis alluded to, the global trade environment, particularly in China, is expected, by third parties who study this carefully, to improve in 2023, late 2022 and 2023. The ocean freight costs are reducing. And while the currency seems like an uncontrollable, it is not a currency issue. It's a pricing issue. That is not our responsibility to absorb currency shift, it's a pricing issue for all participants in that marketplace. But the nuance of pricing in Japan is that things happen more slowly than they do in other parts of the world, as you can imagine. It's a long-term, relationship-based market and to affect price shift because of systemic factors like that takes a little longer time. And we're dedicated to that market. It would be way too easy for us to say, no, let's move to another more profitable market because short term this one is less effective today. That would be the wrong decision long term. And we are making progress. Curtis described it as yellow light appropriately because some of those factors are less predictable for us but, suffice to say, we have confidence that it will normalize, we don't believe it will be long term, we think we're dealing with quarters of progression, not years, but not weeks either, and it is getting better as we speak. So I think that's the colour I can offer, Mark. Is there any parts of that you'd like to explore further?

Mark Petrie — Analyst, CIBC World Markets

I mean it's definitely helpful colour. I guess maybe the uncertainty or the lack of visibility is specifically to the pricing dynamic, but I think you've talked about that, so I'm not sure there's anything else you can really add.

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

Yeah, the pricing dynamic is something that occurs over a constant discussion. It's not a one-time event. If you need, just as an illustration, if you need $1 in Japan, you're better off taking five times of $0.20 than you are $1. And it takes a little bit of time to absorb that. It is a fundamentally relationship-based market and we have four decades of relationship and supporting that over time. Moving it in the direction of where it needs to be historically is really important to the long-term health of our business.

Mark Petrie — Analyst, CIBC World Markets

Appreciate the comments and wish you all the best.

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

Thanks, Mark.

Operator

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

Peter Sklar — Analyst, BMO Capital Markets

You've spoken at length about in the meat protein group, the price increase you put through at the beginning of September. Can you tell us what the magnitude of that price increase was on a blended basis?

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

Yes. It's Curtis. I'll take that one, if that's okay. Peter, good morning. Our price increase came in two areas actually in the month of September. The first was in our prepared meats business, where the magnitude was in and around 4.5%, and also in our fresh poultry business where we price for the similar levels of inflation at 4.7%.

Peter Sklar — Analyst, BMO Capital Markets

And are there further price increases planned or is that it for now, Curtis?

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

At this particular stage we feel very confident that we've priced for the inflation that we're experiencing in the moment here and now today and that that positive uptick will be reflected in our fourth quarter results, obviously. Should there be more inflationary headwinds that we currently do not see today, but we have to be open to the fact that we've experienced that over the course of the year, I think we're tighter today certainly to the market position that we've experienced maybe the last couple of quarters. If there's more inflation that materializes we will, in fact, move forward and price for that, Peter, but at this stage we feel very, very confident that the pricing we have in the market is reflective of the inflation that we're experiencing.

Peter Sklar — Analyst, BMO Capital Markets

Okay. And so, given that price increase, which is about, call it, 4.5%, can you reconcile that with the top-line growth rate of 3.8% in your meat protein group? You're growing at 3.8% but you have 4.5% price, and you've spoken at length this morning about some of the categories that really have high growth rates, so there must be some losers, not losers, but you know what I mean, you must be having some areas where you're experiencing negative volumes. Can you just reconcile (inaudible)?

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

The biggest one is in, Peter, in hog production.

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

Yes. Peter, I commented earlier that our prepared meats business is growing at 10%. And so what you're looking at is exactly what Michael is describing, the downtick associated with processing fewer hogs in the pork business. And obviously the timing of the pricing coming into effect in September.

Peter Sklar — Analyst, BMO Capital Markets

Yeah, but you process the hogs largely for internal use, don't you? And so like, from an accounting perspective, that's all intercompany stuff. So I still don't understand why—

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

Oh, no. No.

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

We process for internal consumption, yes, but also for sales into our fresh pork business into markets like Japan, as we were talking about earlier, and also the retail markets here in North America.

