FINAL TRANSCRIPT

Maple Leaf Foods Inc.

Second Quarter 2023 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 second quarter 2023 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 and Treasury, Maple Leaf Foods Inc.

Thank you, Chris, and good morning, everyone. Speaking on the call this morning will be Curtis Frank, President and Chief Executive 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 Q2 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 Q2 investor deck to our website, which includes support material for the quarter. As always, the Investor Relations team will be available after the call for any follow-up questions that you might have.

And with that, I will now turn the call over to Curtis Frank. Curtis?

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

Thank you, Mike, and good morning, everyone. As you know, this is my first official earnings call since stepping into the role of CEO of Maple Leaf Foods, and I can tell you I'm super energized and excited about leading our team into the next chapter of delivering shared value.

With our leading portfolio of consumer packaged goods brands, world-class assets, a values-based culture grounded in extraordinary people, and a purpose that is creating both business and social value, we will build on Michael's remarkable legacy of establishing Maple Leaf Foods as an iconic Canadian food company.

Today, we are closing in on the next inflection point in our journey as we take another step forward towards delivering on the 14 percent-to-16 percent adjusted EBITDA Meat margin target that we established back in 2017 while executing our playbook on our journey as a purpose-driven, globally admired, and brand-led CPG company.

Let me expand on this. As the balance of the year plays out, we are firmly focused on stabilizing and improving the financial performance of our business in this post-pandemic economy. We are making excellent progress, which you will hear about as we unpack our Q2 results here today, and we expect to continue to make further progress in the second half of this year.

At the same time, we are ready to realize the benefits of the multiyear capital investments we have made to build two world-class facilities, one at London Poultry, and one at our Bacon Centre of Excellence in Winnipeg. With the ramp-up of these two facilities expected to be fully complete by the end of this year, they will contribute $130 million of incremental adjusted EBITDA on an annualized basis.

Now, let's not forget, we're also on track in our Plant Protein business to meet our goal of achieving adjusted EBITDA neutral or better by the end of 2023 as we close out the pivot in our Plant Protein business from investing for growth to delivering profitable growth.

And as we finish putting all of these building blocks together, that is, executing on our strategy to deliver financial results, completing the London Poultry start-up and completing the Bacon Centre of Excellence start-up, as well as delivering adjusted EBITDA neutral or better in our Plant Protein business, we will naturally deleverage and demonstrate the strength and resilience of our balance sheet as well.

Looking out beyond this year and into 2024 and the years that follow, we will turn our attention to capitalizing on the strength of the platform that we have built. To accomplish this, we will win with our leading brands via constant innovation and renovation, including continuous new product development and investing in our portfolio of brands.

We will leverage our supply chain as a competitive advantage with a relentless focus on driving efficiency in our business, achieving operational excellence across our network, optimizing our capacity utilization, and driving our costs through technology and automation, all as a continued source of fuel for profitable growth.

We will broaden our reach and continue our geographic expansion into the US, building on our success to date with our Greenfield Natural Meat Company brand and our enviable position in sustainable meat production as well as pursuing strategic, tuck-in acquisitions with discipline and tactical precision to deliver value to our stakeholders.

We will leverage and monetize our leadership and sustainability, which is embedded in everything that we do, including growing our sustainable meats portfolio, making simpler food with more natural ingredients, leading in animal welfare, reducing food insecurity in Canada, achieving 100 percent sustainable packaging, and being a carbon neutral company. And, of course, we will accomplish all of this with the engagement and collective strength of our values-driven, diverse, and purposeful people.

As I trust you can tell, I am excited about the future of Maple Leaf Foods, and I look forward to sharing regular updates with you as we make progress on our journey in the months, quarters, and years ahead. Our blueprint is clear, and we have the right team and the right plan in place to achieve our ambitious agenda.

So with that as context, I'll go ahead and turn to the details of our results for quarter two.

This past quarter, we took another meaningful step forward, clearly demonstrating the strength of our brands, the agility of our teams, and the soundness of the execution of our strategy. In the quarter, we delivered growing revenues while expanding adjusted EBITDA margins in our Meat Protein business, and we executed the structural changes required to achieve adjusted EBITDA neutral or better later this year in our Plant Protein business.

I'll start with Meat Protein, where we delivered revenue growth of 6.6 percent compared to last year, and the performance of our brands continues to be very resilient. Despite the inflationary environment and the broader market experiencing some level of trade-down, our brands performed extremely well.

