02-May-2024

Maple Leaf Foods, Inc. (MFI.CA)

Q1 2024 Earnings Call

CORPORATE PARTICIPANTS

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

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

David Smales
Chief Financial Officer, Maple Leaf Foods, Inc.

OTHER PARTICIPANTS

Luke Hannan
Analyst, Canaccord Genuity Corp.

Irene Nattel
Analyst, RBC Capital Markets

George Doumet
Analyst, Scotiabank

Mark Petrie
Analyst, CIBC World Markets, Inc.

Michael Van Aelst
Analyst, TD Cowen

Vishal Shreedhar
Analyst, National Bank Financial, Inc.

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

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen. Thank you for standing by. Welcome to Maple Leaf's First Quarter 2024 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 over to Janet Craig, Investor Relations at Maple Leaf Foods. Please go ahead, Ms. Craig.

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

Thank you, Joel, and good morning, everyone. Speaking on the call this morning will be Curtis Frank, President and Chief Executive Officer; and Dave 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 materially differ from what we discuss. Please refer to our Q1 2024 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 uploaded our Q1 investor deck to our website, which includes support material for the quarter. As always, the Investor Relations team will be available after the call for any follow-up questions you may have.

And with that, I'll turn the call over to Curtis Frank. Please go ahead, 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. When we were last together in February, we had just announced our Refreshed Strategic Blueprint. We also communicated our plans to migrate to a new business structure that will lead us into our next chapter of creating shared value. With these changes now in place, we have updated our reporting for this quarter. Now that Plant Protein is integrated as a category, we've moved away from reporting the Meat Protein and Plant Protein segment separately and have migrated instead to reporting a One Maple Leaf view of our consolidated earnings. That said, to help bridge through this transition, we've also provided you with some additional information that outlines how we think about our two operating units, the key drivers of our business, and some helpful reference points to help you to understand our performance.

The supporting materials that we issued this morning also include the evolved Maple Leaf Blueprint. It's important to understand the blueprint serves as the foundation for all we do on our transformational journey to becoming a globally-admired and brand-led consumer packaged goods company.

To reflect this ambition, we have structured our business into two operating units. The first is our Prepared Foods business, which includes Prepared Meats, Poultry and Plant Protein and represents approximately 75% of our total company sales. Our Prepared Foods business houses the number one and number two packaged meats brands in Canada, Schneiders and Maple Leaf; the number one sustainable meats brand in Canada and number three in the US in Greenfield Natural Meat; the number one brand in Fresh Poultry in Maple Leaf Prime; the number one Halal Fresh Poultry brand in Mina Halal; and a portfolio of leading brands in the US Plant Protein category through the combination of Lightlife, Field Roast and Chao Cheese.

These leading brands supported by a broad portfolio of regional and specialty brands are engaged in more than 20 product categories. You will find our products distributed throughout thousands of North American grocery stores and available to consumers across the vast offering of North American foodservice operations.

The second operating unit is our Pork Complex, which has a very attractive business mix that includes intercompany supply for prepared meats, North American retail sales and a long-standing global presence, headlined by strategic relationships in the Japanese market.

Just like our Prepared Foods business, within the Pork Complex, we have established unique capabilities in sustainability programs such as Raised without Antibiotics and Gestation Crate Free. In our MD&A and in the investor deck we've provided, you'll be able to see more details on each of our operating units.

With that as important context, I'm going to jump in with a recap of our first quarter, before I turn it over to David for a deeper dive into our financial results. I'll also spend a few minutes towards the end of my remarks to update you on our strategic priorities looking forward. And, of course, we will leave some time toward the second half of our call today to answer your questions.

The headline is that in the first quarter of 2024, we delivered results that were in-line with our expectations and consistent with the outlook that we shared the last time we were together. We grew our first quarter adjusted EBITDA to CAD 116 million, a 55% improvement from Q1 2023 and our adjusted EBITDA margin expanded to 10.1%, 370 basis points better than the 6.4% we delivered in the same quarter last year.

In our Meat Protein business, we delivered an adjusted EBITDA margin of 10.8%, a 310 basis point improvement versus last year, and a 30 basis point sequential improvement from the 10.5% that we delivered in the fourth quarter of 2023. The year-over-year improvement was predominantly driven by contributions from our major capital investments, along with improving pork market conditions. Pork markets, while still compressed, now appear to be starting to show the sequential improvement that we expected in time. Quarter-over-quarter adjusted EBITDA margins benefited from these improving pork markets, stronger results in prepared meats, and experienced the slight offset by increased SG&A expense.

And turning now to sales, you'll see that top line sales were 1.5% lower than Q1 2023. It's important to note that this modest decline is not reflective of the underlying health and performance of our business. The positive news in the quarter, is we saw sales growth return to our Prepared Meats business, in what a traditionally seasonally weaker quarter is, and the lower volumes into commodity markets for both pork and poultry, which led to lower sales but improving mix. Within Prepared Meats, our top line growth was 2.9%, supported by sales growth in our brands and volume growth in the combined retail and foodservice channels. This underscores the strength and resilience of our brands in the face of broader macroeconomic challenges that the consumer is facing today.

We held our market share in packaged meats in aggregate and delivered market share growth in many key categories, including bacon, ham, meat snacks, kits and further processed poultry. In Poultry, we saw sales depth of 7.1% in the quarter, mostly a function of repatriating co-pack volumes back into London Poultry, which also subsequently reduced sales into the lower margin commodity market relative to last year and will lead to improving sales mix over time.

It's also important to note that in poultry, while commodity market values remain depressed, combined our retail and foodservice channels grew in the first quarter, setting us up well for the eventual return of the supply and demand balance within the poultry markets.