Peter Sklar — Analyst, BMO Capital Markets

Right. But like lower hog processing is a reflection of weaker end demand, so I understand Japan. Are there other areas of weakness?

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

No, Peter, I'm sorry to interrupt, but if we processed, say, 3.5 million hogs last year and we've processed 3.3 million this year, for example, that results in a decline in our sales, our revenue. So, fewer hogs processed equals lower sales.

Peter Sklar — Analyst, BMO Capital Markets

And that is production. So I'm trying to, like what I'm trying to get at—

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

It's 100% production driven.

Peter Sklar — Analyst, BMO Capital Markets

But is it end demand weakness or production constraints? That's what I'm trying to get at.

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

No. Production. Production, labour supply, hog supply, totally production driven.

Peter Sklar — Analyst, BMO Capital Markets

Okay, got that now. And then lastly, like as you ramp Winnipeg and London, you are incurring ramp losses that you are pulling out of your adjusted EBITDA. Can you take us through just like how these ramp loss, like what are you considering ramp losses? How are they unfolding? What is the magnitude of the anticipated ramp losses that we're going to see in adjustments over the coming quarters?

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

Yes, Peter, I'll take that. I think we've defined the ramp losses at the beginning of the year definitely for London, for example. The magnitude there was around $100 million to $120 million I think. What are those ramp losses? Those are the losses or the value of the inventory, for example, or the cost that you incur as you are testing your plant, as you're ramping up, as you are producing below the total capacity. Training as well. That's what we consider start-up expenses. And we have started to eliminate those from adjusted EBITDA earnings and you see the quantification in the table that reconciles EBITDA to adjusted EBITDA in our financials and in our press release. So you would see them… For the total project of London poultry I think we guided between $100 million and $120 million and that is gradually ramping up now, of course, as we are doing more testing. The bulk of that will fall in next year for London, for example.

Peter Sklar — Analyst, BMO Capital Markets

Right. And that—

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

Can I add one thing, Peter? From an investment perspective, start-up costs are normal and customary in any new plant investment and we include that in our business case and our returns analysis in making those investments. So this is all normal and part of our returns calculation when we make those investment decisions.

Peter Sklar — Analyst, BMO Capital Markets

Okay. Just my last question then, when you originally announced the London plant you gave the total cost, I forget what it was, $700 and something million. Does that include these ramp losses or the ramp losses above and beyond?

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

No, that’s the CapEx. The $772 million is the CapEx. The ramp losses are included in our business case, as Michael said, that made us decide on or that made us conclude that the return was worth the investment. So the ramp losses are a part of the business case.

Peter Sklar — Analyst, BMO Capital Markets

Okay. Got it. Thank you very much.

Operator

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

George Doumet — Analyst, Scotiabank

Yeah, good morning, guys. Can you please share your plans to kind of hire the 1,600 folks that we need at the London plant, kind of where we are and where do you see that, kind of where do you see us getting some of that, some of those resources from, and over how long?

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

Sure. I think we're very proud of the fact that it is on track and we're ready to start up that plant in live production in the next few weeks. Curtis, maybe you could walk through some…

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

Yeah. Good morning, George. We're in excellent condition in the London facility for start-up with respect to labour. We've got a great leadership team there. They've been on-boarding people at a pace that is exactly in line, if not ahead of the schedule that we had predicted. From our St. Mary's facility, maybe which would be a good place to start, which is one of our closure facilities, we'll be on-boarding approximately 350 people, additive to the local and the hiring that we've been undertaking thus far. So we're on pace thus far. We'll add 350 from St. Mary's. We expect over time, although we're not, we're certainly not counting on large numbers, we expect, over time, we'll get more out of our Toronto-based operations as well. The response has been very positive. The opportunity to work in a world-class scale, technologically sound and very safe new facility has been very attractive to our people, so we expect to get a bigger uptick there as well. And then of course we're engaging in the temporary foreign worker program in a pretty material and meaningful way over the course of time and expect we'll get a couple of hundred people there as well. And those efforts, combined with our planned ramp-up over the course of the next number of months, put us in a position where we're, you know, at this stage, very confident that we're on track.

