Maple Leaf Foods, Inc.

First Quarter 2023 Financial Results Conference Call

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PRESENTATION

Operator

Welcome to Maple Leaf's First Quarter 2023 Financial Results Conference Call.

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

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

Michael Rawle — Vice President, Investor Relations and 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 and 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 Q1 2023 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 Q1 investor deck to our website, which includes support material for the quarter. As always, the Investor Relations team will be available after the call for any follow-up questions that you might have.

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

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

Thank you, Mike, and good morning, everyone.

Over my 45 years in the food business, I've endured some pretty stormy and challenging conditions. It's always astonishing to me how timeless the phrase, "It's always darkest before the dawn," is so commonly true. You'll know that we've been expecting a difficult quarter for Maple Leaf beginning in 2023. It's widely recognized that the post-pandemic economy has been difficult for our industry, highlighted mostly by what can only be described as dislocated pork markets, which are, by all measures, unprecedented. Yet, as these conditions persist, our understanding of them, how we navigate them, and our confidence that they won't be with us for long grows by the day.

Here's the high-level summary as I see it in the moment.

Number one, the post-pandemic supply chain disruption, while still a factor in Q1, as we indicated previously, is now behind us. That's very good news. Our people complement is now at normal levels, and this stability is showing up in the normalization of factory performance and customer service into the second quarter.

Number two, we are executing what we hope and what we believe will be our last hyperinflation pricing initiative in the second quarter. The performance of our brands, stable throughout this, has been exceptional, which we feel is an outstanding, long-term health indicator, and, to us, this is totally green light.

Number three, clearly, as you can see in our One Profit in the Pig historical market spread chart in the deck that was circulated, the pork market dislocation persists. What you see, however, are green shoots—or what we see, however, are green shoots of change that are occurring almost weekly now. We're now shipping into China from Brandon, indicative mostly of overall Chinese demand that is accelerating. The European supply is materially contracting, and they've been the largest supplier to China. U.S. exports are accelerating. Margins in Japan are improving, albeit slowly, and there are examples of supply contraction on many, many levels throughout North America. We believe that this dislocation will change as Newton's law of, for every action, there is an equal and opposite reaction, is alive and well in all agriculture.

Fourth, we've made further progress in the first quarter and we're on track for the balance of this year to achieve our milestone of Adjusted EBITDA neutral or better in plant protein. I would remind you this is a milestone only, as our objective is for the plant protein business to be highly profitable like the balance of all of our categories, and we'll get there in plant protein as well.

Finally and critically, our new plant startups are going exceptionally well. As a reminder, we have over $1 billion in brand new assets that are all currently in startup mode, not contributing one penny today, but once complete, in the next few months, will be generating roughly $130 million new Adjusted EBITDA to our business.

Some of you visited London Poultry recently and you saw firsthand what the facility will do. It's a world-class plant and operating very well given its stage in ramp up, with an amazing and experienced team. We're now fully on one single shift of production in that plant, on track, with a second shift over the next six months, with all legacy plants then shut down. Positively, the bacon facility in Winnipeg is now operating ahead of business case design parameters and the only remaining task is on-boarding the new volume into that plant. Notably, the quality of product leaving all of these new facilities has been outstanding.

Here's what I now feel with great confidence. When two things occur, the pork markets normalize and our new plants complete startup, I repeat, when the pork markets normalize and our new plants complete startup, we will be structurally performing at Adjusted EBITDA margin levels at the high end or above our strategic target of 14 percent to 16 percent. I believe that we've provided all of the facts, the insights, and the data for you to arrive at that conclusion as well. This is clearly an inflection year, and our confidence is growing.

With that, I'm going to turn it over to Curtis Frank. Curtis?

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

Thank you, Michael, and good morning, everyone.

It’s certainly an exciting time at Maple Leaf. With this quarter, we moved another step closer to the inflection point in the Maple Leaf journey. Within the first quarter of 2023, both our meat protein and our plant protein businesses performed largely as we expected.