As we grew branded sales, we grew branded volume, and we grew branded market share this past quarter in our Prepared Meats business. To continue the momentum, we also launched a new innovation in the Schneiders sliced meats and with Maple Leaf Natural Selections' simple ingredients, a new line of delicious, sliced meats that are made with no more than five wholesome, simple ingredients such as choice cuts of meat, water, and sea salt.

Meat Protein adjusted EBITDA margins of 9.3 percent also improved sequentially and also year over year.

On our last call, we said that we were on track to eliminate supply chain headwinds by the end of the second quarter, and we have accomplished that task. By the end of Q2, we fully stabilized our supply chain with vacancies back to target, service levels back on track, and product cost variances back within normal ranges, which is evident and reflective of our margins improving.

On our last call, we also said that we would be out in the market implementing price increases within Q2 for fresh poultry and prepared meats, and we have done that as well. We implemented a price increase in April and May. And as things stand today, I am comfortable that we are priced for today's inflation.

Since the pricing actions were not in effect for the full quarter, Q2 was impacted by approximately $7 million or 60 basis points of pricing headwinds, which is half of what we faced in Q1, and we expect this variance will be mitigated in full in the third quarter. But, of course, if inflation increases and more pricing is required, we will move to respond accordingly.

We also made progress in our Japanese pork business where margins improved as a result of pricing, along with freight cost reductions, which together enabled us to reduce the headwinds we felt in Japan with $5 million or 40 basis points of impact in the quarter, an improvement of $3 million or 30 basis points from Q1.

As we have previously shared, one of the factors we do not control is pork markets. During the quarter, pork markets continued to be severely dislocated, where the cost to raise a hog significantly exceeded the value of the meat or the cutout. In fact, pork markets deteriorated further in the quarter relative to Q1, and these circumstances reduced our adjusted EBITDA by at least $33 million in the quarter or 270 basis points, as compared to a five-year average.

While these temporary market conditions are certainly painful, we remain certain that markets will return to equilibrium as they always do. We continue to see green shoots of positive change. For example, in July, for the first time in eight months, we have seen markets begin to ease with the value of the meat moving above the cost to raise a hog. We certainly hope this is a sign of positive things to come.

On the capital projects front, our new world-class facilities are ramping up incredibly well. We are focusing on onboarding new volume and business at our Bacon Centre of Excellence. And at London Poultry, we have now fully transitioned and closed two legacy facilities, St. Marys and Toronto. The Brampton plant transition is more than halfway complete, and the volume transition from a copacker is well underway at present. The final plant, Schomberg, will transition into London in Q4 of this year.

I have to tell you, we just had our six-month operations review at the London plant a couple of weeks ago, and I was super excited by what I heard and what I saw. In the first six months of start-up, we have de-risked our onboarding schedule, and, over the coming months, our focus will pivot to improving our operational efficiencies as we complete the full transition of capacity and people to the plant.

Hiring is completely on track at London, and we now have approximately 1,300 people on site out of an eventual 1,600 roles that will be filled. We are already processing approximately 250,000 birds per day at London, which reflects about 75 percent of the expected volume by year-end across 300 SKUs. And our fill rates are excellent.

We cannot stress enough how proud we are of what our team has accomplished at our London facility. They have done an awesome job in onboarding new people while systemically transferring production volume from our legacy network into this new and technologically advanced facility. It is simply remarkable.

So to conclude on the Meat side, excluding the transitory factors of pork markets that I just described, we are executing well and operating with a very healthy underlying Meat Protein business. We made progress in margin expansion in Q2 from Q1 and, with a full quarter of pricing and the early signs of pork market conditions starting to improve, we expect to make similar sequential progress in Q3 from Q2 as we migrate toward delivering within our operating model range of 14 percent to 16 percent adjusted EBITDA.

In Plant Protein, we continue to make steady progress toward profitability, improving our adjusted EBITDA by 63 percent over last year with a loss of US$8.7 million. We have a line of sight to close this gap to breakeven, and we fully expect to get there in the second half of this year.

To support this objective, we have made additional organizational changes early in the third quarter, and we continue to make progress on improving gross margins by repurposing plant-based footprint to opportunities in our Meat Protein business and implementing other product cost-savings initiatives. In short, we are executing on our plan to position Greenleaf for sustainable, profitable, long-term growth.

