22-Feb-2024

Maple Leaf Foods, Inc. (MFI.CA)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and thank you for standing by. Welcome to Maple Leaf Fourth quarter and Full Year 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 Janet Craig, Investor Relations at Maple Leaf Foods. Please go ahead, Ms. Craig.

Janet Craig
Head-Investor Relations, Maple Leaf Foods, Inc.

Thank you, Laura, and good morning, everyone. Speaking on the call this morning will be Curtis Frank, President and Chief Executive Officer and David Smales, 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 discussed. Please refer to our Q4 and full year 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've also updated our Q4 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 you may have.

With that, I'll turn the call over to Curtis Frank. Curtis?

Curtis E. Frank

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

Thank you, Janet, and good morning, everyone. It's great to be with you here again today. I read off the top, I want to welcome and introduce our new CFO, David Smales, who joined Maple Leaf in late January. David is an accomplished executive leader with over 30 years of diverse experiences, and we feel incredibly fortunate to have him as part of our team. I'm sure many of you will be connecting with David separately if you haven't already. Welcome, David. You've likely seen in our materials we've got a lot to share this morning. In addition to announcing our Q4 and 2023 results, we've also unveiled the next evolution of our strategic blueprint, along with a new business and organizational structure that will propel us into an exciting chapter ahead. And so with that, I'm going to jump right in with a recap of our year before turning it over to David for a deeper dive into our financial results and then I'll spend a few minutes towards the end of my remarks to provide some color on our new blueprint and of course, we'll leave some time for your questions on the line.

For the full year of 2023, we delivered year-over-year top line sales growth of 2.7% and adjusted EBITDA of CAD 428 million, a CAD 155 million or 57% improvement from 2022. Our business and our people demonstrated exceptional resilience in the face of a post-pandemic economy headlined by dislocated pork markets, hyperinflation, disrupted supply chains and a consumer increasingly under stress. And we took meaningful steps forward to position ourselves for success in 2024 and beyond. We met our goal to achieve adjusted EBITDA neutral or better in our Plant Protein business, which was accomplished this past quarter in Q4. This is a material pivot and we are confident that there was more success to follow. We completed the startup of over CAD 1 billion in major capital projects at London Poultry and the Bacon Center of Excellence. We restored the health of the supply chain following the impacts of a global pandemic and the implications of global conflicts. We caught our pricing up to current levels of inflation. We significantly outperformed our competitive peers on a relative basis in our pork complex, weathering the storm of dislocated pork markets that have persisted deeper and longer than we could have anticipated, and we demonstrated discipline in capital management while starting to de-lever our balance sheet.

These achievements demonstrate positive momentum building in our business and while we're really pleased with how we've advanced the strategic execution of our blueprint, we look back on 2023 as a year of progress, but not perfection, fully acknowledging that there is still work to do to realize our full business potential. Case in point is our fourth quarter of 2023. While we more than doubled our consolidated adjusted EBITDA year-over-year, including delivering on our promise in Plant Protein, we were disappointed with the outcome in the Meat Protein business.

Our Meat Protein adjusted EBITDA margin of 10.5% beat last year's result of 6.6%, but was lower than we were striving for and remained below our structural margin target of 14% to 16% in normal market conditions. There are three reasons why this occurred. First, pork markets in Q4 did not move as we anticipated. After some positive progress in Q3, we would have expected pork markets to improve in Q4 as they typically do. Instead, vertically integrated pork margins worsened, turning negative once again in Q4 and remained significantly below what we would describe as a normal range. While these market conditions look to be continuing into the early parts of Q1, there is promising news on the horizon. As we look ahead, we expect global protein markets to progressively improve throughout 2024. Feed prices, largely corn, are continuing to decline, European production has been reduced, improving the global supply and demand balance, and pork continues to be affordable relative to other competitive proteins, setting up a favorable demand environment.

The second, exiting the year, the run rate benefits from London Poultry and our Bacon Center of Excellence were approximately 200 basis points in Q4, which means we have an additional 60 basis points or so of benefits yet to be captured in 2024. On London Poultry, we ended the year very close to capturing our targeted exit rate of CAD

100 million of adjusted EBITDA. While we can definitely put the completion of the London start-up in the success column, we need to remain focused on chasing down the last of the commercial benefits while navigating through the short-term noise of the consumer demand environment.

At our Bacon Center of Excellence, the start-up is on track and our focus of effort has been centered in on onboarding new customer volumes to fill the plant and continuing to fine-tune our operations. Here too, there is good news on the horizon, as just this week we confirmed the expansion of our partnership with one of the world's largest foodservice QSRs to include pre-cooked bacon slices produced at our Bacon Center of Excellence. This new volume is expected to begin to come onstream early in Q2 and be fully ramped up by the end of Q2. Once this is complete, we expect that this will mark the last of the onboarding of new customer volume to the Bacon Center of Excellence, an exciting milestone required to reach the full financial benefits of this project.

And third, like most CPG companies, we experienced a challenging macro consumer demand environment in Q4. With higher interest rates and inflationary pressures, we saw a natural impact on consumer behavior which affected our commercial volume and mix in the short term and led to softer results than we would have liked in our prepared meats and poultry businesses. Let me give you an example of how this played out in our poultry business. Q4 experienced some level of oversupply in the chicken market due to allocations from the supply management system coming in slightly higher than the demand from consumers. This mixed with the complexity of being in a new plant start-up environment caused us to temporarily divert sales to other channels where we ultimately earned less margin. Here as well, we believe that things are set to improve. We have a dedicated team that is constantly working on optimizing our poultry performance and our London plant will only become more agile. Plus, it has already been announced that poultry allocations for the May-June growing period will be lower than the prior year. These supply reductions, which are the first since the onset of the pandemic, along with easing inflationary pressures, should help the system to come back into balance and restore the financial performance of not only the poultry industry, but also our own business in relatively short order.