Overall revenues in the meat protein business grew by 5 percent, driven by pricing, which was partially offset by lower volumes. Our meat protein business has proven exceptionally resilient despite the persistence of inflationary pressures. Our top line continues to grow, led by the strength of our consumer-packaged goods brands, and overall, the magnitude of volume declines we have experienced following price increases has been right in line with what we had predicted.

Momentum in our sustainable meats portfolio continued, with sales growth in the prepared meats and in the poultry segments where our brands, Greenfield and Prime, grew at a double-digit pace. This includes strong growth in our U.S. prepared meats business, led by the Greenfield brand.

From a market share perspective, we continued to grow share in branded poultry, which sets us up well for London Poultry. While our market share was down very slightly in prepared meats, we did see excellent performance, with share expansion in the bacon and lunch kit categories.

Our Adjusted EBITDA margin in meat protein for Q1 was 7.6 percent, and while this is 100-basis points improvement from the fourth quarter, margins remain below our 14 percent to 16 percent margin target in the short-term as our business continues to be impacted by the transitory and post-pandemic factors of dislocated pork markets that are continuing into Q2, supply chain inefficiencies that will be resolved in Q2, and sustained inflation that will be priced for in Q2. Excluding these short-term factors, we continue to feel confident that we are operating in and around the lower end of our

Adjusted EBITDA margin target now, with the underlying business remaining healthy. Just as a reminder, we do see some seasonality in our Adjusted EBITDA margins, as Q1 and Q2 tend to be structurally lower than Q3 and Q4. As a result, you will see in our presentation materials that we have bridged our margin to a 13 percent margin in terms of an expectation for Q1.

Pork market conditions clearly continue to be the headline story in the moment. They actually worsened in Q1, once again, pressuring our results in the near term. We estimate that pork markets, including the Japan impact, resulted in a 340-basis point headwind this past quarter. As Michael said, you can really see the full effect of the pork markets if you refer to our One Profit in a Pig slide on the deck on our website. You will clearly see what is happening here. The spread between the cost of raising a hog and the value of its meat is still significantly negative, and we don't see that abating in Q2.

That said, we do see evidence that the markets will move back into balance and return to more normal conditions, as we outlined earlier. China is opening to imports; U.S. exports are growing; hog inventories are declining in Europe; and several industry participants are shutting down production worldwide, including here in North America.

In Q1, we saw the Japanese market performance improve relative to Q4. This favourably impacted Adjusted EBITDA margin by about 80-basis points in the first quarter, although we still experienced a 70-basis point headwind as compared to five-year averages. The sequential improvement is a result of global exports opening up, freight cost declining, and pricing actions in the market starting to take effect. Over the coming quarters, we expect to see continued improvement in the Japan market.

Within our supply chain, we continue to see a stabilization and move toward full recovery. In Q1, we experienced a sequential improvement of 80-basis points from the previous quarter, and we closed over 50 percent of the gap that we had in Q4. More importantly, we now expect the 60-basis point headwind to be fully normalized and the conditions that we saw in Q1 to be fully mitigated by the end of Q2, as we have made material progress in on-boarding, training, and retention, which has positively impacted operational efficiencies and service levels.

We did experience more inflationary pressure in the first quarter, largely driven by higher poultry feed costs that we discussed last quarter, as well as additional packaging, ingredients, and labour costs across our prepared meats business. Combined, these costs pressured margins by 120-basis points within the quarter. In response, we have already communicated price increases into the market that we expect will fully offset this headwind by the end of Q2. It is important to note that while we are confident in our ability to price for inflation consistently and effectively, as we have said many times, we do not price for inflation that may or may not materialize; we price for inflation that we actually incurred. As a result, a pricing lag like this is normal for our business, and there can be a quarter or so for us to fully realize the complete benefits of our pricing actions.