Lastly, I would like to take the opportunity to put this all into perspective. In 2022, our consolidated adjusted EBITDA was about $273 million. We are now ready to add to that in a very material way. Our pricing has caught up to today’s inflation. Our supply chain is back to normal. Pork markets are showing signs of beginning to normalize, as they always do.

We will exit 2023 with our London Poultry and Bacon Centre of Excellence plants contributing at an annualized run rate of approximately $130 million in incremental adjusted EBITDA on top of what we delivered back in 2022. And in our Plant Protein business, we will move from adjusted EBITDA at a loss of approximately $105 million in 2022 to adjusted EBITDA neutral or better by the end of 2023. This is how we define our next inflection point and why we are so excited about our collective future.

I will now turn things over to Geert and come back with a few concluding comments before we launch into Q&A. Geert.

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

Thank you, Curtis, and good morning, everyone. I will begin, as usual, by discussing the Company's consolidated performance for the second quarter. I will then turn to a more detailed look at both our Meat and Plant Protein Groups. I will conclude by speaking to some key financial metrics, capital expenditures, and our outlook for 2022.

Sales in the quarter were $1.3 billion, an increase of 6.2 percent from last year, as favourable pricing, volume, and mix in the Meat Protein business and favourable foreign exchange were partially offset by lower Plant Protein sales.

Adjusted EBITDA was $103.1 million, an increase of 39 percent from last year. This increase was driven by an improvement in both the Meat Protein and Plant Protein segments. The adjusted EBITDA margin was 8.1 percent, an increase of 190 basis points from last year.

Net earnings in the quarter were a loss of $53.7 million, or a loss of $0.44 per basic share, compared to a loss of $54.6 million or a loss of $0.44 per basic share last year.

After removing the impact of the non-cash, fair value changes, and biological assets and derivative contracts as well as start-up expenses and restructuring costs from both periods, adjusted earnings per share were $0.00 for the quarter compared to earnings of a similar $0.00 per share last year.

I'll now turn to a discussion of Maple Leaf's two operating segments, and let's start with Meat.

Sales in the Meat Protein segment increased 6.6 percent to $1.2 billion in the quarter, and this increase was driven by pricing action implemented in prior quarters to mitigate inflation and structural cost increases, favourable product mix shift, and increases in volume, as well as favourable foreign exchange rate impact.

Meat Protein adjusted EBITDA was $115.3 million compared to $104 million in the prior year, or an increase of about $11 million or 11 percent. This increase was driven by pricing action and mix, partly offset by market headwinds and cost inflation.

Adjusted EBITDA margin for the Meat segment was 9.3 percent, a 30-basis point increase from last year and 170-basis point sequential improvement versus the first quarter of this year.

Turning to Plant Protein, sales were $36.7 million, a decrease of $14.5 million in constant currency compared to the same quarter a year ago. The decrease was driven by lower volumes, as the entire category has contracted, partially offset by pricing actions to offset inflation.

Plant Protein gross margin was at negative 5 percent in the quarter, which is an improvement of almost 20 percentage points year over year. The increase in gross profit was driven by price increases, operational improvements, and reduction in start-up expenses, partially offset by the challenges from lower volumes.

SG&A expenses in Plant Protein were $14.4 million, a decrease of approximately $11.9 from a year ago, driven primarily by lower advertising and promotional expenses, as well as by lower consulting and people costs. As a result, Plant Protein adjusted EBITDA came in at a loss of approximately $11.6 million, which is a 61 percent improvement, or 63 percent in USD, from a year ago.

In total, during the quarter, we invested approximately $53 million in capital expenditures, consisting of about $33 million in growth and $19 million in maintenance CapEx.

The balance sheet, net debt increased to approximately $1.8 billion.

As we close the chapter on a sustained period of capital investment, we're looking forward to using the cash flow towards other capital allocation priorities such as, first and foremost, reducing our debt levels, investing in other growth opportunities, continuing to grow our dividend, and returning capital to shareholders.

In the second quarter, we amended our existing sustainability-linked credit facility to include the addition of a $400 million, one-year term loan tranche. This will provide us with near-term incremental liquidity and flexibility as we continue to ramp up production at our new world-class facilities. As our facilities come online, we will focus on lowering debt levels.

This increased debt capacity is intended for near-term liquidity and is not intended to fund growth capital projects.

I'll wrap up with an outlook for our business for 2023. Our guidance remains unchanged for the year.

