

08-May-2025

Maple Leaf Foods, Inc. (MFI.CA)

Q1 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen. Thank you for standing by. Welcome to Maple Leaf's first quarter 2025 Financial Results Conference Call. As a reminder, this conference call is being webcast 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 Omar Javed, Investor Relations at Maple Leaf Foods. Please go ahead. Mr. Javed.

Omar Javed

Vice President-Investor Relations, Maple Leaf Foods, Inc.

Thank you, John. And good morning, everyone. Speaking on the call this morning will be Curtis Frank, President and Chief Executive Officer; Dave Smales, Chief Financial Officer; and Dennis Organ, President, Pork Complex & Incoming CEO of Canada Packers.

Before we begin, I would like to remind you that some statements made on today's call may constitute forward-looking information, and our future results may differ materially from what we discuss. Please refer to our first quarter 2025 MD&A and financial statements and other information on our website for a broader description of operations and risk factors that could affect the company's performance. We've also uploaded our first quarter investor presentation to our website. As always, the Investor Relations team will be available after the call for any follow-up questions you may have.

With that, I'll turn the call over to our President and CEO, Curtis Frank.

Curtis E. Frank

President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

Okay. Thank you, Omar. And good morning, everyone. It's great to be with you today to share our first quarter 2025 results. Joining me on the call today are David Smales, CFO of Maple Leaf Foods, and Dennis Organ, the President of our Pork Complex and incoming CEO of Canada Packers. I'll begin with the strategic and operational update and then Dennis will speak to the Pork Complex and David will take us through a financial update. I will then step back in with a few closing remarks before we open the line for questions.

The headline for today is that we are exiting Q1 with continued momentum on our side. In the first quarter, we made considerable progress towards achieving our goals for the year, reflected in accelerated sales growth, a significant increase in adjusted EBITDA, which grew by CAD 50 million to CAD 166 million, and an expanded EBITDA margin which increased by 330 basis points to 13.4%. Alongside this strong financial performance, we have also made substantial strides in advancing our strategic transformation, guided by our refreshed Maple Leaf blueprint and inspired by our vision to be the most sustainable protein company on Earth.

In the first quarter, we delivered sales growth of 8.2% year-over-year, demonstrating robust performance across all our operating units, including Prepared Foods, Poultry, and Pork. Within our CPG-focused Prepared Foods and Poultry business, strong top line growth of 6.8% was driven by the solid execution of our proven growth strategies. We continue to be pleased with the resilience of our brands and with the incredible work our commercial teams are doing in the context of the current consumer demand environment.

As an example, to support our Prepared Foods business, we proudly launched our Look for the Leaf advertising campaign, spotlighting over 15 Canadian food brands in response to the growing Buy Canadian sentiment. This innovative campaign resonated with Canadians achieving over 35 million impressions and reaching 66% of Canadian grocery shoppers in its first 48 hours in market.

In addition, our support behind the Mina Halal brand during Ramadan served to strengthen our cultural relevance and garnered brand affinity that contributed to the growth within our Pork business.

We also continued to leverage our leadership in Sustainable Meats within the Prepared Foods business, where our Sustainable Meats portfolio achieved yet another quarter of double-digit growth. The demand for our Greenfield brand, our Sustainable Meats premier offering, remains healthy in the US market, driving volume growth and further enhancing our presence in the US market as we continue to develop this established platform.

As a leading, protein-centric consumer packaged goods company, we remain focused on accelerating the pace and impact of our new product innovation. In response, we recently released our exciting Spring Innovation Platform with 28 new items now in market and reaching retail grocery shelves. This follows the launch of more than 50 new items last year, including a new category adjacency with our Schneiders frozen breakfast portfolio, which continues to resonate well with consumers.

While these efforts are contributing to our rise in sales, we also remain focused on expanding our adjusted EBITDA margin by executing on our operating plans. Our Fuel for Growth Initiative, for example, which includes three elements, supply chain sourcing, SG&A optimization and a strategic manufacturing review, is well advanced.

First, as we discussed last quarter, we completed a procurement and sourcing project aimed at supply chain optimization toward the end of 2024. This is supporting enhanced savings, scalability and agility in 2025. These benefits are already showing up in Q4 last year and here in the first quarter of this year.