It's important to note that we aren't sitting idle and waiting for the external environment to change. Instead, we are taking decisive action to adapt our plans to recover volume and mix. By investing in our brands, accelerating the pace of impactful innovation, leveraging our strengths in revenue management, taking advantage of our broad portfolio of brands including value and regional brands, and winning with in-store execution, we believe we'll restore volume growth in the retail channel in very short order.

If we look at our foodservice channel, we are benefiting from the consumers' value-seeking behavior. We are very well-positioned in quick service restaurants and overall our foodservice performance has been robust with some very exciting things to come ahead. Foodservice Channel is a real growth area for us, and the business is very sticky. So look for us to be talking about this more in the quarters ahead.

As we close out 2023, we are bringing an end to an intense period of investments as we completed the buildout of our world-class network and have now started our path to deleveraging the balance sheet. As we move into our next phase, we are deploying a disciplined approach to capital management as we focus on filling up our plants, optimizing our operations and delivering growth on the strengths of our leading brands. Put a fine point on this, after investing over CAD 1 billion in 2020 and 2021, we have already brought our CapEx down to CAD 199 million in 2023, and we are on track for more discipline in 2024 with CapEx spending coming in between CAD 170 million and CAD 190 million. This return to more normal capital spending levels along with the improved profitability of our business will allow us to accelerate our deleveraging objectives.

As we look to 2024 and beyond, I'm super-excited about what the future holds for Maple Leaf Foods and what we will be able to accomplish by leveraging the platform we have built. Earlier this morning, we unveiled the evolution of our strategic blueprint, along with a new business and organizational structure that will lead us into this next chapter. I'll be back to share a little bit more about this in the next few minutes. But first, I want to turn it over to David to walk us through the detailed financial results. David?

David Smales

Chief Financial Officer, Maple Leaf Foods, Inc.

Thank you, Curtis. And good morning, everyone. As Curtis noted earlier, this marks my first quarter-end as the CFO of Maple Leaf and I'm very pleased to be here and look forward to working with all of you going forward. I'll touch briefly on the company's consolidated results, then review results by segment before addressing balance sheet items and discussing the outlook for 2024. As a reminder, we experienced a cyber incident in the fourth quarter last year. We estimated that this had an adverse financial impact of CAD 23 million in the fourth quarter and for the full year 2022. The results and comparisons to the prior year we'll discuss today reflect this impact as it has not been adjusted out of the prior year's results.

Total company sales in the fourth quarter were CAD 1.2 billion, an increase of 0.6% over last year. Adjusted EBITDA increased by 117% to CAD 120 million with a margin of 10.1% compared to 4.7% last year. Net loss in the quarter was CAD 9.3 million or CAD 0.08 per share compared to a loss of CAD 41.5 million or CAD 0.34 per share last year. After removing the impact of the non-cash fair value changes in biological assets and derivative contracts in both years, as well as start-up expenses and restructuring costs, adjusted earnings were CAD 0.08 per share for the quarter compared to a loss of CAD 0.28 per share last year.

Now looking at results by segment, the Meat Protein segment revenue was CAD 1.16 billion in the fourth quarter, up 0.8% from the same period last year. Broadly across the Meat Protein group, the sales increase was driven by volume growth and pricing action implemented in prior quarters to mitigate inflation and a favorable shift in product mix versus the same quarter a year ago. These factors were partly offset by unfavorable foreign exchange rate impacts. In our meat portfolio, we saw stronger performance in pork sales, volume and pricing versus a year ago. While branded poultry volume was up versus the same quarter last year, overall, poultry sales were lower due to a shift from our raised without antibiotics poultry to conventional, which sells at lower price points. Prepared meat sales were largely flat relative to last year. Meat Protein adjusted EBITDA was CAD 122 million in the quarter compared to CAD 76 million in the prior year, an increase of 60% driven by pork market conditions, the contribution of the new London Poultry Plant and Bacon Center of Excellence, as well as pricing actions partially offset by cost inflation.

Adjusted EBITDA margin for the Meat segment was 10.5%, a 390 basis point increase from last year, but a 100 basis point decrease sequentially from the prior quarter. This sequential decline reflected a less favorable consumer demand environment, which impacted volume and mix in our prepared meats and poultry business, as well as weaker pork market conditions. The incremental contribution from our major capital projects coming online mitigated some of this impact.

Plant Protein sales were CAD 36.5 million, a decrease of 9.1% compared to the same quarter a year ago. The decrease was driven by lower volume as the category contracted, partly offset by pricing actions to offset inflation. Plant Protein gross margin was 13.9% in the quarter compared to a negative gross margin of 26% in Q4 last year. The increase in gross profit was driven by price increases and operational improvements largely due to repurposing excess capacity, partially offset by lower volumes. Plant adjusted EBITDA was CAD 95,000, achieving the adjusted EBITDA neutral target set for this business, and compares to an adjusted EBITDA loss in the fourth quarter of last year of CAD 20.4 million.

In total, during the quarter, we invested CAD 41 million in capital expenditures consisting of approximately CAD 22 million in growth capital, which was related to finalization of the London Poultry plant, as well as increasing further processed poultry capacity in the Brampton prepared meats facility and CAD 19 million in maintenance CapEx. On the balance sheet, net debt increased to approximately CAD 1.75 billion from CAD 1.6 billion a year ago, but decreased CAD 22 million versus the third quarter of the year. The majority of this debt is related to our now completed major construction projects, London Poultry and the Bacon Center of Excellence.