In Plant Protein, we experienced a year-over-year top line decline of 5.7% as overall category headwinds continued to persist. While we held Plant Protein market share flat over this period, our focus is squarely set on stimulating category growth as reflected in our plans for both new product innovation and the renovation of several key items within our portfolio. This, along with the synergies that will come from completing the integration of the Greenleaf business, will continue to drive improved financial results in Plant Protein as the year progresses.

And lastly, although both markets and profits improved in the pork business in Q1, pork complex sales declined by 4.5% as compared to last year, driven by two factors. Firstly, a strategic decision to purchase and process fewer external hogs than last year; and secondly, there was also a smaller impact from foreign exchange.

To put a fine point on it, our first quarter can best be summarized as another quarter of progress, but certainly not perfection. And while we took an excellent step forward, we continue to be motivated by the momentum that's building in our business. Here's why. We delivered a significant profit improvement versus last year in Q1 and with a seasonal margin in the Meat Protein business of 10.8%, our results are improving in line with our expectations.

We drove improvements in branded sales growth in the face of the overall macroeconomic environment that has been so difficult for consumers. This is reflective of the strength of our brands and our ability to adapt to the current consumer demand environment. Within the upcoming spring launch window, we are launching more than 25 new items into the market that will deliver on convenience, taste and appeal to a broad and changing population in North America.

We continue to be excited about the forward-looking growth prospects of our sustainable meats business, which broadly speaking, is about 15% of our sales, serves as one of our differentiators and represents a significant competitive advantage for us as we look to accelerate growth across our footprint in the US, led by our Greenfield

Natural Meat's product line. We are continuing our disciplined approach to capital management, and we remain focused on deleveraging our balance sheet, while we continue to make progress. And we are confident in our ability to deliver our consolidated adjusted EBITDA margin target of 14% to 16%, updated to include Plant Protein in normal market conditions, where we have clear priorities and the right team and the right structure in place to deliver.

I'll be back to share a little bit more on this in a few minutes. But first, I want to turn the call over to David to walk us through our detailed financial results. David?

David Smales

Chief Financial Officer, Maple Leaf Foods, Inc.

Thank you, Curtis, and good morning, everyone. Based on the realignment and focus as an integrated protein company that Curtis covered in his opening remarks, we are now reporting our business and operational results as one segment to align with how we monitor and measure the business, as well as providing additional visibility into our performance, including with respect to our two primary operating units. Prepared Foods, which accounts for approximately 75% of sales and pork, which is approximately 25% of sales. Prepared Foods combines the operations of Prepared Meats, Poultry and Plant Protein, which represent on average, approximately 50%, 20% and 5% of total company revenue, respectively.

Turning to our results this quarter, I'll touch briefly on the company's consolidated results before addressing balance sheet items and discussing the outlook for 2024. Total sales in the first quarter were CAD 1.15 billion, a decrease of 1.5% compared to last year. Adjusted EBITDA increased by 55% to CAD 116 million, with an adjusted EBITDA margin of 10.1%, compared to 6.4% last year. Earnings in the quarter were CAD 52 million or CAD 0.42 per basic share, compared to a loss of CAD 58 million or CAD 0.48 per basic share last year.

After removing the impact of the non-cash fair value changes in biological assets and derivative contracts, startup costs in both years and restructuring costs in last year's results, adjusted earnings were CAD 0.04 per share for the quarter, compared to a loss of CAD 0.12 per share last year.

Looking at our key metrics in greater detail. As I mentioned, sales were lower in the first quarter by 1.5% compared to last year. Within Prepared Foods, sales were down 0.4% year-over-year. We saw an increase in sales in prepared meats of 2.9%, which was offset by declines in poultry of 7.1% and plant protein of 5.7%.

Within prepared meats, we saw higher volumes and improving mix across our portfolio of brands as Curtis noted. In plant protein, sales declined at rates consistent with category performance. And in poultry, with our increased production capacity for tray packs, as we ramped up the new facility in London, we no longer require a third party to fulfill tray pack demand for us. This allowed us to repatriate this higher value volume to London and reduced sales into the industrial channel.

In essence, London has allowed us to improve our mix by increasing our tray pack capacity by replacing lower value and volatile industrial channel volume, resulting in the decline in poultry sales year-over-year that improved margin performance. Pork sales came in 4.5% lower year-over-year as we processed fewer hogs. In Q1 2023, we opportunistically sourced additional hogs that were margin positive due to short-term market dislocations within Ontario and Québec, whereas this wasn't a factor this year. This led to a 3% decline in hogs processed this quarter compared to Q1 last year.

Pork sales were also negatively impacted by foreign exchange versus the same quarter last year. Adjusted EBITDA significantly improved year-over-year, growing to CAD 116 million, a 55% increase compared to last year with both Prepared Foods and Pork contributing positively. Within Prepared Foods, higher adjusted EBITDA was primarily driven by poultry and plant results. Poultry saw better mix and contributions from the London facility and plant's improved performance reflects efforts through 2023 to right size the business and drive cost down.

Pork markets were also a tailwind to our year-over-year results as market conditions have improved, although remaining well below what we define as normal. Q1 adjusted EBITDA was negatively impacted CAD 18 million or 160 basis points relative to normal market conditions. Adjusted EBITDA margin came in at 10.1%, up 370 basis points from the year previous and flat compared to the fourth quarter of 2023, whereas meat protein adjusted EBITDA margin of 10.8% was an improvement from 10.5% in Q4. Plant protein results in the first quarter were down sequentially due to lower sales and as we balance production and inventory levels to better align with the demand environment.

Compared to the fourth quarter of 2023, drivers of adjusted EBITDA performance were improving pork market conditions and prepared meats, where the execution of our brand plans resulted in stronger volume and mix, despite Q1 typically being a seasonally softer quarter. These positive developments were somewhat offset by a dip in plant protein by the factors noted above and oversupplied market conditions, which led to slightly lower margin in poultry.