George Doumet — Analyst, Scotiabank

Thanks for that. Michael, you mentioned in the plant segment you're examining initiatives which has the potential to bring us beyond kind of the profitability target. Can you talk a little bit to that?

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

Well, as I said, it's premature to, I think, add any detail to that. I think we wanted to make sure everybody understood a couple of points. The first is we are not accepting EBITDA neutral as an endpoint. This is a category. It's no more, no less than a category in our business. It has been around for 40 years and it will be around for another 40-plus years. And we expect it to grow modestly into the future. We are transitioning our business model to profitable growth and set an interim target of EBITDA neutral. We're on track to achieve that and we're working on initiatives where we're hopeful we can exceed it. But most importantly, once we achieve that target, we expect to transition this business model into full profitability as quickly as we possibly can. And we're highly optimistic that we can.

So, we have a number of initiatives that are under examination now. I think it would be premature to describe them on this call. We'll provide more colour over time. But this is an attractive, profitable growth category for us and we're just transitioning the business model to achieve that.

George Doumet — Analyst, Scotiabank

Okay, thanks. Just one last one, if I may. Do you feel at all that your debt levels are currently prohibiting you from maximizing your NCIB at this point given where the shares are?

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

Maximizing it, you know, I think we have to find the right balance between risk and investment, George, which we will always do, keeping in mind that risk is not what we know but what we don't know and we have to maintain that resilience in our balance sheet. So we do try and strike that balance and the board discusses that balance constantly. What we do know is that we feel very strongly that our share price today does not reflect the intrinsic value of the Company because we are at that inflection point that's so important from an investor perspective.

I would comment that the balance sheet today of the total debt, two-third of that debt, as noted in one of the decks, two-thirds of it is directly attached to two facilities, two, just two, that are on the ground in start-up mode not contributing a single dollar today but at a critical pivot point of converting from cash out to cash in. And that has a very material impact on your perception of risk and the state of the balance sheet.

George Doumet — Analyst, Scotiabank

Okay, thanks.

Operator

Thank you. Once again, ladies and gentlemen, if you do have a question, please press star one at this time.

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

Derek Dley — Analyst, Canaccord Genuity

Hi. Just on the poultry plant, the new London facility, I think when you guys were transitioning in the pork side you press released when you were closing down the other plants that were transitioning into that. Can we expect you to do the same thing here with the poultry plant?

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

Yes.

Derek Dley — Analyst, Canaccord Genuity

Okay. And then you mentioned, as it related to Japan, one of the issues was logistics costs and ocean freight. Can you just give us an idea of the magnitude of the improvement that you're seeing, whether that be container costs or waiting times to move product?

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

We used to, Derek, a year ago, in fact less than a year ago, we used to move pork into Japan from Canada to Tokyo for less than $5,000 a load. In the third quarter I think that exceeded $14,000 a load. So you can imagine the implication on ocean freight. I believe that, as we speak, it's down something less than $8,000 right now, in the $7,000-$8,000 range and falling. We've found its continuing to fall. So we are highly optimistic that that's going to normalize. So, it's showing improvement, but continuing to move in the right direction. And certainly the global trade and economy will have an impact on that and I think we're seeing that in distribution costs all around the world.

Derek Dley — Analyst, Canaccord Genuity

Okay. That's helpful. And then last one for me, just on the plant side. The reduction in SG&A that we saw this quarter and that we expect to see in Q4 and beyond, actually let's just start with this quarter, was it mostly on the labour side and should we expect more of it to be advertising and promo going forward or how do we think about those cost reductions?

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

Yeah, there were two components, Derek. Our SG&A was down 41% overall. The two components come in people-related costs. Our headcount has now been reduced by 25% in the Greenleaf business. And also we've taken steps to right-size our ad and promo. And one of the questions we get often is relative to the performance of our business in the face of downsizing our ad and promo and, for me, one of the things that I was really pleased with within the quarter that might kind of go unnoticed is the fact that we actually, within refrigerated plant-based protein, gained one point of market share within the quarter. So I thought that that was a pretty significant sign of the efficacy of the investment choices that we've made.