Moving to full year 2023 highlights, Meat Protein adjusted EBITDA improved from CAD 379 million last year to CAD 463 million, an improvement of CAD 84 million or 22%. Plant Protein adjusted EBITDA improved from a loss of CAD 105 million to a loss of CAD 33 million, an improvement of CAD 72 million, translating to a total improvement of CAD 155 million or 57% in consolidated adjusted EBITDA year-over-year. Our CapEx for 2023 was CAD 197 million, in line with our guidance of CAD 200 million.

Moving now to the outlook for the full year 2024 we expect low-to-mid single-digit revenue growth, adjusted EBITDA margin expansion from 2023 to achieve our Meat Protein target of 14% to 16% adjusted EBITDA margin as markets normalize, CapEx of CAD 170 million to CAD 190 million, largely focused on maintenance capital, and optimization of our existing network, and further balance sheet deleveraging as free cash flow and earnings increase.

I'll now turn the call back to Curtis.

Curtis E. Frank

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

Thank you, David. As we wrap up the call this morning, I'd like to conclude my comments by summarizing a few thoughts on the evolution of our strategic blueprint that we announced earlier today along with the supporting business and organizational structure and the changes that will bring this strategy to life. We are pivoting to a new chapter, and it's a chapter that we expect to be lucrative for all Maple Leaf stakeholders. While our purpose to raise the good in food and our vision to be the most sustainable protein company on Earth remain enduring, after nine months in the role of CEO and with the completion of one of the most intensive organic capital agendas in Canadian food manufacturing history now behind us, I felt the time was appropriate to evolve our blueprint and to put the right team in place to deliver it. Our sites are set on transforming Maple Leaf Foods to be recognized as a purpose-driven, a globally-admired and brand-led consumer packaged goods company and this is an ambition that we intend to deliver through the execution of five core strategies, leading the way, building the brands, broadening our impact, operating with excellence and developing extraordinary talent.

Within 2024 specifically, and with the benefit of [ph] some clean air (00:20:08), we will have a clear focus on executing five priorities. First, driving adjusted EBITDA margin expansion or achieving our target margin of 14% to 16% in normal market conditions; second, harvesting the benefits of recent capital projects at London Poultry and our Bacon Center of Excellence, where after start-up success we are now focused on the commercial performance of the assets; third, sharpening our cost focus by simplifying the business, completing the integration of the Plant Protein business, and driving cost efficiencies across our supply chain; fourth, optimizing our network. With the intensive phase of investing and the commissioning of new facilities now behind us we are pivoting to leverage the unique capabilities and more importantly the capacity that we have already created to support organic growth, and finally, bringing strength to our balance sheet by generating strong free cash flow through improved profitability and disciplined capital management, all of which support accelerating the pace of deleveraging.

To get there, we are taking steps today to simplify the business, bringing our Meat Protein and Plant Protein groups together to form a prepared foods powerhouse with a focus on growing our Canadian business while leveraging the combined platform to accelerate growth in the United States. Leveraging the synergies attached to acting as one Maple Leaf, we are sharpening our executional focus and today announced some important leadership changes. David Smales, who you heard from today, has joined us in the role of CFO. Adam Grogan, who previously led the Maple Leaf brand renovation project and most recently led the turnaround of our Plant Protein business, has been promoted to the role of Chief Operating Officer. Adam will lead the execution of our strategies in prepared foods and in the poultry business and with more than 25 years of experience within Maple Leaf Foods, I know with confidence that Adam will have an immediate impact. And Casey Richards will assume the role of President, Prepared Foods USA. Casey will be responsible for leading the execution of the company's growth strategy in the US, which serves as a critical high-potential market and will be reporting to Adam. Casey has over 20 years of global marketing and general management experience, most within the United States, and he will be leading our newly combined US Meat and Plant Protein platform out of the Maple Leaf Innovation Center in Chicago.

In closing, while there are still some headwinds to navigate in the very near term, the structural health of our business and our long-term growth potential to create shared value is undeniable. Bringing together our protein businesses to enable a brand-led protein powerhouse will allow us to realize the full potential of a platform that has been nearly three decades in the making.

Before I turn it over to questions, I just want to take a moment to express my thanks and gratitude to the Maple Leaf team, because I feel very fortunate to work alongside so many talented and passionate people, and we certainly wouldn't be where we are today without them.

So with that, I'll now turn the call over to questions, please.

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] We have our first question coming from the line of Irene Nattel. Please go ahead.

Irene Nattel
Analyst, RBC Capital Markets

Q

Thanks and good morning, everyone. If we take a look at the results in Q4, obviously a bunch of factors impacting. Can you sort of tease through for us what proportion of the margin pressure was due to the commodity backdrop versus the consumer trade-down behavior and how we should think about sort of mitigating those or at the very least mitigating the consumer trade-down impact as we move through 2024?

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

A

Good morning, Irene. Thank you for your question. I'll start by saying in Q4, we took a 90 basis point step-back from Q3 and that's not only disappointing to us, but incredibly frustrating, as I'm sure it is for you and many others on the call. Your question with respect to why did we see a sequential compression in our margins in Q4 is obviously an appropriate one. There are three things that I think are important to factor in. Number one, we did see a step-up quarter-over-quarter in the lumpy cost benefits of London Poultry and our Bacon Center of Excellence as we would have expected. So, that's within our control and on track quarter over quarter, at least from an operating point of view. What was a surprise to us is the commodity backdrop, particularly in pork market conditions. Obviously we're dealing with unprecedented market conditions and typically in Q4 our pork market conditions improve and we actually saw the inverse happen in this past quarter. Our pork markets went backward from Q3 to Q4 and that was about an 80 basis point headwind and our predictive capacity in being able to forecast pork market conditions in these type of markets being as unprecedented as they are today has been problematic.