Also contributing to the flat adjusted EBITDA margin was higher SG&A cost relative to Q4 levels due largely to an increase in variable compensation. We expect SG&A costs as a percentage of sales to moderate for the balance of the year relative to 9.5% in Q1. In total during the quarter, we invested CAD 24 million in capital expenditures compared to CAD 53 million last year. The decrease is largely due to the completion of our large capital projects. CAD 13 million of our capital expenditures in the quarter were maintenance related.

Free cash flow improved year-over-year to CAD 74 million, up CAD 62 million from CAD 12 million in the first quarter last year as we start to see the year-over-year benefit of capital projects and improved earnings. On the balance sheet, net debt decreased CAD 25 million from the end of the fourth quarter to approximately CAD 1.7 billion. A majority of this debt is related to our now completed major capital projects. In line with our stated priorities, we saw a significant improvement in leverage ratios over the past four quarters, with a net debt to trailing 12-month adjusted EBITDA ratio of 3.7 times at the end of the first quarter of 2024, compared to 6 times at the end of Q1 last year, and 4.1 times at the end of 2023.

Moving now to the outlook. For the full year 2024, we continue to expect low- to mid-single-digit revenue growth, adjusted EBITDA margin expansion from 2023, 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 increases. Market conditions will continue to play a role in our results and through the balance of the year, we expect to see feed costs improving, inflation stabilizing and the supply demand imbalance in poultry to ease. Longer term, we expect to achieve our adjusted EBITDA margin target of 14% to 16%, inclusive of plant protein as markets normalize.

I'll now turn the call back to Curtis.

Curtis E. Frank

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

Okay. Thank you, David. As we wrap up our call this morning, I'll close by saying that I am pleased with our progress this quarter, with our results coming in largely as we expected. As a result, and as we look forward, our 2024 outlook remains unchanged and our focus remains on executing five key priorities. The first is driving adjusted EBITDA margin expansion toward our 14% to 16% target in normal market conditions and we remain confident in our ability to achieve this target, including plant protein. The second is harvesting the remaining benefits of our recent capital projects at London Poultry and our Bacon Center of Excellence, where after startup success, we are now focused on the commercial and the operational performance of the assets. The third is adapting our brand strategies to the evolving consumer environment. This includes investing in our brands and bringing impactful innovation to restore volume and mix in our brand-centric prepared foods business. The fourth is completing the integration of our plant protein business, aligning our team to focus on Canadian growth, while at the same time accelerating US platform expansion. And lastly, we are sharpening our cost focus and our competitive edge, taking steps to simplify the business, drive cost efficiencies across the supply chain, all while leveraging the unique capabilities and capacity that we've already invested in and have already created.

Executing these priorities will bring strength to the balance sheet, by generating strong free cash flow through improved profitability and disciplined capital management, all of which will support momentum in the pace of deleveraging. The opportunities ahead of us at Maple Leaf Foods are tremendous. We are clear on what needs to be done. There is positive momentum building in our business and I am very confident that we are on the path to delivering.

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

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

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 Luke Hannan. Please, your line is now open.

Luke Hannan
Analyst, Canaccord Genuity Corp.

Q

Thanks, and good morning, everyone. Appreciate the added disclosure when it comes to the breakdown of revenues in the meat protein business. And maybe we'll start there. You've maintained your revenue guidance for the year, despite the decline at start of the year, which implies you have some degree of confidence of being able to recover well for the balance of the year. And I was wondering, can you help us think about the cadence of growth for the components of each unit, or at least the dynamics that we should be thinking about as we progress through the balance of the year?

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

A

Hi. Good morning, Luke. Sure. I'd be happy to help with that. In my comments, I gave you a description of kind of how the first quarter played out. I think what's really important before I move on to looking forward is just to take the important perspective away that in 50% of our business, which is our prepared meats business, our revenues did grow at nearly 3%, 2.9%. And in the face of the kind of the challenges that the consumer has been facing and what we experienced certainly last quarter, we are really pleased with our ability to pivot here in the second quarter. So I don't want that to get lost in the first quarter story.

When I look forward to the balance of the year, we have maintained our outlook for the low- to mid-single-digit revenue growth rates. But there are a number of factors to your point that I think are important to be thinking through. It's mostly related to a back half story, I think would be fair to say and I'll maybe take you through three or four things that I think are important to keep in context. The first is that we do fully expect the poultry markets to normalize over the course of the year. The pace of that is somewhat out of our control, but we know allocations are coming down within the second quarter and we fully expect that that over the course of the year and as the year unfolds, we'll see improvements in poultry revenues, again, likely a back half improvement.

The second is we did see declines of in and around 6% in the plant protein category and our business fell along that same pace, holding market share. And in plant protein there, too, we expect an improvement in sales revenues as the year progresses. And that we start to lap some of the quarters that we experienced a year ago. The third important factor is the consumer recovery, which we expect again to improve overall as the year progresses. There's the fact that the macroeconomic headwinds are easing or subsiding throughout the year. Inflation's certainly stabilizing. There's lots of evidence that our brand plans are taking hold. We're onboarding new businesses, predominantly in the US, but also in Canada, supported by our new assets, including pre-cooked bacon. And I think you would have seen in our materials that we're launching up to 25 new items here in the spring planogram. So we'll get some support from new items and innovation.

Now the last couple of points that I think are important is I also expect that we'll have some level of annual inflation pricing coming in the back parts of the year that will assist on the revenue side and the last kind of outstanding item to think through is just the pace of revenue in the pork business and we did have a transitory decline in the first quarter where we opportunistically purchased harvest from the outside within the first quarter. We don't expect that that's going to be as material as a headwind moving forward, that's more transitory in nature. But in the pork business, that's little bit less in our control. But we'll update you obviously as the year unfolds and progresses. So we maintain our outlook based on those important points.