Looking ahead to the second quarter, we expect a moderate sequential improvement in margins. While the pork markets deteriorated in April, we do continue to see Adjusted EBITDA margins benefiting from improved markets in Japan, a supply chain that has recovered, and the benefits of pricing actions that are being taken within this quarter. To sum things up on the meat protein side, our brands are proving resilient; our sustainable meat and brand strategies are enduring; our U.S. growth strategy is attractive; and we are operating, excluding short-term factors, within our long-term expectations. By the end of this year, we expect to complete the startup of our London Poultry plant, complete the startup of our Bacon Centre of Excellence, and achieve Adjusted EBITDA neutral or better in our plant protein business. While we can't predict the precise timing, we continue to see accelerating green shoots, suggesting a pork market normalization is on the horizon. We are, in fact, another step closer to the inflection point.

Moving on to the plant protein business now, our focus here remains unchanged. We are on track to achieve Adjusted EBITDA neutral in the latter half of this year as we transition the business model to profitable growth. In Q1, as planned, we further reduced Adjusted EBITDA losses by 63 percent on a year-over-year basis in U.S. dollars. This continued improvement is based on the decisive actions that we have taken over the past year to significantly reduce SG&A, to right-size our advertising and promotional spend, and also reflects the headway we have made in adjusted our manufacturing footprint.

The remaining gap will be closed over the balance of the year with improvements in gross margin and driven by five key initiatives: continued optimization of our manufacturing footprint and plant operating costs, including repurposing capacity for further processed production where we have excess demand; product cost savings and formula optimization; a redesign of our outbound distribution model; revenue management discipline through pricing as required; and further reducing discretionary costs as needed.

Turning to our capital projects, we are super excited about the starting momentum we have at the London Poultry facility. Hiring and production milestones have all been achieved, and we are completely confident that we are on track to deliver our business case. During the first quarter, we fully transitioned all production of the first legacy plant into London, and by the end of April, we had moved over the second one, our legacy plant in Toronto. These transitions are extremely complex, and we are very proud of how our team has executed here.

As Michael mentioned, we have two more plants, Brampton and Schomberg, that we will be transitioning over into London this year, and we expect those transitions will be completed on time before the end of the fourth quarter.

When fully ramped up, the London Poultry facility will add $100 million of Adjusted EBITDA annually. The benefits, as a reminder, come from a more profitable product mix, improved bird utilization, increased operating efficiency, and creating additional capacity to meet consumer demand for higher-margin, value-added poultry over the years ahead.

We are also on track at our Bacon Centre of Excellence, as production rates are accelerating, and the on-boarding of new customers continues in parallel. This facility will deliver an incremental Adjusted EBITDA annually of $30 million when it is fully ramped up, with the benefits coming primarily from improved operating efficiency and incremental capacity to meet high demand for precooked bacon.

With these two projects expected to hit their business case by the end of the year, Maple Leaf Foods will be turning the page into the next chapter of its journey as we move from investing in key projects to drive long-term growth and margin expansion to realizing the benefits that these world-class assets can ultimately deliver.

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.

I will begin by discussing the Company's consolidated performance for the first quarter, and I will then turn to a more detailed look at both our meat and plant protein groups. I will conclude by speaking to some of the key financial metrics, capital expenditures, and our outlook for 2023.

Sales in the quarter were $1.2 billion, an increase of 4.3 percent from last year, as favourable pricing and mix in the meat protein business and favourable foreign exchange were partially offset by lower volumes and lower plant protein sales. Pricing actions implemented to mitigate inflation more than offset lower volumes.

Adjusted EBITDA was $75.3 million, an increase of $8.5 million from last year. This increase was driven by improvement in the plant protein segment and price increases, partially offset by market headwinds in the pork complex and in Japan. The Adjusted EBITDA margin was 6.4 percent, an increase of 50-basis points from last year.