In Meat Protein, we expect mid- to high single-digit sales growth in 2023 supported by brand leadership and growth into the US market and sustainable meats.

We continue to expect to achieve adjusted EBITDA margin expansion in a 14 percent-to-16 percent target range, once the pork markets normalize.

In Plant Protein, we remain on track to achieve adjusted EBITDA neutral or better in the latter half of 2023.

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

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

Curtis Frank

Okay. Thank you, Geert. So just to quickly summarize.

We took a meaningful step forward this quarter, growing revenues and expanding adjusted EBITDA. As we exit 2023, we have a clear line of sight to the benefits from our capital projects and achieving adjusted EBITDA neutral in Plant Protein. And we have the leading brands, operational agility, and the right platform to continue to drive both top- and bottom-line growth well into the future.

So before I turn it over to questions, I wanted to close by saying how much I've enjoyed the opportunity to speak to many capital market participants over the past couple of years and the constructive conversations we've had.

I am deeply committed to broadening and deepening these discussions and also strengthening the relationships that I've made as well as looking forward to sharing engagement with the investment community moving forward.

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

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press *, followed by 1 on your touch-tone 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 *, followed by 2. If you are using a speakerphone, please lift the handset before pressing any keys.

Your first question comes from Irene Natel, RBC Capital Markets. Irene, please go ahead.

Irene Nattel — RBC Capital Markets

Thanks and good morning, everyone. I just want to make sure first and foremost that I'm understanding something you said, Curtis, which is, similar sequential improvement in margin in Q3. So does that mean you're looking for 170 basis points or something closer to 11 percent margin for Q3?

Curtis Frank

Good morning, Irene. Yes.

Irene Nattel

Good morning.

Curtis Frank

By similar sequential improvement, as you know, we moved from 7.6 percent margin in Q1 to 9.3 percent in Q2. And at this point, we're expecting a similar sequential improvement in Q3 from Q2, which would land in and around that 11 percent range. We're reluctant to get very specific guidance to the decimal point but in and around that range.

Irene Nattel

Okay. So taking that 11 percent as the base and then thinking about looking ahead to 2024. Let's just say we're in and around that 11 in Q3. If we then add the 260, 250 basis points that we should be getting in 2024 from Plant and the Bacon Centre of Excellence, we're in the mid-13s, which is pretty close to that 14 to 16 percent next year even without an improvement in the pork market.

So how confident are you that you can, in fact, print something? I mean I understand pork markets are hard to predict, but that you can, in fact, print something that is reasonably close to that 14 percent level next year?

Curtis Frank

Yeah. Thanks, Irene. That's a great question. Here's how I would characterize it. We are not, at this specific point in time, giving guidance for next year, but I think it's fair to say that we're very confident that, pork markets aside, we'll be operating in the 14-to-16 percent range in 2024.

The supply chain stabilized. The pricing's on track to what we would have expected coming into Q3. And we continue to make great strides at both London and at our Bacon Centre of Excellence in Winnipeg, and all signs point towards operating in the 14 to 16 percent range next year.

Irene Nattel

That's really helpful.

Curtis Frank

In normal pork market conditions, I should continue to clarify.

Irene Nattel

Right. Okay. But so can we just—I just want to understand that because, again, if I take kind of the bridge from here to there that's in your presentation, it kind of the 11 percent in Q3, are you assuming some improvement in pork markets because it kind of looks like you should be reasonably close even with headwinds in pork.

Curtis Frank

That's exactly right, Irene. We are expecting some improvement in the third quarter, but not all the way back to normal pork market conditions. We did see an uptick obviously in July, which I would point out is not yet fully back to normal. And we're not in the business of predicting two months out of the quarter in terms of pork market conditions for the balance of Q3.

So there is some step up and improvement in pork market conditions in Q3 that would contribute to that. Yes.

Irene Nattel

That's very helpful. And then just one more question, if I might. And this goes to the balance sheet. The commentary was first and obviously get into a free cash flow inflection point; want to get sort of leveraged down from current levels. What would be your target, either debt level or leverage, as we head into 2024?

Curtis Frank

Yeah. Maybe, Geert, I'll let you take that one, please.

Geert Verellen

Yeah, Irene. Over the last years, I think we've always said that a very comfortable position for us to be in is we want to aspire an investment-grade balance sheet. And how do we define that? It's 3 to 3.5 times EBITDA, roughly. So we are singularly focused over the next couple of quarters to get through these rough waters from the pork markets. We're extremely disciplined in our capital spend. That's also how you'll see us plan 2024. And that's how we're taking this quarter by quarter.