Second, we have successfully implemented the first phase of our SG&A optimization work, which included a restructuring of the commercial and operations parts of our organization and the full integration of the Plant Protein business into the prepared foods operating unit. The benefits of improved execution and a leaner organizational structure are benefiting the first quarter and will be supportive to delivering our outlook for the year.

And third, I'm happy to report that we are making good progress on our strategic manufacturing review, which is advancing through its analytical and development phase. We expect this initiative will be an enabler of our performance in the years to come. So, we are being methodical in our approach to ensure we prioritize the highest impact opportunities. The first step, the retirement of our aging Brantford facility and the transition of production to other manufacturing sites remains on track to be completed in Q2.

Consistent with our strategic playbook and our work to reshape the portfolio to CPG, we continue to make great progress on the Canada Packers spinoff. As you would have seen from our press release on May 1, the Management Information Circular will be filed on May 12 with the shareholder vote to be held on June 11 at our annual general meeting and special meeting. This spinoff is one of the most important and transformational strategic initiatives in Maple Leaf Foods history as we will create two strong independent companies, each with enhanced strategic focus, distinct value propositions to unlock shareholder value and more focused investments for shareholders.

We strongly encourage all shareholders to vote in favor of the transaction and in support of the meaningful value it will create for all Maple Leaf stakeholders. You'll note from the pro forma LTM view provided today that we continue to deliver margin progression in both the Maple Leaf Foods CPG company and the future Canada Packers company. Next week, you will get even more visibility into the full details when we file our circular, something I know you are all keenly interested to dig into.

Before I conclude my opening comments, I'd like to also turn your attention to a couple of important capital allocation updates. In January this year, we announced an increase to our quarterly dividend to \$0.24 per share or \$0.96 per share annually, starting with the first declared quarterly dividend that was paid in March. This is the 10th consecutive year that we've increased our dividend, representing a compounded annual growth rate of 11.6% and a robust return for our shareholders.

You would have also seen from our press release on March 11 that the Toronto Stock Exchange accepted the notice to establish a Normal Course Issuer Bid or NCIB program. Under this program, Maple Leaf is authorized to purchase up to 7.3 million of its common shares over a 12-month period, representing just under 10% of the public float. This tool is intended to be used opportunistically to purchase shares when it is in the best interest of the company and represents an attractive use of available funds.

So, in this context, I'm hopeful that you share the same growing confidence that we have in the improving quality of our execution and the growing momentum that we are building in our business. The team's collective hard work is being recognized by our shareholders and was reflected in a total shareholder return of over 24% in the first quarter. While this performance was ahead of our Canadian and US peers, we firmly believe that there is tremendous value that remains yet to be recognized for Maple Leaf Foods.

Underpinned by the drivers I just discussed, we are fully on track to deliver against our 2025 outlook, which includes mid-single-digit revenue growth and adjusted EBITDA of \$634 million or better in 2025, investment grade leverage to enable capital allocation choice, and a successful spinoff of Canada Packers.

So, with that, I'll now pass things over to Dennis to discuss the Pork results and then to Dave to review our financial results. Dennis?

Dennis Organ

President-Pork Complex & Incoming Chief Executive Officer-Canada Packers, Maple Leaf Foods, Inc.

Thank you, Curtis, and good morning, everybody.

In our Pork Complex, Q1 marked another quarter of improved financial performance. Our plan to increase hog processing while maintaining our premium value-added sales mix is driving meaningful revenue growth. Input costs have stabilized, and we remain focused on operational excellence to enhance both top and bottom-line results. While revenue isn't the primary metric for the Pork Complex, we delivered a 12% increase in sales compared to Q1 last year. This growth was fueled by higher processing volumes, higher average hog rates and favorable exchange impacts from stronger US dollar and favorable market pricing.

Adjusted EBITDA margin improved in Q1, benefiting from lower feed costs, and we expect input costs to remain within a stable range supporting continued margin consistency. Our Pork Complex and soon to be Canada Packers operates with a well-defined and tangible business model, underpinned by a vertically integrated pork production value chain. We have a diversified and resilient business mix, and we continue to leverage our competitive edge in sustainable premium pork products. This strategic foundation positions us for long-term growth and leadership in high quality protein production.