Net earnings in the quarter were a loss of $57.7 million or a loss of $0.48 per basic share compared to earnings of $13.7 million or earnings of $0.11 per basic share last year. After removing the impact of the non-cash fair value changes in biological assets and derivative contracts, as well as startup expenses and restructuring costs from both periods, adjusted earnings were a loss of $0.12 per share for the quarter compared to earnings of $0.03 per share last year.

I'll now turn to a discussion of Maple Leaf's two operating segments.

Sales in the meat protein segment increased 5 percent to $1.1 billion in the quarter. This increase was driven by pricing action implemented in prior quarters to mitigate inflation and structural cost increases, and a favourable mix shift and favourable foreign exchange rates, partially offset by lower volumes.

Meat protein Adjusted EBITDA was $87.3 million compared to $97.5 million in the prior year, or a decrease of $10.2 million. This decrease was driven by market headwinds and cost inflation, partially offset by pricing actions. Adjusted EBITDA margin for the meat segment was 7.6 percent, a 140-basis point decrease from last year.

Turning to plant protein, sales were $37.4 million, a decrease of 22 percent in constant currency compared to the same quarter a year ago. The decrease was driven by lower volumes the entire category has contracted, partly offset by pricing actions to offset inflation. Plant protein gross margin was a negative 8.7 percent in the quarter, an improvement of 530-basis points year-over-year. The increase in gross profit was driven by price increases, operational improvements, and a reduction in startup expenses, partially offset by challenges from lower volumes.

SG&A expenses in plant protein were $13.5 million, a decrease of approximately $17.3 million from a year ago, driven primarily by lower advertising and promotional expenses, as well as by lower people costs. Sequentially, SG&A decreased approximately $2.3 million from last quarter.

Plant protein Adjusted EBITDA came in at a loss of approximately $12 million, which is a 61 percent improvement or 63 percent in U.S. dollars from a year ago.

In total, during the quarter, we invested $52.6 million in capital expenditures.

On the balance sheet, net debt increased to approximately $1.7 billion. This debt is primarily relating to over $1 billion in construction capital we have invested in the London Poultry facility, our Bacon Centre of Excellence, and the new Tempeh facility in Indianapolis.

As we close the chapter on the construction of these large and lucrative long-term investments, we look forward to using the cash flow towards other capital allocation priorities such as reducing our debt levels, investing in other growth opportunities, continuing to grow our dividend, and returning capital to shareholders.

I'll wrap up with an outlook for our business for the remainder of the year 2023.

In meat protein, we expect mid-to-high single-digit sales growth in 2023 driven by continued momentum in sustainable meats, brand leadership, and growth into the U.S. market. In normalized markets, we would expect to achieve Adjusted EBITDA margin expansion in a 14 percent to 16 percent range.

In plant protein, we expect to achieve Adjusted EBITDA neutral or better in the latter half of 2023. Furthermore, we expect at least 50 percent improvement, again, in Adjusted EBITDA losses in the second quarter of 2023 versus the same period last year.

Our CapEx expectations for 2023 remain unchanged, and we expect total CapEx to be less than $250 million. Up to $120 million of this will be maintenance capital, with the remainder being growth capital. This growth capital would include, among others, an increase in processed poultry capacity at our Walker Drive, Brampton plant to meet a pipeline of demand that has attractive growth and margin prospects. We also foresee capacity expansion in our high-margin snack kits business.

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

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

Thank you, Curtis, and thank you, Geert.

I stated earlier in the call that Maple Leaf is at an inflection point in the business and I'm confident in our future, and in some ways today, our future is here. Our annual meeting is occurring later this morning, and as I announced last year, this will be my last annual meeting of shareholders as Chief Executive Officer. I will step aside as CEO and remain as Executive Chair of Maple Leaf Foods. As of today, Curtis Frank will officially become the Chief Executive Officer. Curtis and I have worked hand-in-hand in this business for many years, and no one knows this business and its operations better than he. I have no doubt that Curtis will continue to be a stalwart of Maple Leaf people and culture and will serve to accelerate and elevate our journey to become the most sustainable protein company on earth.