We want to be in a position with a strong balance sheet, once the pork markets have been recovered, and once we see opportunities on the horizon for either tuck-in acquisitions or other value-creating opportunities there. And that's why we're aiming for that investment grade and strongly delevered balance sheet.

Irene Nattel

That's great. Thank you very much.

Operator

Thank you. Your next question comes from Mark Petrie, CIBC. Mark, please go ahead.

Mark Petrie — CIBC

Hey. Good morning. Just further to the comments with regards to how London is ramping up, I know you talked specifically about the staffing situation but just hoping for a little bit more detail. How much of the new hires in London have been transfers versus externals? And how that's compared to your expectations?

And then I'm just sort of curious how the onboarding process for new employees in London would compare to what you would historically have done at legacy facilities if that's at all different in terms of the timing or the complexity.

Curtis Frank

Good morning, Mark. Yeah. Sure. I'd be happy to take a few comments on that.

So I commented in my opening today that we're so pleased with how well on track we are with labour at London. At the onset of the project, one of the early risks we identified was onboarding labour, obviously, in the London market. And it was one of the things that we were concerned about.

Lou Cappa, who runs our facility there and leads our London Poultry strategy, and his team have done just an exceptional job of onboarding new employees. So we're now up to 1,300 people on site, but we'll need about 1,600 in the end.

And we have moved people from our legacy facilities as we had obviously planned to do. At one point, we maybe commented to you that we had planned to bring in in the vicinity of 200 to 300 people through the temporary foreign recruitment program. And we've now called that down to somewhere around 50, which is just, I think, a really positive sign of our ability to onboard labour in the local market area and have people transfer in from our existing facilities.

And the other thing that I noted when I was there the other day is just having the strength of leadership on the plant floor that has transitioned from other facilities also helps to mitigate some of the start-up risk as well.

So things have been really, really positive from a labour side that with 1,300 people there I don't see any material risks at this point, and we've been fortunate with bringing in some skill and experience from our existing facilities.

I think there have been maybe around 350 or 400 people that have transferred in from our existing facilities to date, and, of course, we're still winding down the second shift at Brampton and have another facility to bring in Q4 in Schomberg.

Mark Petrie

Yeah. Okay. And then just following up on the branded volumes in the Meat business, you seem to sort of, at least somehow in some way, downplay the impact of trade down, and it sounded like there was a better performance on the branded volume. Is that a correct interpretation?

And when we've spoken in the past, I think you highlighted the strengths of the brands as sort of a key factor in all of that. Anything else you'd highlight? And particularly, any noise from the price increase in terms of that volume impact or performance?

Curtis Frank

I did. Yeah. Thanks, Mark. Yeah. I didn't downplay it. We didn't experience it, and I think that's what's most positive about the quarter.

In our branded Prepared Meats business in the second quarter, we delivered sales growth, a volume growth, and market share expansion all while taking pricing in the quarter. So your question's a good one. What's the impact of the price increases in Q2? A very positive outcome in Q2.

We'll see what the consumer response is in Q3, but thus far, it's been incredibly positive. And I continue to attribute that to the strength of the renovation work that we did in the years in advance of the pandemic, which have continued to serve us well.

There has been trade down now in our category, but it's come from our branded competitors, not from us.

So private label is gaining share. They're gaining share directly from our branded competitors, and our brands continue to perform extremely well in the market. So it was a great quarter all around in our Prepared Meats.

Mark Petrie

And are you seeing any change? Or are you executing on or seeing in the competitive landscape any change in the sort of pace or depth of promotional activity?

Curtis Frank

Not at this stage. There's one. I would make one exception to that comment, which is in the United States market. We what we saw in the US this past quarter is a very aggressive promotional strategy in the bacon category in particular.

And the rate of discounts in the US in the bacon category was exceptionally high. The percentage of products sold on deals went up and the average price for a package of bacon went down inside the quarter, and that was really reflective of the US market moving through surplus inventories in frozen valleys throughout the second quarter.

So that would be the only place that I've seen that type of pressure.

Mark Petrie

Okay. Very, very helpful and all the best.

Curtis Frank

Okay. Thank you.

Operator

Thank you. Your next question comes from Michael Van Aelst, TD Cowen. Michael please go ahead.