And then the last of the impacts would be the consumer components related to what we would describe as a consumer under stress. It's hard, Irene, in these situations to tease precisely apart the commercial components related to a start-up and what's happening from a trade-down perspective, particularly given the noise we have year over year where we experienced, as you know, a cyber event last year. But I would suggest that it's in and around the vicinity of 100 basis points of impact from a commercial perspective in the prepared meats and poultry business within the fourth quarter. So when you take the positive uptick of London and the Bacon Center of Excellence with the offsets of pork market commodity conditions, which have clearly been behind our expectations and certainly frustrating, and the consumer impacts in the quarter, that kind of roughly accounts for the difference between where we would have expected to be and where we ultimately ended the quarter. Is that helpful?

Irene Nattel
Analyst, RBC Capital Markets

Q

Yeah. That's very helpful. Thank you. So as we think through 2024, you mentioned we know commodity markets remain challenging in Q1, you also said that you got the contract that comes in for the Bacon Center of Excellence in Q2 if we were to assume...

Curtis E. Frank
President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.
A

Yeah.

Irene Nattel
Analyst, RBC Capital Markets
Q

...everything else remain stable, how should we think about the margin evolution as we move through 2024? And is it realistic at this point in time to think that the low end of your target range is achievable in 2025?

Curtis E. Frank
President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.
A

Well, there's a couple of different questions to unpack there. So, I'll try to take them one at a time. The first thing I would say, Irene, is we're focused on executing the items that are in our control. And when we look back to Q4, I'll give you a little bit more color on Q4 before I jump to 2024. We pay very careful attention to our relative performance against our peers in Europe. You heard me talk about that in my opening comments. And so when it comes to execution and delivering the items within our control, we're very happy with our relative performance, particularly against our pork peers in the North American market and I think that's something that I don't want to lose in the commentary today. We're incredibly frustrated with the performance overall, but on a relative basis I think if you look at the facts of our peers, we continue to be pleased with our performance relative to them.

When it comes to looking forward, I'm going to be very cautious not to give quarterly guidance, and I'm going to use a disclaimer as a reminder that our predictive capabilities when trying to predict precisely pork market conditions have been well off what we would have liked them to be over the course of last year. The unprecedented market conditions have clearly persisted longer and deeper than we could have ever imagined. Now, with that as a backdrop, I'll give you some context for how I think our year should play out based on what we know today, recognizing obviously things will change along the way.

The first thing that I would say is we do expect to see similar market conditions to what we experienced in Q4 spilling over to Q1, both in terms of the vertically integrated pork margins, the short-term implications of poultry supply imbalance in the supply management system and the consumer impacts that we've been talking about both from a, I think what you would call or reference as a trade down effect, but also kind of mixed in with the commercial components of the start-up of our two facilities. It does feel as though there are some things that are going to work in our favor as well throughout the year based on what we know today and kind of with the normal caveat. The first is global commodity protein markets appear to be in recovery mode. Most industry experts would support that line of rationale, and that's mostly because of feed cost conditions improving pretty materially in pork. That's corn. Corn costs have come down pretty significantly. That's already a fact, less of a forecast and it's just a function of what the cutout price is going to be over the course of the year and the time it takes for us to realize benefits of corn costs. As you know, it takes six months roughly to raise a hog. So point number one is we expect global protein markets to progressively improve throughout the year.

Second thing is, we did acknowledge today that we have somewhere in the vicinity of 60 to 80 basis points of benefits that we have to capture in the Bacon Center of Excellence and the London Poultry Project. Operationally, we're fully on track. This is all about optimizing the commercial outcomes attached to the two projects there. That's obviously kind of mixed in with the consumer experience we're seeing in the moment. I referenced earlier to your point the fact that we've confirmed just this week a very significant order that will take us to the capacity utilization we expected in our Bacon Center of Excellence and we do expect progress between now and the end of the first half of the year on those two projects.

And then the last is, in my view, well within our control, and that is the consumer stress that we experienced in Q4. It is spilling over, as I said, a little bit into Q1. But at this point, number one, we see inflation beginning to ease, which is positive. And number two, we've adapted our brand plans. You would see in our presentation materials we referenced this, where we've adapted our brand and marketing plans in response appropriately like all good consumer packaged goods companies do and we believe we'll work through that in short order. Our history in working through inflationary cost increases is that the volume ultimately returns. It's taking a little bit longer this time, which I guess on the surface shouldn't be a surprise given the materiality of the cost changes that have happened over the course of the last 24 months and [ph] there too (00:32:57), at this stage, we feel like things over the course of the year will progressively improve. So, the headline is progressive improvements throughout the balance of the year but I will shy away from giving you any level of quarterly guidance.

Irene Nattel
Analyst, RBC Capital Markets

Q

Understood. Thank you.

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

A

Thanks, Irene.

Operator: Thank you. We have our next question coming from the line of [ph] Luke Hannon (00:33:22). Please go ahead.

Q

Thanks. Good morning, everyone. I want to ask about the foodservice business, and maybe Curtis specifically how you think about the overall foodservice customer and that line of business, that revenue stream, the margin profile of that versus a retail customer and how you see that mix shaking out over the course of the year and maybe if I can try and get you to dimensionalize for us how much foodservice represents for Maple Leaf's overall business as of today?

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

A

Thanks, [ph] Luke (00:33:54). Yeah, sure. I'm happy to talk about foodservice business. We feel very well just like we're very well positioned in the foodservice channel these days. Number one, just the consumer flight to value in the short term is somewhat favorable for us. But more importantly, we're really well positioned with our product portfolio in quick service restaurants and have a high level of confidence that that's going to serve us well over the course of the next year. Much of the work that we've been doing to leverage the capacity that we've created in our network, whether it be in the Bacon Center of Excellence or with what we've accomplished in further processed poultry, as an example, is aimed towards accelerating growth in the foodservice channel and we're well on track in those areas.