My family remains deeply committed to Maple Leaf Foods and will remain as its largest shareholder through McCain Capital. I will continue to serve as Executive Chair, working constructively with Curtis and the Board to create an even more amazing future.

When my family and I came to Maple Leaf in April of 1995, this was a rag-tag of business activities pillaged by the curse of excessive short-term interest and on the edge of demise. It was hard to find anything going well at the time, except for a cadre of deeply passionate people who cared about a better future.

It takes a very long time to build a great business. In over 28 years, we are now a world leader in our industry. We have a powerful and broadly recognized culture populated by the industry's best. We have a collection of vibrant, forward-position brands with enduring brand strategies. We've invested over $2 billion in new assets from our people needs to the best tools, and we have a compelling vision to make a difference in the world for all of Maple Leaf's stakeholders.

When I started at Maple Leaf almost three decades ago, the world was a very different place and the challenges, while many, were perhaps not as profound as they are today. That's why our journey at Maple Leaf and the blueprint for success has never been more important than it is right now. Grounded by our purpose to raise the good in food, our vision to be the most sustainable protein company on earth, is inspiring and enduring. I could not be more thankful or prouder of the team that we have, the resilience that they've shown over decades, and the integrity that they demonstrate every day.

I would also like to thank everyone on the call today, the capital markets. You've been with us on this journey; you've challenged us; you've applauded us at times and worked with us all the time. Of course, today is an emotional day for me personally, but transitions like this are important to our future.

It is now my pleasure for the very last time to open the call up to questions, which Curtis Frank will be leading. Curtis?

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

Thank you, Michael.

Operator, I think it's appropriate to open the call to questions, please.

Q & A

Operator

Thank you, sir. (Operator Instructions) Your first question will come from Derek Dley. Please go ahead.

Derek Dley — Analyst, Canaccord Genuity, Inc.

Yes. Hi. Good morning, everyone, and Curtis, congratulations on the official new title, and Michael, congratulations on your transition. I just want to talk about the inflationary impact that we've seen here in Q1. It looks like it accelerated a little bit versus what you had anticipated at the end of Q4, or when we had the Q4 call, so I'm just wondering, in terms of pricing, do you believe you have pricing in place for the remainder of the year, absent Q2. When we think about the back half of the year, do you feel you're appropriately priced at this moment for inflation?

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

Hi, Derek. Thanks for the kind words, and good morning. I would say that at this stage, we do feel like we're adequately priced coming out of the second quarter. You'll recall when we had our last checkin and discussion following our Q4 results, we had communicated that we needed more pricing in poultry, and that, within the quarter, Q4 for prepared meats, we were on track. We knew there was more inflation coming in the prepared meats business as we turned the calendar. I think it's exactly how things played out.

We did see that increased level of inflation in the first quarter, and we've already moved to advance our pricing in April in our poultry business, in May in our prepared meats business, and at this stage, with everything we know today, we think that the end of the hyperinflation era is coming soon or we've reached that point and we should move into more normalized levels of inflation. I would summarize by saying, yes, at this stage, we believe we've taken adequate pricing to cover our needs coming out of the second quarter, but, of course, if it turns out that we're incorrect and there's more needed, we'll take actions from there. At this stage, we feel like we're pretty well-positioned.

Derek Dley — Analyst, Canaccord Genuity, Inc.

Okay, great. That's helpful.

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

Sorry, Derek, the one thing I should add—pardon me, the one thing I should add is you'll see the full benefits of that pricing in Q3. It comes in mid-quarter in Q2, the full benefits will obviously show up in the third quarter. We will get some sequential recovery from where we are today in the second quarter, but we won't get the full quarter of the benefit.

Derek Dley — Analyst, Canaccord Genuity, Inc.