Michael Van Aelst — TD Cowen

Thank you. Good quarter. I just wanted to ask you first on the plant-based side. Curious what was accomplishing Q2 to get the gross margin closer to zero? I think it came in around 5 percent, but that's a big improvement year over year. And still what has to be done to get to your target?

Curtis Frank

Yeah. We made material—it might not look like it on the surface, Mike. Good morning by the way. It might not look like it on the surface in Plant Protein only because the losses were in and around $8.7 million in the prior quarter and in this one. But the one thing, and I think we flagged this at the end the last quarter that it's going to remind you on, is we have higher levels of advertising and promotional spend within Q2 from Q1. So we continue to be happy with the work we've done.

So within the quarter, the contributors were our SG&A continued to be reduced; it was down by about 45 percent in the second quarter. We continued to optimize the supply chain. And we did some really great work there in Q2, which was helpful and additive to our margins in the quarter. And we continued to repurpose, I think most importantly, the footprint moved from the Plant Protein business to the Meat Protein business within Q2.

So it was good progress in terms of a 63 percent reduction year over year. And that obviously gives us confidence for the back part of the year.

There is still continued work to do. You've seen that the category has continued to struggle in terms of the growth rate in the category. And early in Q3, we took some steps to further rightsize the organization and organizational design, which will contribute to the back half of the year. That was early in Q3.

And then we're doing some really important work around cost saving initiatives in terms of formula and still a little bit of work to do in the distribution model. And then, of course, we continue to leverage our revenue management toolkit with respect to optimizing both price but also our trade structure in the category. So there's work yet to do, and we remain completely confident that we're right on track.

Michael Van Aelst

Okay. So all that means sounds like further reductions to OpEx in the second half to rightsize.

But on the gross margin, are you still projecting something in that 30 percent range once you're finished repurposing capacity and doing everything else you have to do by there in the back half?

Geert Verellen

Can you repeat that question, Mike? I'm not sure I get that.

Michael Van Aelst

Well, I think originally your original target was to get gross margins back up to like 30 percent in the plant-based side. So is that still the target as you repurpose capacity and make other improvements?

Curtis Frank

Absolutely, Mike. That would be a normal food category. In any consumer packaged goods food category, that would be a normal margin. When we acquired these two companies, the margin structure was in and around that range, and we will absolutely get back there. In terms of specific timing, I'm not going to comment on this year.

Our very clear priority this year is to get to adjusted EBITDA neutral or better, which is what we've committed. And we will continue to work from there to normalizing the gross profit margins in the category in line with other consumer packaged goods category. I don't see any reason why we can't accomplish that task in due course.

Michael Van Aelst

Okay. And you've said in your press release, breakeven in the second half of the year. But you also talked about it by the end of the year. What should we expect for plant-based—

Geert Verellen

By the end of the year.

Curtis Frank

By the end of the year, not in the second half of the year. Thank you clarifying.

Michael Van Aelst

Does that mean an exit run rate? Or does that mean Q4?

Curtis Frank

I would say that means an exit (phon) [audio gap].

Michael Van Aelst

The margin improvements in the quarter for Meat were solid. I think your outlook for Q3 and other 170 basis points seems a little bit conservative to me considering that you're going to get another 60 basis points from pricing right off the bat from normalizing that. So you really have another 110 to benefit from.

And there should be some seasonality improvements as well as we get to the back half of the year. So I'm kind of wondering like if you could at least maybe rank where you see or where you're building in the improvement in Q3 into that 170 basis points?

Curtis Frank

It could very well turn out to be conservative, Mike. And I certainly hope that that's the case. But given the experience we've had in pork market conditions in the last eight months and the fact that there's still two months to play out in this quarter, I think we were reluctant to be more aggressive than that. And I hope you can appreciate and respect that and the rationale as to why.

The supply chain I'm completely confident in. The other thing I would add on the pork market recovery, and I think maybe this is a good moment to add this is we run, as you know, a value-added sales mix and sales volume in the pork business.

And practically speaking, what that means is we don't experience the same level and pace of pain on the way down. And I think you saw that evident in the North American market. Our results were reflective of not feeling precisely the same pain as the pure commodity players.

But it also means we don't ramp up at the exact same pace as when markets normalize. Things like flowing through pricing to value-added sales in branded bacon, as an example, have a lag time associated with them. Our pricing perhaps would be a good example into the Japanese market has a natural lag attached to it.