Derek Dley — Analyst, Canaccord Genuity

Okay. And then that 25% reduction in staffing levels, is that the appropriate level going forward or should we expect some more?

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

Yeah, we think so at this stage, given the top-line performance. If something changes materially over the course of time, we'll obviously look to reflect the market opportunity and size it appropriately with our SG&A, but at this stage we feel that that's the appropriate level to be using looking forward.

Derek Dley — Analyst, Canaccord Genuity

Okay. Thank you very much.

Operator

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

Michael Van Aelst — Analyst, TD Securities

Thank you. Just for those investors worried about the balance sheet, and I know you've discussed this in the past, but can you just reiterate or give us any colour on the covenants or at least kind of give us an idea of, I guess, the downside potential? Like if earnings were to go down a certain amount, like how much more can they go down before you think you might have some covenant challenges?

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

Thank you, Michael. I'll take that one. I think there are two things I would say to that. Number one is to the first part of your question on what's our covenant situation. We are very comfortable within the covenants that we have and, as you remember from previous calls, the most important covenant is total net debt over total assets and liabilities or total balance sheet. We are comfortable within that ratio within that covenant today.

Secondly, if you think about the profile of the balance sheet, on one side you've got the technical covenant answer, on the other side is what does it mean in practice for us, and I would like to refer to that slide 25 that we have in the deck that Michael already referred to and that shows you that, of the $1.5 billion that we have outstanding in net debt, roughly two-thirds of that is related to two assets that are not contributing anything today in terms of EBITDA generation. So, looking ahead, when you think about what would drive that covenant closer to its limit, number one, it's our capacity to generate EBITDA. That's number one. And so I think we've been very clear that now that we see those two big assets come on line that we've shared with you with the magnitude of additional EBITDA generation would be. And secondly, the second element that obviously plays in that covenant calculation is the net debt itself. And there the net debt will be increasing at a much slower pace than it has over the last couple of years because our CapEx profile is coming down. Our CapEx for next year is going to be between $275 million and $325 million on an annual basis. And so the combination of these two factors will see that covenant headroom, well, first we're obviously decreasing that headroom, but now we will be continuing to increase that again because net debt is coming down and our EBITDA is going to go up. So that's how I would look at that.

Michael Van Aelst — Analyst, TD Securities

Thank you.

Operator

Thank you. The next question comes from Steve Arpin. Please go ahead.

Steve Arpin — Analyst, Beutel Goodman

Hi there. Thanks for taking my question. I just wanted to ask what your perspective is on your underlying gross margins in the plant business, obviously the consumer behaviour is changing, and just how comfortable you are with keeping the sales kind of roughly in line or maybe modestly positive.

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

I'll let Michael here to comment on the gross margins. On the sales velocity side, Steve, hi and good morning, when we reset our view of the category we had moved from a posture, if you recall, from investing for growth and expected the category to grow in and around 30%. We have since changed our view, as you know, to reflect a longer-term view of the category at in and around the 10% to 15% range. We still believe that, over a long-term horizon, that's where we and you should expect the category growth momentum to be. We're obviously not there today as a category, a symptom of everything that's kind of going on in our supply chain and in our consumer environment today, but we do still think 10% to 15% from a momentum point of view is the right view for the category.

I mentioned earlier in terms of performance from our view within the quarter, we were down in and around 9% from a sales growth point of view in the Greenleaf business. The category in refrigerated plant protein declined in and around 14%. So that was the market share uptick that I suggested. And we are seeing a sequential improvement quarter over quarter in terms of performance as well. So I think that's how I would characterize the sales.

Maybe, Geert, you'd comment on the gross margin components.

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

Thank you, Curtis.

Steve Arpin — Analyst, Beutel Goodman

And sorry, maybe I'll just add one thing too before you, ah, why I'm asking that question is because obviously you guys have, as you start up poultry and everything else, you have excess poultry demand and, as you talked about, your strategy has been to reutilize some of the plant. But I'm assuming, I just want to ask this, because assuming the start-up of these new assets, I'm assuming that that may not be available to you and that's why… I'd just like to know is that available to you. Then that's why I'm trying to get at, you know, what is sort of the underlying gross margin in the business? How does it look? Because obviously you've got an overhead issue there that you're gradually going to resolve.