Yes, no, understood. Then when we think about the pork processor spread, just looking at the chart here on Slide 11, what level of spread are you guys assuming in your forecast to get to the low end of that 12 percent to 14 percent margin? Are we just going back to what looks to me like a historical average of around $10 a hundred weight, or how should we think about what’s needed to drive those margins into that range?

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

Yes, great question, Derek. Thank you. The best way to think about that and the way we reconcile it is to a five-year average.

Derek Dley — Analyst, Canaccord Genuity, Inc.

Okay, and what is that number?

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

Based on the chart, it's in and around—I don't have the precise math here, but based on the chart, you're right, it's in and around $10.

Derek Dley — Analyst, Canaccord Genuity, Inc.

Oh, yes. Yes. Okay. Okay, great. Thank you very much.

Operator

Your next question comes from Mark Petrie. Please go ahead.

Mark Petrie — Analyst, CIBC World Markets

Yes. Good morning. Thanks. I'll add my congratulations to you, Michael, on a fantastic career and contributions here, and to you, Curtis, as well, on the expanded role. Could you talk a little bit about sort of what behaviour you're seeing from consumers, and I guess specifically around the reaction to price increases and how that's evolved over the last few months. Does it vary across categories or maybe geographies?

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

Okay. Thanks, Mark. Yes, I'll give you a little bit of context. The headline would be we've been very happy with how our brands have held up in the face of such significant inflation over the past number of quarters. Our volume is down slightly, kind of low to mid-single digits, and relative to what we've seen from competitors in North America, primarily south of the border. That's a very positive outcome, we're continuing to see revenue growth. Our sales declines are right in line with what we would have expected from an elasticity point of view, we've been really, really happy with the consumer response on the Brandon side.

Our share is down very slightly in the last quarter. In aggregate, that's not to be unexpected. With the number one and number two brands in the category, we tend to lead pricing. There tends to be a short-term implication to a volume and market share recovery, and then, naturally, we recover from there. To date, our experience has been really, really positive both in the Canadian and U.S. market.

Interestingly, in the United States, we did see growth both in the prepared meats business in the U.S. driven by our Greenfield brand, which is the more premium offering we have in the U.S. We're not seeing any signs at this stage that our brand penetration is slowing down in the United States, predominantly on the RWA front within our core prepared meats business. Then the last thing and maybe add just for more colour, it's always hard to tease apart, Mark, the supply chain implications, because service hasn't been perfect, as you know, over the last couple of quarters and its implications to volume performance. It's not just the consumer and pricing headwinds. There's also the supply chain complexity and noise that's embedded in there as well. In some cases, we've had feature moratoriums where we've removed features completely to restore the health of the supply chain. I think that's positive for the consumer impact moving forward and the volume response moving forward, and then, of course, we're taking another round here in April and May, and there's more work to do yet. Is that helpful?

Mark Petrie — Analyst, CIBC World Markets

Yes. Yes, that is helpful, and maybe you touched on it, but just to be clear, you're not really seeing any material shift with regards to sort of consumers shying away from some of the higher price point product and I guess specifically sort of the sustainable meats brands, and maybe just a comment on sort of private label penetration that you're seeing in the evolution?

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

Yes, sure. I'll take the first one first, if that's okay. Interestingly, just kind of in reviewing the quarter, our sustainable meats business was up in our prepared meats business, driven by our

Greenfield brand, which is our premium offering. We actually had 9 percent sales growth in the Greenfield brand, Mark, 9 percent, and in poultry, where our prime RWA brand is kind of the flagship, a leading RWA brand, we actually had, I think, just a little bit less than 20 percent growth. Our premium offerings actually performed really, really strong within the quarter. We're really quite happy with that. There was a second part of your question, sorry, I didn't catch it. Oh, private label penetration.

Mark Petrie — Analyst, CIBC World Markets

Private label. Yes.