Foodservice is approximately 25% of our portfolio approximately today. It is growing and we expect a year of pretty significant growth in 2024 in the foodservice channel as well. You asked about the margin profile. It tends to be less branded, but increasingly, given the capabilities that we've built in things like raised without antibiotics, our portfolio is skewing to more premium given the benefits of the capabilities we've built in RWA and platforms like that. So we're happy with the margin profile, we're happy with the growth to date and we expect to see growth only accelerate over the course of the next year.

Q

That's great. Thanks. And Curtis, this is a quick one, you had mentioned the outperformance of Maple Leaf relative to peers on the pork complex. Can you share with us what the magnitude of that outperformance was?

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

A

Yeah, unfortunately, we don't disclose our pork complex numbers separately. So, practically speaking, what that means is, I see it directly and I appreciate that's a little bit harder for you to tease apart. But I think a tough quarter for us, which Q4 was and I'm not going to hide from that, Q4 was, is a 10.5% margin. If you examined the financial results of our US peers who are in the vertically-integrated pork business, I think you would find a materially different outcome which, as we said, we're frustrated. But on the other hand, the portfolio we've built has really benefited us over the last couple of years and we're playing the long game here and in the long game pursuit, we feel really well positioned against our competitors. Our relative performance has been very strong and I would point you to look at those US reference points, particularly to those who are vertically integrated, and it would give you a good sense for [indiscernible] (00:36:44) even comparing our aggregate results to the outcomes that they've experienced.

Q

Understood. Thanks. Last one and then I'll pass the line here. Shifting to the Plant business...

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

A

Yeah.

Q

...it's great to see you guys shift into positive EBITDA territory there. If we think about maybe the progression throughout 2024 to start and then beyond that longer-term, where else are you going to be able to find efficiencies within that business from a cost perspective?

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

A

Yeah. Thank you for asking that question. We still have efficiencies to be enabled through filling our facilities and our focus will be obviously turning towards profitable growth. The category has been impacted significantly over the last couple of years. You would have seen in the materials that we've provided that our revenue has flatlined quarter to quarter, which is a good outcome for us in terms of having a foundation from which to grow and we're now turning our attention to more fully utilizing our assets, which are meat and plant, frankly, and also getting back to growth in the category and we have some pretty robust innovation and consumer plans to enable that. There are also synergies attached in many different ways to bringing together our Meat and our Plant Protein business. In our former structure we had a president of the Plant Protein business. That's no longer the case now that we've integrated Plant Protein as a category as of today and we see enormous synergies in our customer relationships, the distribution network, the supply chains, marketing, bringing our marketing efforts together.

So, I think we're in a position where we're very, very pleased and proud that we accomplished adjusted EBITDA neutral or better in Q4. I think when we were at our peak losses of CAD 37 million in a quarter, many would have felt that to be somewhat impossible and it was an excellent outcome here in the past quarter. However, we are in the business of running categories for profitability. We have a long track record as a consumer packaged goods company of knowing how to market leading brands to make money and that's exactly where we're headed in the Plant Protein business.

Q

That's great. Thank you very much.

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

A

Thank you.

Operator: We have our next question coming from the line of Michael Van Aelst. Please go ahead.

Michael Van Aelst
Analyst, TD Securities

Q

Hi. Thanks. Just to start off, because of this combination of the meat and plant-based, at least prepared meats and plant-based, are you still going to report two different segments?

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

A

We're working through the implications of integrating that now, Mike. The financial reporting will follow naturally the business structure, the organizational structure and the business structure. There is a very high probability for full transparency that we'll be migrating toward one segment. But between now and the next quarter, we're going to complete the financial analytics and the work to accomplish that task. Given the size of the business, Mike, in Plant Protein and the fact that we're integrating it as a category, I think it's logical that we would migrate in that direction, but we're working through what we will be disclosing from a Plant Protein perspective in the future.

Michael Van Aelst
Analyst, TD Securities

Q

Okay. On the poultry and bacon, so just so I'm clear on this, you got about 200 basis points of the 260 basis points that you're originally planning. But then you mentioned 60 to 80 basis points still to get. So is it like 180 to 200 basis points that you've got or are you increasing the amount that you think you can get from it?

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

A

Yeah, no, we're not increasing. And I appreciate the desire for a perfection in the basis points. The reason I provided a range it is very difficult, Mike, to tease apart the commercial performance particularly in the face of the consumer demand environment that we've experienced against the precise benefits from a commercial component in the two projects. We know that we're delivering on the cost basis we expected, especially at

London Poultry, where we're just thrilled with the start-up and the outcome and now it's all about optimizing the commercial outcomes. So you should think about it in that range and I'm completely comfortable acknowledging that, but I don't think I can put a precise point on it beyond that.

Michael Van Aelst
Analyst, TD Securities

Q

Okay. And I believe that originally that those commercial contracts were supposed to take effect in the second half of last year and now to what would have got you to the exit run rate of around 260 basis points. But [indiscernible] (00:41:39) those contracts have been delayed into, like the Bacon one that's going to start in Q2? Did that contract get delayed? Did some of the contracts fall through and then now you're replacing it with others, what happened, and then I guess at what point do you expect to get the volumes that you were originally planning to get to the 260 basis points?

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

A

Yeah. I'll start by saying what you're describing is not the London poultry situation. It's a pre-cooked Bacon [indiscernible] (00:42:14) and nothing has changed. So nothing, there were no changes in our commercial relationships. It did take a little bit longer to land one customer. Unfortunately, we can't control the exact dates that our customers have agreed to onboard the new businesses. So, I would love if that was the case, but sadly, that's not within our control. And rather than be tactical on filling up the plant at the lower prices or at smaller volumes, we elected to build a long-term strategic relationship and build on a long-term relationship with a customer who is deeply important to Maple Leaf and it's a customer that I believe we're going to have important strategic alignment with over the long-term.