Luke Hannan
Analyst, Canaccord Genuity Corp.

Q

That's very helpful. Thank you. And then as my follow-up here, Curtis, you spoke about the consumer recovery for the balance of the year. Just curious, are you noticing any difference in the behavior of consumers in Canada compared to the US? And then maybe as sort of an add-on to that, has the pace of consumer trade down, have those dynamics changed at all since we spoke last quarter?

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

A

I'll start, I'll answer those in reverse, if it's okay, Luke?

Luke Hannan
Analyst, Canaccord Genuity Corp.

Q

Yeah.

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

A

But the pace hasn't changed materially from the last quarter. We did see improvements in the prepared meats business. Obviously, as I said, that that was a lot of heavy lifting and I think more brand-led than market-led. Some of the plans that we put in place came to fruition. So we're pleased with that. The poultry business continues to be impacted in the first quarter by the consumer elements that are driving an imbalance in supply and demand. We talked about that last quarter and it played out pretty much like we expected, but it didn't get materially better and we didn't expect it to. And we do expect it to improve throughout the year. So I think the first answer is – the answer to the first question, it hasn't improved materially, although our business has improved. Now, we do expect it will improve throughout the year here in the Canadian market for sure.

In terms of differences between Canada and the US, there are a few. The promotional intensity, similar consumer backdrop, lots of stress and pressure. The promotional intensity in the US in select categories continues to be pretty varied. The Bacon category would be the headline in that. We actually had in the first quarter a sales decline in the US market. But if you look at our prepared meats business and strip our Bacon, our revenues were up nearly 3%, between 2% and 3%. So the Bacon tends to be the – in our categories, the lead category in terms of promotional intensity. So that maybe would be one slightly different nuance factor from the US that we're seeing in our product categories. But broadly, I would describe them as very similar in nature.

Luke Hannan
Analyst, Canaccord Genuity Corp.

Q

Okay, great. Thank you very much.

Operator: Your next question comes from Irene Nattel. Your line is now open.

Irene Nattel
Analyst, RBC Capital Markets

Q

Thanks. Hi. Good morning, everyone. First of all, just a follow-up, Curtis, on your answer to Luke's question. One of the factors you cited in terms of the evolution of the year is consumer recovery. If we don't see any change in consumer behavior, if let's say rate increases get kicked down the road or whatever, how material would that be in your ability to deliver low- to mid-single-digit revenue and show margin gains as we move through the year?

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

A

Good morning, Irene. I think it'll be less impactful from a margin expansion point of view, unless volumes take a material step backward, which I do not expect will be the case. All signs from our perspective point towards improving market conditions and I think what I'm probably most – I'm mindful not to get too far ahead of ourselves here it's one quarter. But what I'm most impressed with, with our operating team was our ability to adapt and pivot in here in the first quarter with 2.9% revenue growth in the prepared meats business, 50% of our portfolio. That's a really good thing, Irene. So that gives us confidence in the outlook moving forward, maybe more than anything else.

Irene Nattel
Analyst, RBC Capital Markets

Q

Thanks, Curtis. That's really helpful. Could you give us some tangible examples of some of the initiatives you referred to adapting and pivoting some of the initiatives that you implemented that seem to bear fruit or pigs or whatever it is in Q1?

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

A

Well. Yeah, sure, sure, I can of course. We did – we did – which shows up in the SG&A line, frankly. Irene, we did increase our ad and promo investments, our advertising and promotion investments in the first quarter. Any time you're the number one and number two brand and you tend to be price leaders, it's important to continue to invest in and support those brands. So we did increase our investments in the first quarter, proved to be a timely and appropriate and I think certainly benefited us. The second is we had a very overt and directive fast start initiative that we completed with our selling and marketing organizations, which was customer by customer and we'll get into the details of how the customer plays in this particular case.

But customer by customer, making sure that we had the support in place, but frankly, we deserve given the given the size and strength of our brand. So I think, the combination of ad and promo investment, a little bit more promotional intensity in select categories where we're very thoughtful. I think that speaks to our skills in revenue and revenue management, Irene, which as you know, is a function we've built out over the last number of years. When you combine those two things along with the customer execution and support that we got from our customers in the first quarter led to a pretty good outcome.

Irene Nattel
Analyst, RBC Capital Markets

Q

That's great. Thank you. And then just one final question, if I may. Totally understand the decision around sort of bringing more – sort of let me – let's call, right sizing some of the primary processing. Can you give us an idea of the magnitude of the revenue headwind in Q1 and then how that evolves over the year? Thank you.

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

A

Yeah. And I think you're referring to the pork and poultry businesses. In pork...

Irene Nattel
Analyst, RBC Capital Markets

Q

Yes.

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

A

...we did disclose that we had a 4.5% revenue decline. That was more than less that was more of a situation where we had an opportunistic opportunity to procure hogs outside of our normal buying rhythm. We do that from time to time when it's in our best interest from a optimization point of view. That led to most of the decline and then there was a small impact, smaller impact from FX. That was more of a transitory thing, Irene. I don't think that that's going to be a big issue in Q2 Q3 and Q4, just given the size of the purchase that we made in Q1. So I would view that more as a Q1 item than anything else. And I think it's less so going to be an impact moving forward. In poultry, one of the big levers that we pulled to improve the profitability as embedded in our investment thesis for London Poultry was to bring whole [Technical Difficulty] (00:33:01-00:33:14)

Operator: This is the operator. I'm sorry. We can't hear you anymore. Did your line go? [Technical Difficulty] (00:33:27-00:33:52) I'm sorry. This is the operator. We can't hear you anymore. Can you hear me? [Technical Difficulty] (00:34:01-00:34:34). Sorry for the interruption. It'll just be a moment. We are having some technical difficulties. [Technical Difficulty] (00:34:39-00:37:11)

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

A

Irene, I'm terribly sorry. We had a technological challenge here. We're back on the line. Can you hear us okay?