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

Yes, when I said there was a little bit of market share leakage in the first quarter, it was to private label, and again, that's not abnormal as we're advancing pricing in an inflationary environment. We're really confident that, over the course of time, our shares will stabilize and normalize here. There were two really important categories that are important volume and profit-driving categories for us. They both play a role, which is bacon and lunch kits, and in those two categories, our market share was actually up.

Mark Petrie — Analyst, CIBC World Markets

Yes, understood. Okay, helpful, and then just last one, just to clarify, can you just help us with the timing of how the $30 million of benefits from the bacon facility will be flowing through? How should we think about that for Q3, Q4, specifically?

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

Geert, maybe you'd take one.

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

Yes, sure, good morning, Mark. This is Geert. The way you should look at it, we always guided for us getting up to ramp speed or cruising speed with that facility in the second half of the year. I think the $30 million or full annual effect of $30 million you should start baking in from next year, but you should start to see some trickling in of those benefits in Q3 and Q4, full ramp speed—full annual impact for the fiscal 2024.

Mark Petrie — Analyst, CIBC World Markets

Understood. Appreciate the comments. Thanks.

Operator

Your next question will come from Peter Sklar. Please go ahead.

Peter Sklar — Analyst, BMO Capital Markets

Curtis, good morning. Just looking at the performance in the meat protein group, given this big negative spread we're seeing in the pork complex, particularly the producer margin. We saw the results out of Tyson and Smithfield, like the results in your meat protein group, really, I thought were quite good in comparison to that backdrop and how the others reported. I'm just wondering if you want to talk a little bit about why your performance was, I thought, relatively strong given these headwinds? Is it the fact that you source 60 percent of your product rather than raising it on the farms in Manitoba? Is it hedges? Is it the mix of poultry in there performing? Just talk a little bit about the performance, and when you look at that chart, you think it might have been much worse.

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

Yes. We've been obviously paying careful attention to the competitive dynamics and the market dynamics, Peter, so thank you for the question. It's a great one. I'd start by saying what's really important for us, and should put this at the forefront, is the portfolio of Maple Leaf is really powerful. The fact are that we are not a commodity-based business, and you've seen the implications maybe south of the border from one of our peers who's got more of a commodity mix, certainly, than Maple Leaf. Sadly, just given pork market conditions, we haven't been talking as frequently about the parts of the business that we're most excited about, which is the branded and consumer packaged goods components of our business that you see in our prepared meats business and in our poultry business, where we've had continued strength. I think it just speaks—those results speak to the performance of the business overall, the fact that we are a branded value-added business at our core, and I think that allows us to have a little bit of separation in environments like this.

Now, I'll close by saying that doesn't mean we're satisfied with the results. We have a higher expectation of the business, as you know, stated in our margin targets. We're completely committed to delivering on those. I guess it's, yes, the others are underperforming, but we have higher expectations of ourselves.

Peter Sklar — Analyst, BMO Capital Markets

Right, and as I look in the slide deck on Slide 11, which is showing that big negative margin in the pork complex, incrementally now as we're rolling through April and May in the second quarter, are you seeing that improving at all?

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

I mentioned in my comments that in the second quarter it actually is not improving. That level of dislocations continued into the second quarter, just would offer full transparency. We continue, as we said, to see positive indicators looking forward that we will see a recovery. I'm not in the business of predicting when that will happen. We've been really reticent and resistant to do that.

If you look at the chart, though, Peter, what's shocking is we've had, whatever, five, six months now of negative spreads between the cost of production and the value of the meat, and that's only happened in four months in history in the last 10 years. You can see how quickly the markets recovered normally in these types of environments. We're not in a normal position. It's very difficult to predict, but with Chinese demand growing, U.S. exports increasing, and production capacity across the world being cut, we do expect that there'll be a recovery here, obviously, at some stage back to five-year market conditions or higher, which is typically the reaction you get if you look at the chart again closely and study it over the last decade. At this stage, we're going to resist making a prediction as to when.