So I think we're taking, you could maybe argue, a conservative view, but we're trying to respect that pork markets are out of our control, and I think our comments reflect that.

Michael Van Aelst

Okay. That's fair enough. But I guess what I was trying to get out of you was maybe just where you see that other 110 basis points coming from.

Like, what are you building into your assumptions? How much of that is pork markets versus seasonality versus progress in London and Bacon? Things like that?

Geert Verellen

We will start to see London and Bacon beginning to contribute in the back half of the year, Mike. That will be much smaller, obviously, in Q3, which is again why we've shown a gradual improvement in margins. Our goal here is to move from 7.6 to 9.3 to in and around 11 or, to your point, perhaps better, and continue to make sequential improvement from there.

The key building blocks are obviously markets, pricing, sustained normalization of the supply chain, London, and the Bacon Centre of Excellence. And we're also optimistic that we'll continue to make progress in the Japan market.

Michael Van Aelst

Okay. Great. Thank you very much.

Operator

Thank you. Your next question comes from Tamy Chen, BMO Capital Markets. Tamy, please go ahead.

Tamy Chen — BMO Capital Markets

Thanks. Good morning. My question is wanted to go back to the poultry plant.

I guess first off, Curtis, I recall circa 2014, I think the Company was doing a very similar project as this but on the pork side in terms of a new large facility with a couple of legacy facilities trying to be consolidated into the new one. I think that project had a little bit of a delay and a bit of volatility; seems like the poultry plant in London now is going much smoother. I was wondering if maybe you could compare and contrast that experience versus this one.

And as we think about the rest of this year, can you just elaborate a bit more on the things that still need to be done when it comes to execution? I understand the fourth plant you're going to consolidate in the fourth quarter of this year. But how about things such as, there was a lot of state-of-the-art technology and equipment in there? What about dialling those in to reach the full optimization that you want? Layering in the second shift?

Can you just talk a bit more about what still needs to be done on the execution side for the London plant?

Curtis Frank

Sure. I'd be happy to. Thanks, Tamy. So the project you're referring to was our transformation project, which included starting up a new facility in Hamilton, Ontario, which we call our heritage facility. And on one hand, it's a good comparator. On the other hand, it's a very, very different project.

The start-up at Heritage was much more complex. It included moving in significantly more SKUs. We're up to 300 now, as an example, in London, which is a much—just to put it in perspective, the headline would be much simpler start-up at London.

Of course, things can be challenging in start-ups. So I don't want to move away from that. But a much, much simpler start-up in the London facility than what we experienced in Hamilton. The SKU complexity is different. We were building all new formulations. The equipment complexity was much different. The technology complexity was much different. And our design completion, I think most important, our design completion at London was over 90 percent design complete before we put a shovel in the ground.

I think what's most important from our perspective is we took all of the lessons that we learned in the start-up of the Hamilton facility and applied them to London, and it's going exceptionally well, likely because of the implication of leveraging all of those learnings.

To answer your second question, which is what really needs to get done here before the end of the year? Outside of building and the construction being complete at the plant, which is obviously now well done, there are two really important things just to simplify that need to get done in London Poultry facility.

The first is to move all of the birds into the plant from four production facilities. And that work is well underway. We think completely on track. Two plants complete. Another half of Brampton already in. The fourth one well on track.

So we feel like we're making really, really strong progress there. Everything's right on time, which means, in my opening comments, I noted that we're going to turn our attention to operational efficiency. And, practically speaking, that means eliminating the variances to our standard costs, which show up in labour variances and in yield variances. And that's, to your point, the dialling in of the equipment. That's the work left to be done.

The majority of the benefits come from getting the four plants into one and then, obviously, optimizing the yields and the labour variances is what needs to happen between now and the end of the year. And that's a normal part of the start-up process.

Tamy Chen

Got it. Okay. Thank you. And my second question is, I'm not sure if this had any noise or impact on you into the third quarter, but did the strike that was happening in the BC ports have any sort of impact when it comes to your exports into Asia such as China and Japan? Thanks.

Curtis Frank

The short answer is no. There were a little bit of timing impacts within the quarter, but in terms of the contribution benefits within the quarter, no material impact due to the port strikes.

Tamy Chen

Okay. Thank you.

Operator

Thank you, your next question comes from Derek Dley, Canaccord. Derek, please go ahead.