As we move towards the closure of this transformational transaction, our team remains laser focused on maximizing the value of our premium sales mix, driving efficiency through cost discipline and growing through increased capacity utilization. We have been disciplined and methodical in building this pure-play Pork business, building the best pure-play Pork business in North America, and we will carry the same rigor into the next chapter of Canada Packers historic legacy.

I will now pass things over to Dave to discuss our financial results.

David Smales

Chief Financial Officer, Maple Leaf Foods, Inc.

Thank you, Dennis, and good morning, everyone.

Turning to our results, I'll comment on the company's consolidated results for the quarter before addressing the balance sheet and discussing the overall outlook for 2025. Total sales in the first quarter were CAD 1.24 billion, an increase of 8.2% compared to last year, driven by solid growth across Prepared Foods, Poultry and Pork, where sales were up 7.1%, 6%, and 12%, respectively.

Prepared Foods, which now includes Meat and Plant Protein, saw higher volumes along with improved product mix and favorable pricing in the quarter. In Poultry, sales were up due to improved channel mix with growth in retail volume and reduced industrial sales. And Pork sales increased due to volume growth from an additional 62,000 hogs that were processed in the quarter, as well as higher average hog weights favorable movements in foreign exchange and favorable market pricing. Earnings for the quarter were CAD 49.6 million or CAD 0.40 per basic share, compared to earnings of CAD 51.6 million or CAD 0.42 per share last year. After removing the impact of the non-cash fair value changes in biological assets and derivative contracts, startup and restructuring costs and items included in the expenses that were not representative of ongoing operations, adjusted earnings were CAD 0.43 per share for the quarter, compared to CAD 0.04 per share for the first quarter of 2024.

Adjusted EBITDA increased by 43% to CAD 166 million in the quarter, with adjusted EBITDA margin improving by 330 basis points to 13.4% compared to 10.1% in the first quarter of last year. Within Prepared Foods and Poultry, increased profitability was primarily driven by favorable volume and mix impacts and benefits from our London Poultry and Bacon Centre of Excellence facilities, increased trade promotions to support our brands were a partial offset in the quarter. Our Pork operating unit achieved what we consider to be approaching a more normal level of profitability in the quarter, reflecting a significant improvement in the vertically integrated spread due to lower feed costs compared to the first quarter of 2024. A decline in the package spread partly offset this positive impact of lower feed costs.

SG&A increased by CAD 4.8 million in the first quarter compared to last year. The increase was mostly due to a planned increase in advertising and promotion expenses to support our brands and higher variable compensation costs. Our first quarter results also benefited from approximately CAD 5 million of favorable timing and non-recurring impacts. During the quarter, we invested CAD 25.1 million in capital, compared to CAD 24.1 million in Q1 last year. Capital expenditures are generally on the lower side in the first quarter, but we still expect spending for 2025 to be in the range of CAD 175 million to CAD 200 million in line with our previous guidance and primarily focused on maintenance capital with growth capital related to cost efficiency and support for profitable growth initiatives. In the first quarter, free cash flow was negative CAD 14 million due to the impact of timing and seasonal working capital, which is largely expected to reverse over the course of 2025. LTM free cash flow remains strong at CAD 298 million.

On the balance sheet, net debt ended the quarter down CAD 169 million to approximately CAD 1.55 billion, and down from a peak level of CAD 1.8 billion. During our large capital project investment phase. In line with our stated priorities, our leverage ratio is within an investment grade range, with a net debt to trailing 12-month adjusted EBITDA ratio of 2.6 times at the end of the quarter, compared to 2.7 times at the end of the fourth quarter of 2024, and 3.7 times a year ago.

As we progressed through 2025, free cash flow generation, strengthening the balance sheet and maintaining leverage in an investment grade range remain key priorities. We are on track to deliver the 2025 outlook we shared in early January and when we reported Q4. We continue to expect mid-single-digit sales growth and significant improvements in adjusted EBITDA which we forecast will meet or exceed CAD 634 million for the year.

I will now turn the call back to Curtis.

Curtis E. Frank

President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

Okay. Thank you, David. As I shared in my opening remarks, following up on what was a very solid Q4, we are exiting Q1 with continued momentum on our side, and we are on track with our operating plan and also the transformational spin off of Canada Packers. As a purpose driven, protein-focused, consumer packaged goods company with a bold vision to be the most sustainable protein company on earth, Maple Leaf stands today uniquely positioned to meet the growing global demand for sustainably produced protein. And we continue to be of the view that we have the right strategy, blueprint and people to make it happen.