And if that takes three or four months longer, I, for one, am completely confident in doing what's right for the business over the long term, and that's just simply what played out in the Bacon situation. So, I love where we're migrating towards and it is going to take us maybe three or four months longer than we would have predicted a couple of years ago and it's for good reasons.

Michael Van Aelst
Analyst, TD Securities

Q

So, should we expect the 260 basis points to be there by midyear or is there still other thing to do on the poultry side or the commercial factors on the poultry side that need to improve?

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

A

We expect over the course of this year the remaining benefits to progressively ramp up towards closing the last of the small commercial gaps that we have left to close over the balance of the year. Again, Mike, I'm reluctant, there's a bit of a scrambled egg and teasing precisely apart the commercial components of what we're experiencing in poultry markets today, oversupply, consumer under stress, commercial benefits from a start-up asset, that there's complexity in teasing that apart perfectly and I don't want to mislead you.

Michael Van Aelst
Analyst, TD Securities

Q

Okay. That's fair. Okay. So big picture, though, what I'm most confused about is how you're getting to the 14% to 16% now because when this project started, the 14% to 16% did not include Poultry and Bacon. And then the comment was that 14% was achievable without it and Poultry and Bacon would add to it. So you...

Curtis E. Frank
President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.
A

Yeah.

Michael Van Aelst
Analyst, TD Securities
Q

...so you should be at the higher end in that 16%, maybe a bit higher, who knows what? Let's not go too crazy. But then when I add up, when I look at your progression chart and I add back the market factors.

Curtis E. Frank
President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.
A

Yeah.

Michael Van Aelst
Analyst, TD Securities
Q

...250 basis points to the 10.5% and then I add in the extra 60 basis points, I'm still not at 14%. And if I add back your short-term volume and prepared meats business, that is maybe, just maybe another 100 basis points. So I get to, let's say, 14.5% roughly with all the 260 basis points from Poultry and Bacon when that was supposed to be 150 to 200 basis points higher. And I see that you've somewhat replaced it with efficiencies and profitable growth, which those kind of things can take time. But what happened to that other 150 basis points or so? [indiscernible] (00:45:35)

Curtis E. Frank
President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.
A

Mike, I'm going to correct you on one thing just for clarity that's important to me. When we set the target in 2017 and communicated it externally, the poultry project was part of the pathway to 14% to 16%. So pulling it out is not appropriate. So when I take the 10.5% that we're at today and add the normalization of the pork market conditions, London Poultry, and just simply getting our commercial performance back on track in prepared meats and poultry, which is kind of a normal short-term reaction to inflationary costs, that alone gets us into the range. And then based on the opportunities I personally see in the business to drive cost efficiencies, there's improvement to be had, in my view, in a pretty significant way from there. So I see it a little bit differently, but I think the headline for me is in normal pork market conditions, the business today is structurally supportive of a 14% to 16% margin target range.

Michael Van Aelst
Analyst, TD Securities
Q

Okay, I hear what you're saying, but there's past calls when Michael was leaving the call and saying that 14% was achievable without Poultry and Bacon. So that's where the confusion falls, I guess, for me. [indiscernible] (00:47:07)

Curtis E. Frank
President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.
A

I appreciate that, Mike. I went back and studied the materials and I have a high level of confidence Poultry was in and intended to be in, and that pork markets were intended to be normal at that timeframe we reflected.

Michael Van Aelst
Analyst, TD Securities

Q

Okay. Thank you.

Operator: Thank you. Our next question comes from the line of Mark Petrie. Please go ahead.

Mark Petrie
Analyst, CIBC World Markets, Inc.

Q

Yeah, thanks. And thanks for all the commentary thus far. Just following up on a couple of things with regards to the Meat Protein margins, specifically understanding the sort of customer selling environment headwinds, did you experience any shift in trade investment in Q4 versus what had been kind of the run rate in Q4 versus the rest of the year?

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

A

Good morning, Mark. I don't think anything material. No, our plan continues to be particularly in these environments, importantly, to invest in our brands and it's a very important component of our brand plans and kind of the way we're adapting moving forward. But no, there's no material changes in trade in the fourth quarter, maybe with the exception of Plant Protein where we've, over the last number of months, if not quarters, kind of adapted our trade plans to reflect the new normal environment in the Plant Protein business, but that would be a relatively small impact and I know your question was focused on meat, so no, nothing material there.

Mark Petrie
Analyst, CIBC World Markets, Inc.

Q

Okay. And is that something embedded in your thoughts or plans for 2024?

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

A

Could you clarify your question, Mark? I'm not sure I follow.

Mark Petrie
Analyst, CIBC World Markets, Inc.

Q

Is a step-up in trade investment something that you think is likely or is embedded in your plans for 2024?

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

A

A slight step-up in advertising and promotion to support our brands is embedded in our – and then support the margin structure and premium nature of our brands along with our raised without antibiotics portfolio is in our plans, but trade, if you mean by trade pricing we have a very disciplined revenue management group who has incredible skill, in my view, in optimizing the consumer outcomes attached to optimizing the best consumer-facing promotions. We're going to continue that work that's been ongoing for a number of years. That the benefits have shown up progressively in our prepared meats margins, which we're pleased with. So I wouldn't describe it as a material change other than a slight step-up in our marketing ad and promo investment which in an inflationary environment I think you would find most leading consumer packaged goods companies would be headed in that environment to protect the health of their brands.

Mark Petrie
Analyst, CIBC World Markets, Inc.

Q

Yeah, understood. Okay. And then with regards to the mix challenges and sort of like the negative realizations, is that largely a poultry issue or are you experiencing it in pork as well? And then do you think that's something that can normalize within the next couple of quarters or is it just now you're going to need to lap it in order to sort of get away from that headwind?

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

A

Mark, I'm going to ask you to clarify that one, too. I don't want to...