Operator: Irene, your line is now open.

Irene Nattel
Analyst, RBC Capital Markets Q

Thank you. Just [indiscernible] (00:37:32), it's nice to hear you back.

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

Okay. Thank you. We're very, very sorry about that. It looks like our Internet took a turn for the worse here, so we're calling on the phone line. So please be patient with us. We apologize.

Irene Nattel
Analyst, RBC Capital Markets Q

Nice to know, it doesn't only happen to me.

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

No, it's happened here as well. So, I'm not sure where I left off, but I'll try my best to just catch up just really briefly. Your question was related to the revenue declines that we saw in our poultry and pork business and how we see them moving forward. In pork, we did see a 4.5% contraction in the quarter. That's predominantly transitory because we acquired hogs from another market within the first quarter. And we don't expect that to be a material headwind moving forward. In poultry, I was describing the importance of repatriating a co-pack supply as part of our business case and our investment in London Poultry. And now that we're fully operational, we've been able to move all of that meat back to internal supply, which is really good news for us from a mix perspective because any surplus that we had from co-pack was going onto commodity markets, which as you know, are quite depressed in the moment. So we have less commodity sales which is driving the revenue down in the first quarter. That will be a factor certainly into Q2. And then we expect over the back half of the year will abate.

Irene Nattel
Analyst, RBC Capital Markets Q

That's great. Thank you.

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

Thank you, Irene. Thanks for your patience.

Operator: Your next question comes from George Doumet. Your line is now open.

George Doumet
Analyst, Scotiabank Q

Yeah. Hi. Good morning. And Curtis, I know this is probably a difficult question to answer, but just wondering how sustainable you think the improvements we're seeing in the pork complex today are?

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

Well, we're – I think they're very sustainable, George. We've been waiting for this turn in markets to take place for a while, as you know. And there are several reasons why I believe them to be sustainable. The first is, and I think the most logical just in terms of external data to get your hands on, which is the fact that the primary impact into raising the hog is feed, headlined by corn and corn costs have come off very significantly, which in and of itself is driving significant improved profitability in industry and it makes it very sustainable because you buy feed moving forward. Of course, it takes a few months to feed a pig. So the impact of that will progressively actually improve as the year plays out. So that's the first and primary factor.

The second is, we've seen strong demand in North America. Pork relative to other competing proteins continues to be an attractive option. So that's been helpful and no signs that that will not continue to be the case, all things look good from that perspective. And the third is the implications of contraction globally, which have been ongoing for the last couple of years, frankly, the last 24 months, starting in Europe. And many North American examples are now starting to take hold to the extent that supply and demand are coming better into balance.

All of that said, we saw a significant improvement sequentially, which typically, George, keep in mind, Q1 is generally one of the weaker quarters from a margin and seasonality point of view in the year. So to have a sequential improvement in and of itself is a good thing. And while we saw a sequential improvement, it's important to note that we're still not anywhere close to back to fully normal. In fact, we would describe about 160 basis point gap from where we are today to normal market conditions. So improving or room to improve and all expectations are that as the year progresses here, too, we'll continue to see sustained improvements in the pork complex.

George Doumet
Analyst, Scotiabank
Q

Good. I appreciate that. Thanks. And earlier, Curtis, you mentioned the inflation, some pricing in the second half to come in. Can you maybe give us a little bit of color on that, where it will be coming in through and maybe give us an order of magnitude, it would be appreciated?

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

Yeah, I won't I won't give an order of magnitude at this stage, George. We're just working through that. We're into normal levels of inflation now or at least that's our perspective is that inflation's normalizing. Typical pre-pandemic pricing at Maple Leaf would happen on an annual basis, generally in the early fall where we price for the annual impacts of inflation on feed and/or on ingredients, packaging, freight, labor, obviously. You know, so we're working through the details from that perspective. And then, we do have an opportunity, particularly in the beef complex, where things have moved up a bit. It's not a big part of our portfolio, George, but there is cost recovery in that area too that we're looking towards implementing. So I don't think it would be appropriate to give more detail than that. But I would think about that as a back part of the year and normal in terms of magnitude, certainly not the inflation we've experienced in the last couple of years.

George Doumet
Analyst, Scotiabank
Q

Okay, thanks. And just one final, if I may. Last quarter, you guys shared there was an extra 60 to 80 basis points contribution on the margins to get from the capital projects, I guess, progressively...

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

A

Yes.

George Doumet
Analyst, Scotiabank

Q

...as the year went on. Can you maybe give us an update as to what that number could be now given all the puts and takes are out in the quarter?

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

A

Yeah. I'm not going to give you the down to the kind of the single-digit on basis points, but I would call it very similar situation today. That shouldn't be unexpected, George, because what we said last quarter is very consistent with this quarter. Things at London Poultry is going exceptionally well. Everything is on track. We have small improvements to be made to get the absolute full benefits of the commitments that we've made at London Poultry. We're tracking that in excruciating detail, as you should expect that we are or we would and all signs are pointing to a very positive outcome at poultry. Long, long-term, we have opportunities to do even more, and we're thrilled with that.

At the pre-cooked Bacon Center of Excellence and we talked last quarter about onboarding a very important customer throughout Q2 and that we wouldn't start to see the final improvements in the precooked Bacon start up until the end of Q2 and then progressing through the back part of the year. And that's still the outlook. So for thinking about it as 60 to 80 basis points, it would be reasonable and plus or minus on either side of that.