Peter Sklar — Analyst, BMO Capital Markets

Okay. Thanks for your comments.

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

Thank you.

Operator

(Operator Instructions) Your next question will come from Michael Van Aelst. Please go ahead.

Michael Van Aelst — Analyst, TD Securities

Thank you, and good morning. I'd like to start with poultry and try to get a sense similar to Mark's bacon question, but how long after the transition of the legacy plants does it take to eliminate those startup costs and start seeing the benefits?

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

Mike, that would be—good morning. This is Geert. That will be a similar answer as for the Bacon Center of Excellence, I would say. The startup expenses, in essence, if you think about what it is, it consists of double overhead that we're running, because we have one new plant and four old plants, and then for the rest of costs related to incomplete runs, inefficient runs, yield differences, etc. As soon as we close those legacy plants, you will see a substantial part of that—I mean, that entire overhead is going to go away. We are planning to have all the plants converted or closed down and moved into London by the end of this year, so that part will be completely gone. We predict that that (audio interference) will be fully in our numbers in fiscal 2024.

Michael Van Aelst — Analyst, TD Securities

Should we expect by Q1, you're getting the full benefit as we enter Q1?

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

Yes, we should.

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

Yes.

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

Keep in mind, Mike, the largest chunk of the benefits come from consolidating those four facilities into one. Everything's on track. We expect that to be completed, obviously, before the end of the year, and then the labour and yield variances are secondary to that. At this stage, we also expect that to be on track. It's a startup. There can be things that happen along the way, but our experience so far has been extremely positive at London relative to other startups.

Michael Van Aelst — Analyst, TD Securities

Yes. It seems that way. Okay, and then you also talked about lower advertising and promo spend on the meat side. Is that being done to try to offset some of the short-term cost pressures until the price increases kick in, or is it less competition and therefore you don't need to spend as much? What's behind that?

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

That's just purely timing. There's been no actions taken in our meat protein business to take our foot off the gas with respect to the brand investments we make to support growth in our brands. I think our recipe and playbook’s been entirely successful over the past couple of years and that you should expect that to continue. That's just purely timing, seasonality, Mike.

Michael Van Aelst — Analyst, TD Securities

Okay, great. Then on the plant-based side, you gave similar guidance as you gave for Q1, down 50 percent year-over-year and there are losses down 50 percent year-over-year. You did better than that in Q1. If you just hit that in Q2, then you're taking a step back, though, because your Q1 and Q2 profits last year were pretty similar. Should we be expecting some sequential improvement as well, and if not, why not?

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

Mike, this is Geert again. I don't think we should expect sequential improvement. There's year-over-year improvement. There's timing effects in terms of spend throughout the year at play, but at the same time, we're confident that we can get to the Adjusted EBITDA neutral by the end of the year. That's what we're aiming for. We just gave you—we wanted to give you an indication of where we're headed for Q2, but we don't want to get into sub-P&L line level of guidance at this point.

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

Yes, consistent with the previous question, there is an ad and promo timing. That's important in the plant protein business. That's a little bit counter-cyclical to the meat as well, so I think what Geert said is completely accurate.

Michael Van Aelst — Analyst, TD Securities

Okay. That makes sense. Thanks very much.

Operator

There are no other questions. I will turn the conference back to Mr. McCain for closing remarks.

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

Thank you very much, everybody, and it's been quite a ride. Thank you for your support over many, many years, and I appreciate that we've got an extraordinary Chief Executive Officer running Maple Leaf Foods as of end of day today. I'm sure you'll enjoy your engagement with him even more than you did with me, so there you go. Have a great day, and we look forward to speaking, as this—I won't, Curtis will, as this year unfolds. Thank you very much for your support and interest in the Maple Leaf story. Have a wonderful day.

Operator

Ladies and gentlemen, this does conclude your conference call for this morning. We would like to thank everyone for participating and ask you to please disconnect your lines.