Mark Petrie
Analyst, CIBC World Markets, Inc.

Q

Sorry.

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

A

...answer the wrong question.

Mark Petrie
Analyst, CIBC World Markets, Inc.

Q

Yeah. So, the idea that you're sort of selling RWA product at not RWA prices or under that sort of banner, right, this kind of negative realization. That's a headwind to your business in Q4.

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

A

Yeah.

Mark Petrie
Analyst, CIBC World Markets, Inc.

Q

Is that something you can get at before you lap it or is it just sort of where you're at? And is it all in poultry or is it happening in pork as well?

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

A

Well, it's not pork. So let's start there, it's not pork. And poultry, for everyone's clarity, I think maybe it's important for me to clarify this. When we talk about market conditions in poultry, it's very different from what we experienced in pork. Pork market conditions are out of our control. They're global markets and very distinct and different from the poultry business. Poultry is supply managed in Canada and the allocations or how much poultry is grown is reset every eight weeks. So, there's an opportunity every eight weeks to look at the supply-demand balance in the Canadian supply management system, which is good for us over the long term, that gives us lots of stability.

It's one of the reasons we are very confident in the investment in London Poultry. From time to time, supply and demand in poultry get disconnected like in all commodity situations. It tends to be more short-lived because supply and demand are reset every eight weeks. We're currently in a situation where with lots of inflation, the supply setting is out ahead a little bit from the demand created in the market. And what happens in those situations that you're referring to is things like RWA might not end up in a tray headed to a retailer, they might end up in the industrial channel and that has a negative margin impact in the short term. That's completely, I would expect that that over the course of the next again, progressively maybe would be a better way to say it, I expect progressively as the year plays out, that will improve as the consumer demand environment improves and we already know for May and June as an example that supply allocations are actually negative year-over-year in poultry and the system is starting to take steps. We're frustrated it's not faster just for absolute clarity, and we're going to do everything we can commercially between now and kind of that May-June time period to optimize the value of the meat. But that's our job and that's what we intend to do.

Mark Petrie
Analyst, CIBC World Markets, Inc.
Q

Okay, thanks. And then if I could just have one more, which is the new structure. You sort of alluded to it earlier, but the new structure, the executive change, but the combination of both meat and plant protein together does – can you quantify the change in the cost basis at all?

Curtis E. Frank
President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.
A

Not today. We've got some pretty significant work and you can imagine some of the implications attached to that work. We've got some pretty significant work to do here over the next quarter. What I can say is it's going to be favorable and it's one of the reasons why we are and why I've always been confident in our ability to generate a profit in Plant Protein. We're going to run it like the other categories inside of Maple Leaf. But where I'm really excited, Mark, is the synergies attached not only financial but also attached to the ability to drive growth. The fact that we'll have a focused Canadian business which will include Plant Protein and we can now fully leverage the breadth of the Maple Leaf engine in Canada, and more importantly, we'll have a focused platform in the United States bringing together meat and plant as a platform to grow inside the United States. It's going to be very lucrative for us over a long period of time. Those benefits might not show up next week, but they're going to show up over time. Just consolidating the breadth of customer relationships we have, the distribution, putting products on one truck, the way we show up with retailers is going to be a very powerful move for us and it's one that that we're quite excited about.

Mark Petrie
Analyst, CIBC World Markets, Inc.
Q

Yeah. Okay. Got it. All the best, guys. Thanks.

Curtis E. Frank
President, Chief Executive Officer & Director, Maple Leaf Foods, Inc.
A

Thank you.

Operator: Our next question comes from the line of George Doumet. Please go ahead.

George Doumet
Analyst, Scotiabank
Q

Yeah. Hi. Good morning, guys. Can you talk a little bit about the path to getting to a low-to-mid single-digit revenue growth in Meats for 2024, I guess, against this challenging backdrop and should we expect that to be more kind of second half weighted?

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

A

Good morning, George. I'd point you to the fact that in a challenging macro environment in Q4, our Meat Protein growth was in and around 1% and that was probably in one of our more challenging macro environments. The combination of recovery and volumetric growth most materially, Q4 was tough to tease apart, as you know, because of the quarter we experienced last year with cyber impact and all those kind of things. But I even look back to 2022 as a baseline, George – or 2021, sorry, just to go back to take an extra year of runway and our volumes are down maybe 4% to 5% in the total prepared meats business and I expect we'll get those volumes back on track as we migrate through the worst of the kind of inflationary impacts of the post-pandemic economy. So, volumetric growth will play a role in that. By getting our mix back on track, that clearly will play a role in that, but that's a short-term implication attached to poultry market conditions and what we've seen from consumer trade-down in the very short term in prepared meats. And then pork revenues, I think, again, predicting markets, I'm reticent to do, but I think you'll see top line growth in the pork business most likely next year depending on how markets play out obviously.

George Doumet
Analyst, Scotiabank

Q

Okay. Thanks for that. And I just noticed that Bacon prices are [indiscernible] (00:56:37).

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

A

George, sorry. I should have added – I'm sorry to interrupt here, but I should have added that we also plan to get the Plant Protein business throughout the year back on a run rate of growth.

George Doumet
Analyst, Scotiabank

Q

Okay. Thanks. I just want to talk a little bit about Bacon prices. I think we're seeing high single-digit deflation in January. Not sure you're seeing that on your business, but just wondering what's going on there with bacon prices and maybe how big the Bacon category is for you guys?