George Doumet
Analyst, Scotiabank

Q

Great. Appreciate it. Thanks for your answers.

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

A

Yeah, no problem, George.

Operator: Your next question comes from Mark Petrie. Your line is now open.

Mark Petrie
Analyst, CIBC World Markets, Inc.

Q

Yeah, thanks. Good morning. I just wanted to follow-up first on your comments regards to the ad and promo and marketing adjustments that you made. Are you as far along with that as you want or is there still incremental investment to come or underway in Q2?

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

A

No, I think we're pleased with the outcome in Q1, Mark, and we would expect to be sustaining where we are today from an ad and promo perspective through opportunities that arise. Ad and promo tends to be less short-term, Mark, like price, these are investments in the long-term health and viability of our brands and given the inflation we've experienced in the last couple of years, it's appropriate that we increase those investments wherever we think we can see a line of sight to a return. And that's exactly what we're doing in the moment. So feel good about where we're at.

I mean, if you think about the commentary and David provided a little bit of about is in his comments, our SG&A in the first quarter was around 9.5%, structurally that's a touch on the high side. We would expect it to be slightly below that. So ad and promo is obviously embedded inside of that. But I wouldn't expect a material change from where we are today on a broad basis. There's some seasonality, obviously, as we head into the second quarter. But if you're doing year-over-year comps or the equivalent of, I would consider that where we're at today to be directionally appropriate.

Mark Petrie
Analyst, CIBC World Markets, Inc.

Q

Okay. That's helpful. Could you walk us through the plans with regards to the quota in poultry being adjusted and then the impact that that has on your business, both top line and margins?

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

A

Certainly. So we're in a current situation as we've been open and transparent about where supply and demand are somewhat mismatched in the poultry business. And as a supply managed industry in Canada, Mark, the supply management tends to be a good thing over the course of a long period of time, but every once in a while you get dislocations and we certainly experienced that in the last little while.

More from a consumer pressure point of view, this is less about markets per se and more about the consumer. And the consumer being under stress is traded down in the poultry category, and in some cases, consumption isn't growing at the pace that it has historically. And supply got ahead of demand a little bit, and that will correct itself over time. I always talk about the positive impacts of supply management and poultry being as a Canadian business is supply and demand get reset every eight weeks. Certainly wish that was the case in the pork markets globally, but that's obviously not the case. But supply gets reset every eight weeks. We talked about May and June coming down. It's the second day of May. So we don't know the implications of that yet but supply setting did come down in and around 1.5% in May and June. That's positive. That should be a help to our second quarter, but obviously we need to see how market conditions play out and then supply will get set over the course of the balance of the year from there.

Mark Petrie
Analyst, CIBC World Markets, Inc.

Q

Okay. Thank you for that. And then just a last question on -- in terms of the plant business, the EBITDA contribution backtracked a little bit. Is that just sort of seasonal or is it driven by the revenue decline? What are the drivers of that specifically?

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

A

Yeah, it's a little bit of – it's – there's a couple of factors, Mark. It did step back slightly. The revenue, as we said, was down 6%. We had been hoping for a little better outcome, truthfully, in the first quarter than a decline of 6%. It's not the major contributing factor, but it certainly would have been helpful to have revenues that were closer to flat. There's slight loss from a breakeven in Q4 is really a combination of three things. Number one, the lower volumes that we just talked about. Number two, our team did a really nice job of managing production to get in line with the context of the current demand profile. So we had a little bit less production.

And we did invest a little bit more in trade advertising, promotions to prop up the health of the category and ensure that we maintained our share. But the most material factor is seasonality, as you've identified. And, again, we're sticking to our outlook to be EBITDA neutral or better as the year progresses. And I think probably most importantly, we're still – I am still of a view, as are we here at Maple Leaf, that this category will be margin neutral or even more likely accretive to the balance of the portfolio in the quarters ahead.

I'm very mindful of the fact that it took us several quarters to go from an investment of CAD 37 million in a quarter to zero, and it will take several quarters to go from zero to EBITDA accretive. That's a task that we're certainly up for as we've demonstrated in the past, and that's the outlook longer term for the future. In the meantime, I think you can expect us to be plus or minus a structural margin of in and around zero here in the short-term.

Mark Petrie
Analyst, CIBC World Markets, Inc.

Q

Yeah. Okay. And can you just give us a sense of what you're sort of seeing in the category from your competitors? I mean, is capacity coming out, are brands falling out of retail assortments? How are retailers handling the category?

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

A

Yeah. I would say it's fluid, Mark. The situation with retailers is fluid. They're working through the transitions of the category, just like we are. And many of the smaller competitors have been, as is typically the situation or is typically the case in these situations, many of the smaller suppliers have been the most impacted. Many of them have struggled for viability through the category transitions. We're very proud of the fact that we made a commitment to move from a significant investment to a breakeven situation. That's certainly not the case with our principal competitor. So we're very pleased from a relative basis how we've improved the performance. But I want to be clear, this is a category that's going to be profitable for Maple Leaf. Our goal here is not to breakeven. That's not how we run businesses to do. And that's our goal. So while we're pleased with our relative performance as compared to others, we would acknowledge that we still have work to do to meet our expectations of the category here at Maple Leaf.

Mark Petrie
Analyst, CIBC World Markets, Inc.

Q

Okay. Appreciate all the comments and all the best.

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

A

Thank you.

Operator: Your next question comes from Michael Van Aelst. Your line is now open.

Michael Van Aelst
Analyst, TD Cowen

Q

Hi. Thank you. Just to follow-up on the last part on your objective to be margin accretive in plant-based protein. Is that more of a revenue or a function of getting revenues growing again? Or is there also costs to come out?