Now, before we move to questions, I want to extend my sincere thanks to the entire Maple Leaf team. It's a privilege to work alongside such passionate and talented individuals. Our progress would not be possible without your commitment and your drive.

With that, operator, we can now open the call for questions, please.

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Michael Van Aelst from TD Securities. Your line is now open.

Michael Van Aelst

Analyst, TD Cowen

Q

Hi. Good morning and congratulations on a really strong quarter. It's nice to see a lot of these market challenges behind you. I'd like to start with your comment around exiting Q1 with continuing momentum and can you maybe highlight a few of the key, I guess, key drivers of your business that you saw continuing into Q2 and is the Buy Canada movement, did that show up as a benefit in Q1 and has that changed at all in Q2?

Curtis E. Frank

President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

Well, I'll probably keep my comments, Mike – firstly, good morning and thanks for taking the time to speak with us today. I'll keep my comments mostly around Q1. What I would say on the top line in particular, we had, as I mentioned, very robust sales growth of just over 8%. And I think what we were most pleased with is the diversity and breadth of the growth strategies that we have in the company, and how resilient they're proving to play out in not just the Canadian market, but the US as well. That, combined with some solid execution in the first quarter, was certainly supportive of the growth that we saw.

Let me start with on the 8% revenue growth, it was mostly contribution of positive volume and mix benefit in the topline, which was helpful. There was some pricing – we had taken a little bit of [ph] beef pricing (00:22:06) in February and a little bit of impact that was positive from an FX point of view. But probably, what's most positive or constructive in the business is the source of the growth came from what I would describe as all markets, Canada, the US, Japan and China, all channels, retail and food service, and our Sustainable Meats platform continued to deliver a double-digit growth and also drove double-digit growth levels of revenue in the United States. So, the diversity of the growth strategy has really played out, I think really, really well. That happened in Q4. That happened again in Q1. So, that was certainly beneficial.

On the consumer side, your question around the Buy Canadian movement, we were very pleased, again, as I mentioned in my comments, with respect to the quality of the work that was done from the consumer marketing team here. I would describe the consumer environment as pretty stable quarter-over-quarter. We're certainly in a situation where the consumer, on one hand, remains under stress and there is a flight to value, which requires a little bit more promotional investment to sustain volume and market share that mostly in the Poultry and Prepared Foods business. But also, that's being offset or benefited by, certainly, in the first quarter, some benefit of the Buy Canadian movement, which was supportive and helpful to the revenue growth that we achieved within the first quarter. How that's going to carry into Q2 is a bit of a wait and see I think would be the appropriate way to think about that but was certainly beneficial for Q1.

Michael Van Aelst

Analyst, TD Cowen

Q

Okay. That's great. And I guess, just a follow up for Dennis, actually. The only thing that I can see that's changed in the market conditions at this point is the 25% tariff that China has put on Canadian pork. It's obviously a lot

smaller than what they have on US pork right now, but – and you only have a small amount going to China, but it's profitable; it's decently profitable. So, can you explain how you see that impacting your business?

Dennis Organ

President-Pork Complex & Incoming Chief Executive Officer-Canada Packers, Maple Leaf Foods, Inc.

A

Yeah. I think the first thing you said was important is it's not just the tariff on Canada, it's the relative tariff to the other maybe North American and European countries. Remember, it's something less than 5% of our revenue. So, it's a good market for us. It's meaningful because they tend to buy things that we don't sell elsewhere. But I just wouldn't really pull that up as a headline. We're in good shape now. And I don't know what's going to be the outcome, but we're pretty confident that that's going to work out after some of this tumult.

Curtis E. Frank

President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

The important comment, Mike, is the relative one that you made with 125% tariff from the US market, 25% in comparison is manageable at this stage. And we'll see how the balance of the year plays out. But I think it's constructive, as Dennis said.

Michael Van Aelst

Analyst, TD Cowen

Q

Excellent. Thank you. I'll get back in the queue.

Curtis E. Frank

President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

Thank you.

Operator: [Operator Instructions] Your next question comes from the line of Luke Hannan from Canaccord. Your line is now open.