Derek Dley — Canaccord

Yeah. Hi. I'm just wondering, internationally, maybe absent the US or maybe talk about the US as well, what are some of the other key regions where you're starting to see growth.

And can you just remind us on the dynamic between Japan and China and China reopening story and how that's all progressing?

Curtis Frank

Yeah. So in the quarter, our international sales are actually up in and around 10 percent, 9.6 percent international sales, Derek, overall.

China and Japan are not, I wouldn't say are linked in any way. We had $30 million—$29.8 million, I think if I remember correctly—$30 million roughly in sales into China this past quarter. And the Japan market, we obviously showed some improvement in margins.

Sales were down slightly, actually. We’re not a commoditized player in the Japan market, we’re a value-added seller. And as we moved our pricing up, we obviously felt the effects of some short-term volume compression, which is not abnormal. We just didn’t chase the markets down in the Japan market. So improvement in Japan, we expect to continue to make improvement in Japan.

The only place that they would be linked is in the overall market influence in the importance of China. As China pulls more meat, obviously, from global markets, it helps to move selling prices upward into the Japan market.

Derek Dley

Yeah. Right.

Curtis Frank

The only thing I would add is the other areas that we’re looking at in terms of growth are the Philippines and South Korea, which continue to be pockets or areas of growth. But the two primary markets, a value-added long-term relationship in the Japan market that’s been lucrative, and obviously, $30 million in sales into China.

Derek Dley

Okay. Okay. That’s helpful. And then you mentioned in your opening remarks a comment on potential bolt-on acquisitions and portfolio expansion.

Can you just give us some context on what types of areas you’d look at potentially moving into?

Curtis Frank

Yeah. The first thing I want to do is caution that I see three phases to kind of the path forward at Maple Leaf. Our first priority is obviously focused on stabilizing and improving our margins. And we’re making great progress.

The second stage is really focusing on capitalizing on the benefits from London, Winnipeg, and getting the Plant Protein back to profitability.

And from there, we'll look to potentially expand on our platform. So I don't want you to feel like there's something imminent or in the immediate pipeline.

The areas of focus would be geographic expansion, predominantly into the United States; a high-margin, branded consumer packaged goods; and an organization or a business that is complementary to helping us advance our vision to become the most sustainable protein company on earth. But I think those would be the primary filters.

Derek Dley

Okay. Great.

Curtis Frank

And sized and timed appropriately to reflect to our commitment to getting our balance sheet back to health.

Derek Dley

Yeah. Understood. Yeah. Makes sense. Okay. Thank you very much.

Curtis Frank

Thank you.

Operator

Thank you. Ladies and gentlemen, as a reminder, should you have a question, please press *, 1 on your touch-tone phone.

Our next question comes from Irene Natel, RBC Capital Markets. Irene, please go ahead.

Irene Nattel

Yeah. Thanks. Just a quick follow-up. In terms of aggregate start-up losses, in my head, I have a number in and around $100 million. Wondering, A, if I'm even close to the ballpark, and, B, where you are today and what you think the start-up losses will be once we're at year-end and the facilities are fully commissioned.

Curtis Frank

Irene, you're in the ballpark. I'll turn it over to Geert, and he can give you some more context here.

Geert Verellen

Irene, are you talking project year to date or are you talking for the year? Because for the year, yes. For all the projects that we have online, you're in the ballpark around that $100 million.

Irene Nattel

Yeah. That's what I meant, Geert. And the number 68.5 that's in the release, so we should be expecting something around, let's call it another 30-ish million in the back half of the year.

Geert Verellen

Yes. Something like that. Yeah.

Irene Nattel

That's great. Thank you.

Operator

Thank you. There are no further questions at this time. I will now turn it back to Mr. Frank for closing remarks.

Curtis Frank

Okay. Great. Thank you, Operator, and thank you everyone for your questions today. They're very much appreciated.

So just to, again, I'll quickly summarize before we sign off.

A very meaningful step forward this quarter growing revenues and expanding our adjusted EBITDA; a clear line of sight to the benefits of our capital projects in London Poultry and our Bacon Centre of Excellence; completely on track to achieve adjusted EBITDA neutral for better in our Plant Protein business; and extremely pleased with the resiliency and the health overall of our branded consumer package goods platform, along with our ability to drive both top and bottom-line growth well into the future.

So thank you for joining us today and look forward to speaking to you moving forward.

Operator

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