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

A

Yeah, Bacon prices tend to lag the performance of the Belly. So if you track the Belly there tends to be a lag. It's pretty formulaic. But change usually takes depending on whether it's private-label or branded product usually takes 4, 12 weeks, that play through. Markets came off – the prices in the market would be reflective of the markets coming off and they've run back up. I think the last I looked at the Belly complex, I may not be perfectly accurate in this, George, we're in above the 140 to 150 range. So have moved back up materially and you'll see that bounce back quickly. The other thing I would add just from the context of having been in this business for quite a few years, if you're looking at retail prices in the marketplace, Bacon in the fourth quarter, given Christmas seasonality, tends to be heavily promoted at discounts in the retail environment because it's a basket driver. When you put Bacon on the front page, it gets people into the grocery store. And so if you're looking at retail price compression, which is not within our control, but that is highly promoted very much in the fourth quarter as well.

George Doumet
Analyst, Scotiabank

Q

Great. Thanks for the color. [indiscernible] (00:58:12) Got it. Okay. And you guys called out driving cost efficiencies as a driver of margin. So I'm trying to get a sense of maybe is that something we can see in 2024? Is there any room maybe to kind of right-size the SG&A? Is that something we can see over the next 12 months?

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

A

Well, SG&A is a component maybe of it but – and I think – I'd be thinking about more of that at the tail end of 2024, George. The way I'm thinking about the business today is this is a company over the last few years that's been focused on organic capital projects and navigating through the intense complexity of a pandemic and a post-pandemic economy. And I believe, maybe it's the optimist in me, that we're going to move to more clean air this year, and that will allow us to have a renewed energy and focus on driving cost synergy. And that's everything from filling our plants, which is deeply important to us to some work we've already started in procurement as an example, given the inflationary environment and through formula optimization to optimizing where we utilize our assets and our network a little bit more aggressively. So there's a lot of synergy over, say, the next three years, our efficiency story. There's a lot of efficiency over, say, the next three years to be driven in this business that has the potential to contribute in a material way to margin expansion from where we are today. And some of those are plants in development and some of them are plants we've already started to put into place that we expect will start to contribute benefits more towards the fourth quarter of this year.

George Doumet
Analyst, Scotiabank

Q

Okay. Thanks for that. Good luck.

Operator: Our next question comes from the line of Tamy Chen. Please go ahead.

Tamy Chen
Analyst, BMO Capital Markets Corp. (Canada)

Q

Hi. Good morning. Thanks for the question. First, Curtis, can I just confirm the sequential basis point moving pieces in the new segment? So you said for the [ph] pork (01:00:16) commodity backdrop, probably 80 basis points negative sequentially. Then for the commercial slash consumer aspect, did you say it was sequentially about negative 100 basis points? And so if your overall meat segment margin went down 90 basis points sequentially, right, so am I thinking that's a positive 90 basis points sequentially from the poultry and bacon facilities? Am I thinking about that correctly?

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

A

Yeah. You're thinking about it right. I don't want to get into like perfect numbers, Tamy, but 90 basis points is maybe a little bit on the top end for the two projects. But roughly, you're thinking about it right.

Tamy Chen
Analyst, BMO Capital Markets Corp. (Canada)

Q

Okay. Thank you. And on the meat segment sales, so if I go back to your Q3 call at the time, you had still felt comfortable you could do the mid-single-digit annual sales growth and obviously that came short. So did the consumer backdrop since that call just become worse than you had expected? I'm just trying to figure out what changed through the quarter.

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

A

Yes, I think the short answer to that is, yes. At the time in our call, we had talked about the early view in the quarter of a consumer under increasing stress at a sensitive time in the year where the dollar was getting stretched pretty hard, particularly around the festive and holiday season and that played out even maybe a little bit more strongly than we had anticipated at the time, and that combined with the poultry implications of supply and mix is really what's contributing to the change.

Tamy Chen
Analyst, BMO Capital Markets Corp. (Canada)

Q

Okay.

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

A

Keep in mind the fourth quarter was 0.8%, so we would have expected it to be a little stronger.

Tamy Chen
Analyst, BMO Capital Markets Corp. (Canada)

Q

Right. So my last question is, as we head through this year, I'm curious how you're thinking about ability to hold on to at a very high level pricing. Did you put through price increases because your costs were going up through a lot of 2022-2023? The consumer they're showing is still under pressure, probably gradual recovery. So, do you believe at a high level this year you can hold on to the pricing that you put through? Thanks.

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

A

Thank you. I believe that we will hang on to the margin attached to the pricing that was required to bring our margin profile back in line with the expectations. Keep in mind, Tamy, for the course of the year, last year we were trailing inflation with our pricing. It was one of the most material challenges that we faced in the first part of the year, actually last year, which was this notion that we kept moving our prices forward only to realize that the pricing we had put in place wasn't enough given the hyperinflation environment. We're finally in a position where we feel as though we're where we should be in the moment and we feel we'll be able to hang on to what we need. And if there is, I think importantly to note, if there is more inflationary cost required as the year plays out, which every year has normal levels of inflation in the business, we will move to price for those inflationary costs as well. We believe we have the brand strength and if that's required throughout the course of the year we'll definitely move to change our costs as required.

Tamy Chen
Analyst, BMO Capital Markets Corp. (Canada)

Q

Okay. Thank you. [indiscernible]

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

A

Your answer is, yes, we expect to hang on to it.

Tamy Chen
Analyst, BMO Capital Markets Corp. (Canada)

Q

Okay. Thank you.

Operator: Thank you. There are no further questions at this time. I'd now like to turn the call back over to Mr. Frank for final closing comments.

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

Okay. Thank you, everyone, for joining us here today and really appreciated your questions and comments. I respect the fact that there was a lot to unpack and talk about today. We continue to be very pleased with our relative performance in a very difficult and challenging operating environment. Obviously, Q4 was not up to our expectations in the Meat Protein business. We're thrilled with the outcome in Plant Protein, and we've got a very exciting future ahead of us with the unveiling of our evolved strategic blueprint and continue to be focused on creating share value over the long term. So appreciate your time today. I look forward to talking with you next quarter.

Operator: Thank you, sir. Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines. Have a lovely day.