Luke Hannan

Analyst, Canaccord Genuity Corp.

Q

Thanks. Good morning, everyone. And I'll echo that congratulations on the results in Q1. I wanted to follow up, within the Prepared Foods business, you mentioned it is relatively balanced growth across volume and mix and pricing and Sustainable Meats did well, the US did well. I want to ask a little bit more about the Bacon Centre of Excellence. I mean, you mentioned that also that that was a benefit to prepared foods this quarter. Is that a comment just reflecting the carryover impact from the ramp up that would have taken place last year or is there anything that's net new, I guess, this quarter that's perhaps driving that strength that we can look for the balance of the year? Thanks.

Curtis E. Frank

President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

Yeah. Good morning. Thank you for the question. The Bacon Centre of Excellence in Winnipeg, as you know, a very successful startup. We reached for Q4 a very positive outcome in terms of meeting or exceeding the business case benefits that we had committed to from a Bacon Centre of Excellence point of view. We continued in Q1 to get the benefits of the capital investments that we expected. And for the first couple of quarters, for sure, you'll see the fill in benefits of that in Q1, Q2, and I think into Q3 as well in 2025. So, all things on track, continued

strong market demand as positive or maybe even more so than we would have expected at the time of the capital investment and certainly contributed to year-over-year margin expansion that you saw in our business in Q1.

Luke Hannan

Analyst, Canaccord Genuity Corp.

Q

Okay. Thanks. And then for my follow up here for Dennis, he has mentioned that you were able to increase the number of hogs processed by 6%. Those capacity utilization opportunities that you have available in front of you as well. But just where things stand today, assuming that you didn't execute on those opportunities to expand capacity. I mean, where does utilization stand out today? In other words, if you were to, let's say, put no more capital to expanding capacity within your existing footprint, where would utilization stand as of today?

Dennis Organ

President-Pork Complex & Incoming Chief Executive Officer-Canada Packers, Maple Leaf Foods, Inc.

A

Let me make sure I get – so, remember, we're tapping into latent capacity. So, this isn't a massive CapEx project to grow. We're going to only grow in an accretive manner. So, that's sort of the threshold we think we can process, mathematically, somewhere around 900,000 more hogs, but we're looking at them in maybe 100,000 hog increments and making sure tranche by tranche it's accretive. So, I don't know if that answer your question, but it's latent capacity that we're tapping into and we're going to make sure that it's accretive growth.

Luke Hannan

Analyst, Canaccord Genuity Corp.

Q

That does help. Thank you very much. I'll get back in the queue.

Operator: [Operator Instructions] Your next question comes from the line of Michael Van Aelst from TD Securities. Your line is now open.

Michael Van Aelst

Analyst, TD Cowen

Q

Great. It seems like everybody's on another call, so I'll jump back in. So, a quick question for David. Just – I did notice that the other income or expense had a nice little swing this quarter. I'm wondering how much of that is non-recurring versus something we can assume will be there going forward?

David Smales

Chief Financial Officer, Maple Leaf Foods, Inc.

A

Yeah. I mentioned in my comments, in the first quarter, we benefited from around CAD 5 million of kind of timing and one-time benefits. So that would be the magnitude in the first quarter. Typically, other income is a small positive, small negative, but this quarter, it was about CAD 5 million of kind of timing of one-time impacts that benefited that number.

Michael Van Aelst

Analyst, TD Cowen

Q

Okay. All right. And then when you look at the margin improvement that you had in the quarter, I mean, it was pretty impressive even without that one-time gain. And I know it's not quite where you want it to be yet, but can you start by trying to give us a bit of a relative importance ranking for the drivers of that margin improvement this quarter? And then what areas can still improve to get you into that 14% to 16% aspirational range?

Curtis E. Frank

President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

Yeah. Sure, Mike. Happy to dig into that a little bit. We had, obviously, a CAD 49.9 million or 43% improvement in our adjusted EBITDA in the quarter. As you mentioned, there were about in and around CAD 5 million of kind of one-time benefits included in that. But the heavy hitters are pork market conditions continued to improve as we had projected and often communicated that we had a high level of confidence that they would. So, pork market conditions continued to improve as expected. The volume and mix in Prepared Meats and Poultry were very positive. As an example, Mike, we had 3% volumetric growth in the Prepared Meats business. In today's current consumer demand environment, we view that as very positive, and so, that's positive.