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

Well, it's both, Mike. We announced last quarter that we were taking steps to integrate the plant protein business fully into the broader Maple Leaf portfolio. We see that show up in some of our materials in the way we've now structured Prepared Foods. But that integration work is not complete. It's only been a few weeks, obviously. So there's more work to do there and there'll be more benefits that come with the full integration of the business. So that that's a positive on the cost side.

And then naturally we need revenues to improve. We have to get to margin accretive, we will absolutely need revenues to improve and we'll be playing to our strengths as a consumer packaged goods company. I think this is where we can bring strength to how the category is performing over time, the combination of appropriate revenue management and brand marketing are kind of right in our wheelhouse, and that's how things will play out. And I'm mindful to set the right tone on that. But margin accretive will not be a 2024 item, but wouldn't expect it to be long after that, given the plans we have in place.

Michael Van Aelst
Analyst, TD Cowen Q

Yeah, that's – that would be good. So, yeah. And then on the poultry side, so you commented on the – I think you said a 1.5% volume reduction. Last quarter your comments made it sound like you felt that might not be enough. Do you expect more cuts in the second half of the year and is that necessary to get where you want to be on poultry?

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

One of my experiences, Mike, in the last couple of years, given pork market conditions, was that our predictive capabilities around supply and demand globally or even domestically have been really problematic. So you're asking me to predict the market outcomes associated with what demand is going to look like over the next couple of quarters. And I'll resist doing that only because we've been inaccurate in the past, particularly related to the depth and duration of what we expected in pork markets. So forgive me for being a bit reticent to do that.

A reduction in the next couple of months of 1.5% is a really great first start. It will largely depend on the demand profile for our poultry and frankly, premium poultry, which is the part of the category we want to and predominantly trade in, how that consumption plays out over a really important summer and summer grilling time period. So we'll see is the answer. It's for certain a positive income or outcome. But to what extent and what further allocations look like as the year progresses is a is a bit of a TBD for us, but positive development overall. I expect it will certainly help whether it closes the full gap or not is something we can give you an update on next quarter.

Michael Van Aelst
Analyst, TD Cowen Q

Okay. And then on sustainable meats, you said it's 15% of your revenues roughly. I think that's been the case for a little bit now.

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

Yeah.

Michael Van Aelst
Analyst, TD Cowen

Q

And we know that those are high margin products. With the consumer, we saw some trade down last quarter. I'm not sure if...

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

A

Yeah.

Michael Van Aelst
Analyst, TD Cowen

Q

...that got worse or better this quarter. Maybe you can touch on that. But then also the outlook for that is – how much do you need the consumer to recover and how much can you rely on new points of distribution that to get back growing again?

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

A

Well, so quarter-over-quarter, I would say the market impact of sustainable meats would be relatively flat, kind of the same, same experience in Q1 as Q4, Mike. What's really cool looking forward is there's two things we can do. We can kind of sit on our hands and wait for the consumer to come back or we can bring them back to the category, which is our job and so, when we talk about the brand plans, we're putting in place a big part of our ad and promo and even our customer support is going towards accelerating the pace of consumer recovery and sustainable meat. So that's a big priority for us.

But more importantly, where we've done our – which sometimes is a testament to what the consumer is telling the retailer. Our ability to expand distribution here in the next couple of quarters is really positive in terms of an outlook, particularly in the United States. The customer, the customer, meaning retailer dialogue, discussion and commitment to this part of the category is increasing again. So we're hopeful that's a sign that the consumer is pressuring them in that direction. But we're really optimistic on our outlook to improve our distribution between now and the balance of the year and there are several – we put a couple of small examples. We don't typically give customer detail in these types of communications, I think for good reasons, but we shared just visually on one of our slides a representation of how and where we're expanding distribution, particularly in the US market when it comes to sustainable meats. So I expect a good kind of back part of the year here.

Michael Van Aelst
Analyst, TD Cowen

Q

Yeah. Great. Thank you.

Operator: [Operator Instructions] Your next question comes from Vishal Shreedhar. Your line is now open.

Vishal Shreedhar
Analyst, National Bank Financial, Inc.

Q

Hi. Thanks for taking my questions. MFI maintained its EBITDA margin target by consolidation of the unprofitable plant protein business into the one segment. So effectively that's – I'll take your opinion effectively, that's an increase in guidance. So did something change to cause that increase in guidance or was it conservatism beforehand, was it not reflecting certain initiatives of this one segment's plan, a color there would be appreciated.

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

Good morning, Vishal. It's good to hear from you. It was, I think, as simple as we consolidated the plant and meat protein businesses as meat and plant protein businesses together. And given the size of the overall revenue at in and around CAD 150 million and in and around 4% to 5% of our business, it was logical that we retain and maintain our 14% to 16% target and we see many levers to accomplish that task. That will take us well into the range, inclusive of plant protein being included.

And when you take that combined with our view, that plant protein will ultimately be a profitable category at Maple Leaf, it made total sense to maintain that 14% to 16% target.

Vishal Shreedhar
Analyst, National Bank Financial, Inc.
Q

Okay. So, does that mean that your plans contemplate, given that the range hasn't changed somewhere, somewhere in the range of the 40 bps of improvement associated with this consolidation? Or is it these are two course metrics to apply on that basis?

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

I think that would be too finite at this stage for me to comment on, only to say there are several levers that we believe will take us from where we are today to well into the 14% to 16% range. The first and foremost is the normalization of pork market conditions, which in our materials we described as 160 basis points from where we are today. Then there is the consumer demand recovery, which is increasingly mostly a poultry item, but also impacts our prepared meats business as well. Our capital projects, which you heard on the call earlier, are not yet complete in terms of bringing home the last of the benefits. And that's an important contributing factor and there's the normalization in SG&A when you're looking at just Q1 in and in and of itself where 9.5% was on the high side.