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

Steve, it's a good question. The excess footprint that we have is not connected to London poultry, which is a fresh facility. It's mostly in our Toronto facility, we call it Walker Drive. And we're migrating that footprint from a plant-based business into a category that we have excess demand for and not enough capacity to fill it.

The gross margins, I would tell you, you know, there's a long-term perspective and a short-term perspective. The short-term perspective is more a function of how we migrate the cost of that footprint and the pace at which we do that, because it's a cost-driven issue not a pricing or a category issue. It's a cost issue. And that cost is a function of the pace at which we convert the footprint. We're confident at the pace to be able to achieve EBITDA neutral or better in the short term, which is like the back half of 2023. We will not be satisfied with that outcome, as I said earlier, long term. I think the fair long-term perspective is this is a category, for reasons that you and I have discussed in the past, this is a category that deserves, with a competitive cost structure, deserves a margin in excess of 30%. And we've had that in the past. The category should be able to deliver that and we're confident we can get it back to that level in time, but not fully by the back half of 2023. If we did, then we would way overachieve our EBITDA neutral or better targets.

Steve Arpin — Analyst, Beutel Goodman

No, that's actually perfect. I just wanted to, because, you know, we've got issues with, obviously, food inflation, as people talked about, it prices people out of the category and stuff like that, so I just wanted to get a sense of, you know, is the margin profile okay.

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

We're pretty confident (inaudible) be the case. And we have to look at this with the passage of time. Other participants in the industry, Steve, there are many that are very long-term focused, as we are, that are very sophisticated in their consumer analytics who are very dedicated to this category long term and still committed to plant-based alternatives in time. This is a category that will be with us for a long period of time, it just will grow steadily, not transformatively.

Steve Arpin — Analyst, Beutel Goodman

Great. Second question just on the CapEx beyond sustaining, which, as you've talked about, will probably be in the range of $150 million. I mean one of the differences here is that, you know, when I listen to what you're doing, it seems to me to be relatively low risk and probably quicker payback. Can you just touch a little bit on kind of how that spend actually comes back to you? Because you're not building big plants, obviously.

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

How does it come back to us? Well—

Steve Arpin — Analyst, Beutel Goodman

Yeah. Like in other words, like right now we've been waiting on a massive CapEx program. When you think about your future growth capital, how does it kind of pay back and how much room do you have to sort of to move it up and down based on the opportunity?

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

First of all, we expect, on capital investments like that, to get double digit or more after-tax unlevered returns. So they're very attractive returns, number one.

Number two is we expect to be growing, we have been growing prior to this last inflationary period, but we've been growing in the 6% range over time, and you have to make some investments to grow at that level. A good example being we are going to need more RWA hogs to continue the growth rate that Curtis talked about in sustainable meat, which is margin accretive and revenue accretive. So we need to invest in—we don't get that supply of RWA hogs without some measure of investment, but the returns are very attractive.

So there is some growth capital required to maintain growth rates at 6% or more, Steve, but they're margin accretive and they'll show up in the places that you would expect. Our further processed prepared meats will show up in top line and margin growth because it's very lucrative. Our RWA hog production will show up in top line growth and margin accretion because it's very lucrative. Our kits investment is the single best category that we have in terms of growth rates inside our prepared meats business and is margin accretive. So those are the types of things that we should continue to support. It makes good, smart business decisions for growth to be able to do that and it will show up both in top line and margin.

Steve Arpin — Analyst, Beutel Goodman

Perfect. Thank you.

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

I think that would probably wrap up our time today. We appreciate everybody's engagement. It's an interesting time. We do believe we are at a very important inflection point in our history. We've been at those inflection points in the past and we think we're there today and we hope that we've been able to communicate the essence as to why we believe what we believe over the course of today's discussion. So, look forward to updating you next quarter and as we progress on our business over the next few quarters. Thank you very much for your time today and look forward to the next time. Have a good day.

Operator

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