We have the return on investment benefits from both London Poultry and the Bacon Centre of Excellence on a year-over-year basis. And then there was a slight offset, as I said earlier, in a little bit higher advertising and promotion support to sustain the market share and drive the volume that we drove in the quarter. So, the big hitters are pork markets continue to improve as expected, the volume and mix in Prepared Meats and Poultry, and the benefits from the large-scale capital projects, which we should also expect.

On the question of – I think your question was what's between your 13.4% margin in Q1 and operating within the 14% to 16% range? I'd highlight, I think, three things that are important in that context, although I'm sure there are other contributing factors. The first is the consumer environment. As I said, continuing to invest a little bit more than we would like in promotional and advertising support to get the full benefit of share and volume. So, a full return to more normal consumer environment would be helpful and benefit to us in both the Prepared Meats and the Poultry businesses. We also have, on that consumer side, Mike, three price increase, an inflationary based price increase, a pass through coming in and around the 1st of June, which is going to be in the 3% to 4% range. So, we want to see the consumer response from a volumetric point of view, but consumer environment would be number one.

The second would be the continued benefits and potential benefits beyond that from our Fuel for Growth playbook, which we talked about. Parts of the SG&A already being embedded in the margin. The procurement benefits already being embedded in the margin. But some more operational benefits that we feel we have a pathway to deliver, and we'll talk more about that in the future.

And then the last is the full market recovery in the Pork Complex. And if you look at our supporting materials, we commented that in this quarter, there was about CAD 12.9 million of negative variance, yet remaining to fully normalized market conditions in the Pork business. And that I would remind you, Mike, that CAD 12.9 million alone would take us well into the 14% to 16% margin range. So, those would be the kind of the three most important items.

Michael Van Aelst

Analyst, TD Cowen

Q

Okay. So, just to follow up on that last part, so what still has to happen on the Pork Complex to get that CAD 12.9 million?

Curtis E. Frank

President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

Yeah. Great question. Dennis, maybe you'd add?

Dennis Organ

President-Pork Complex & Incoming Chief Executive Officer-Canada Packers, Maple Leaf Foods, Inc.

A

Yeah. So, there's actually numerous paths we can get there. Obviously, the input cost, the input costs have normalized, as we've been talking about for some time now. The top line volume growth is in line, if not on the higher end of what our target is over our five-year plan. We still have numerous opportunities in our sales execution. Remember the disassembly operation where we're positioning the meat and the revenue, we're realizing, there's opportunities there as well. Numerous growth initiative from co-branded, the first carbon neutral co-branded item in Japan that's been underway for roughly eight months or so now and showing lots of good line of sight.

So, sales, execution, and then operationally. We've had a lot of success operationally on parts of our business, but there's some areas that we're really looking for improvement. So, some of the difficulty when we're in these calls is we're talking about what happened and we're always trying to frame that against what we know is happening and what's going to happen. And so, lots of confidence in those things coming to fruition and as we continue to release quarters, you'll see it in the trailing 12 months.

Curtis E. Frank

President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

The only color I would add, Mike, if it's okay. We're operating in line with our outlook as we reiterated today for the full year of 2025, from a strategic margin target point of view, 14% to 16% continues to be the North Star. And probably what we're most pleased with after a couple of quarters of momentum here is the fact that it's our view, and I think this is accurate, that we would be amongst, if not the highest, performing protein company of any of our North American peers in both our revenue growth and our EBITDA margin amongst our North American peers. So, we see it certainly as a positive, not just quarter but last couple of quarters. And that's probably why we're so excited about the momentum we're building in the business on a relative basis.

Michael Van Aelst

Analyst, TD Cowen

Q

Okay. I'll just ask one more question. You had a great quarter. You beat expectations, probably beat your own internal budget, I'm guessing. But you didn't increase your guidance for the year. I know it's not uncommon for companies to wait beyond Q1, but is there anything that is holding you – what's holding you back from raising your guidance at this stage, given how strong Q1 was?