There's the plant protein component which we're talking about right now. And then I would add my perspective, which is I think it would be fair to say that any good operator builds contingencies in the event that things don't go perfectly as planned. And that's certainly a very important area of focus for me and my team. And we see many cost and efficiency opportunities on the horizon. We'll be talking about those in the quarters ahead, not in the week or maybe even the next quarter. But we do see cost efficiency opportunities, which are always important to pursue in our business on the horizon as well. So the combination of all of those levers we feel confident puts us safely in our 14% to 16% target range.

Vishal Shreedhar
Analyst, National Bank Financial, Inc.
Q

Okay. Thank you for that. I think in the call you indicated there was about 160 bps delta from where you are today to normal pork market conditions related to your EBITDA margin. Last quarter, this number was 250 bps, if I'm correct, so that's almost 100 bps of improvement. But the sequential EBITDA margin improvement wasn't similar to those numbers. So was that just the other factors like the poultry and other factors depressing the margin?

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

Yeah. The simple explanation on that – it's an excellent question. Thank you. The simple explanation on that is we went forward to your point, approximately 100 basis points in the pork market conditions, which we've been open and sharing the precision around. We went slightly forward in prepared meats and poultry continues to be an impact. And then the SG&A was an impact in the quarter as well as an offset. And I would also keep in mind the seasonality of the business, Vishal, in terms of Q1 typically being a lower margin quarter than the balance of the year. So, the combination of seasonality, SG&A is a component of that, slightly offset the improvements in pork market conditions and a little bit of a go forward in prepared meats and poultry quarter-over-quarter was relatively neutral.

Vishal Shreedhar
Analyst, National Bank Financial, Inc.
Q

Okay. And just an easy one here, just to help orient myself, the operating unit that you're disclosing now in prepared meats, poultry, pork, plant, can you give me a qualitative or quantitative if you can, or even a qualitative ranking of what the margin structure is? I think I know but I just want to get your sense.

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

I'm going to resist the temptation to do that. And we've provided increased disclosure this quarter, which we're quite proud of in response to the feedback that we've provided from many of you as well along with along with others. I think we've certainly helped to bring some clarity into our operating profiles. But in terms of breaking out the margin by operating unit, we're going to resist the temptation to do that. So you'll have to take that for what it is, if that's okay.

Vishal Shreedhar
Analyst, National Bank Financial, Inc.
Q

Thanks for the color.

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

Thank you.

Operator: Your next question comes from Tamy Chen. Your line is now open.

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

Hi. Thanks for the questions. I know we're bumping up to an hour. I've got two quick ones here. Curtis, just going back to that that previous question there. So sorry, on a sequential basis, right, you said the pork commodity factor was ahead, slight ahead on prepared meats, but the offsets were, yes, we you know, SG&A and then poultry. But then I though I heard you say poultry was neutral. So I just wanted to clarify again, did the headwind from poultry get worse in Q1 versus Q4?

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

Only very slightly. I would call them neutral for explanatory purposes, Tamy. It's a very slight deterioration Q4 to Q1 in poultry. So relatively neutral. It's actually a very slight deterioration, but relatively neutral.

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

Q

Okay. And the other one I had is, I guess if I think back particularly the last two quarters, you say the underlying business is healthy, but there seems to have always been some of these other factors. For example, some of the dynamics you called out in the pork unit. Just thinking ahead, I mean, like, how do we know that going forward through the rest of this year, we're not going to see more of these other factors that impact results? Are there any other unusuals perhaps in the year ago that we should be aware of? Thanks.

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

A

Always do our best to look into the future what's the best crystal ball we have at the time to deal with those factors, Tamy, unfortunately we can't always see what's on the horizon. But we do our best to plan for those situations. I mean, in the pork business, what arose was a revenue change, but the profits got better. Like just keep in mind, we were materially better from Q4 to Q1, which isn't always the case and market conditions are improving. We've been waiting a long time for that to be outcome in the pork business. We're finally in a situation where we can say we're starting to see the quarter-over-quarter improvements that we expected in the pork complex.

And in my view, the 4.5% decline in revenue was really somewhat just noise. It's a one-time situation, what we watch closely is the profitability of the pork complex. It's Improving. The revenues will kind of ebb and flow alongside the commodity profile of the business. But we're pleased with the outcomes in pork. And at this stage, we don't see any bad news around the corner. But I also have to give the important disclaimer that there can be things we don't know about that arise and we'll deal with them with the best skill and ability as we can as they come to us.

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

Q

Thanks for that. So I guess like I, to be honest, I would have thought your meat EBITDA margin sequentially improvement would have been better than it was just because of a lot of these things you're talking about. So I guess really the aspect is, is we should think it's really SG&A and then a bit of seasonality and you're saying that the SG&A rate is going to improve through the balance of the year? Is that fair to say?

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

A

Yes. And numbers – I'll just take you back to last quarter, we said similar market conditions in Q1 from Q4. Our meat protein margin improved from 10.5% to 10.8%. Pork went forward roughly 100 basis points as we've talked about. PM was a slight help and then we saw a slight offset in poultry, very slight. And the balance is just simply SG&A, which will normalize over the course of the year. The seasonality is very important here, Tamy.

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

Q

Okay. Thank you.

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 Curtis for closing remarks.

Curtis E. Frank

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

Okay, great. Thank you, everyone. It was good to spend time with you today. We apologize once again for our technical blip. Unfortunately, the Internet wasn't working in our favor for a short period of time. So very much appreciate your patience in that regard. We do feel thrilled with the fact that we've made progress this quarter. We continue to see it as a progress, not perfection, but certainly momentum building in the underlying business and we're hopeful that markets will move in our favor as the year progresses and plays out and we look forward to coming together with you next quarter to give you an update on the progress that we're making. So take care and have a wonderful day.

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