Curtis E. Frank

President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

Well, I think, as you said, it was a very solid quarter. And we're entirely confident, as you heard from Dennis, David and myself, in delivering our outlook for this year. We elected to sustain our outlook for the year based on the words we chose, which we're very careful, which was CAD 634 million of adjusted EBITDA or better, CAD 634 million or better. As I said, there are few moving parts. Number one, it's just the end of the first quarter. There's much more to play out this year. Number two, on the positive side, we obviously got some level of benefit from the Buy Canadian movement, and we want to see how that plays out in the quarters ahead. We are taking some inflationary based pricing in the second quarter. We want to see how the volume response to that pricing plays out in the market. And also, you think about the geopolitical backdrop and the trade-related tension that's existed during the last a number of months, while positive in the moment, creates some level of ambiguity to navigate. And we feel like we're very well positioned, entirely confident in our outlook, but thought it was prudent to keep it in line with what we had originally communicated.

Michael Van Aelst

Analyst, TD Cowen

Q

All right. Perfect. Thank you.

Operator: Thank you. Your next question comes from the line of Vishal Shreedhar from National Bank. Your line is now open.

Vishal Shreedhar

Analyst, National Bank Financial, Inc.

Q

Hi. Thanks for taking my questions. With respect to the spin out and the 14% to 16%, how will – once the spin out happens, how will investors keep track of that 14% to 16%? Or are you going to rebase the targets for us once you spin out and what [indiscernible] (00:38:29)?

Curtis E. Frank

President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

Good morning, Vishal. Thank you for your question. Yeah. We've been communicating that it's premature for us to be communicating new strategic targets for the separate entities. We wanted to get the Management Information Circular out into the market more broadly. That happens, I believe, on Monday of this coming week, which will provide a little better basis for the foundational profitability and information that's required in the Pork business. And then I think once that material is out into the market, fully absorbed and we get past the shareholder vote in June, which is another key and critical milestone, we'll start then to communicate more broadly the separate and distinct strategic targets for the two independent companies. So, it's more of a timing related thing with some exciting and important milestones ahead of us. The release of the information circular on this coming Monday and then the June shareholder vote.

Vishal Shreedhar

Analyst, National Bank Financial, Inc.

Q

Okay. And with respect to the sales trends, you commented that there's possibly some transient benefits, including the Buy Canada movement and how that evolves. And I know it's difficult, but are you able to internally have an estimate on your sales lift associated?

Curtis E. Frank

President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

It's a great question. It's obviously very much top of mind for us. It's really hard to tease out, Vishal, as I'm sure you can appreciate the combination of what I view as really solid execution, some really great brand marketing and investment and support behind our leading brands and the consumer response to the Buy Canadian movement. Seizing that out of the data is a really difficult thing to do with precision, and we do expect there's some benefit. But, again, I would point you to the fact that we had double-digit growth in the US market last quarter, which was not due to the Buy Canadian movement. So, the diversity and strength of the growth strategies is really coming through, and that's what we're probably most excited about from a sustainability point of view of the margin, sustainability of the sales growth and the margins.

The other comment I would make is our outlook is for mid-single digits and we did choose to stay in line with that. And I think we just need to see another quarter in front of us.

Vishal Shreedhar

Analyst, National Bank Financial, Inc.

Q

Okay. And were there other elements that may have helped your sales, including a shift towards the products that you sell due to inflation or heightened inflation in other categories? Does that happen and to what degree did you deem that to be helpful for your sales?

Curtis E. Frank

President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

I don't think so necessarily. The only thing I would say is demand for protein, in particular, all things protein continues to be a very robust and very strong. The consumer data and the consumer desire for more protein in their diet at all life stages, [ph] dayparts (00:41:31) continues to be very, very strong, and I think only accelerating. So, all to say, great time to be in the protein business, and I'm sure from a macro trend point of view is supportive of our results.

Vishal Shreedhar

Analyst, National Bank Financial, Inc.

Q

The incremental advertising promotional dollars, was that in response particularly to the value seeking consumer or is that an approach to elevate your brands and more of a long-term sustained spend? How should we think of that evolving to the course of the year?

Curtis E. Frank

President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

Yeah, it shows up in both ways. I mean, in the short term, in the near term, it's promotional pricing to support market share and volume growth, as I said earlier. But we are also investing as the number one and number two brand leader in the Canadian market and given the strength of our Sustainable Meats brand, we are also investing in our brands. And you saw some of our advertising examples. I think we actually included a couple of them in our supporting materials that we posted this morning, which include our conviction and support behind the Buy Canadian movement and making it clear to every Canadian household that Maple Leaf is a strong Canadian brand. And I'm certain we got some support in that area as well.

So, it's both. It's the long-term investments and the health of the brands which are deeply important and give us leadership position, and also the short-term implications of investing a little bit more in promotion than maybe we had historically to sustain the levels of volume growth that we're generating.

Vishal Shreedhar

Analyst, National Bank Financial, Inc.

Q

Okay. So, any insight on how that should evolve the course of the year? Should we expect year-over-year increases in that line?

Curtis E. Frank

President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

I think continued stability from where we're at today would be a reasonable starting point and we'll continue to monitor the consumer environment as the balance of the year plays out but, again, all things constructive to achieving or exceeding our current outlook.

Vishal Shreedhar

Analyst, National Bank Financial, Inc.

Q

Thank you. Congrats on the momentum.

Curtis E. Frank

President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

Thank you very much. Thank you.

Operator: Your next question comes from the line of Luke Hannan from Canaccord. Your line is now open.

Luke Hannan

Analyst, Canaccord Genuity Corp.

Q

Yeah, thanks. I just had one quick follow up here. It's on the innovation. I think you had mentioned that you have 28 new items in the market and that follows roughly 50 items that you had launched last year. And I'm just curious to know, is this more about filling any whitespace that exists within your portfolio, like the Schneiders breakfast sandwiches, for example? Is that going to be more about revamping existing SKUs? And then how do we think about – either on the price spectrum in the form of good, better, best or value, all the way to premium, where is more of that innovation going to show up? Thanks.

Curtis E. Frank

President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

Yeah, thank you. That's an excellent question. The innovation serves many purposes in our portfolio, everything from creating new news in our core categories, which you saw several examples of in the kind of the 28 items that we that we showed within our supporting materials to utilizing our assets in a really constructive and innovative way. We launched a new Schneiders thick cut fully cooked bacon, leveraging the new assets in the Winnipeg Bacon Centre of Excellence, as an example, to being supportive of our Prime brand, which operates in the premium end of the Poultry category, at a time when consumers are under a little bit more pressure, to seasonally relevant items supportive of our summer grilling platform to continuing to be aligned to the changing demographics of the Canadian market and innovating in products like our Mina Halal offering with the chicken based hot dog that we are launching in the spring.

We are always bringing new news to our Sustainable Meats platform, which I think is really, really important given the consumer support for that particular brand, the importance of Sustainable Meats to our portfolio, and the fact that we want to keep that growth engine running.

And we didn't talk about it much today, but we are also bringing three launches that I'm actually pretty excited about to the Plant Protein category where the category, as you know, more holistically has been under stress, and that we view it as our responsibility to take a leadership role in bringing new and exciting news to the Plant Protein category to restimulate growth and also bring some excitement to the plant-based consumer.

So, innovation plays a broad role across the portfolio. The category adjacency that you commented on in the breakfast sandwich launch is certainly one of them from an incrementality point of view, but there are many, many others as well. And what I'm probably most excited about is getting the innovation engine up and running again. The couple of years through the pandemic and the post-pandemic economy were a little bit more challenging for most North American and global consumer packaged goods companies in terms of being able to allocate time

and resources and operational excellence towards innovation. And we're now back into a place where we're making excellent progress.

Luke Hannan

Analyst, Canaccord Genuity Corp.

Q

That's great. Thank you very much.

Curtis E. Frank

President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

A

Thank you.

Operator: There are no further questions at this time. I will now turn the call over to Mr. Frank for closing remarks.

Curtis E. Frank

President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.

Okay. Thank you, everyone, for joining us today. We're very pleased with what we view as a successful first quarter of the year. As we've talked about, 8% growth in revenue, a very significant improvement of CAD 50 million in adjusted EBITDA and a strong margin that's materializing in line with what we had been expecting over a period of time. And we look forward very much to talking to you when we release our second quarter results. And obviously, we'll be communicating next week the Management Information Circular for the new Canada Packers, which I know all of you are keenly interested to dig into. So, thank you once again for your time today and look forward to speaking with you after our Q2 call.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.

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