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# Maple Leaf Foods, Inc. (MFI.CA)

Business Update 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.*

### Dennis Pat Rick Organ

*President-Pork Complex, Maple Leaf Foods, Inc.*

### David Smales

*Chief Financial Officer, Maple Leaf Foods, Inc.*

### Michael H. McCain

*Executive Chairman, Maple Leaf Foods, Inc.*

## OTHER PARTICIPANTS

### Luke Hannan

*Analyst, Canaccord Genuity Corp.*

### Michael Van Aelst

*Analyst, TD Cowen*

### Mark Petrie

*Analyst, CIBC World Markets, Inc.*

### Vishal Shreedhar

*Analyst, National Bank Financial, Inc.*

## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning, ladies and gentlemen. Thank you for standing by. Welcome to Maple Leaf's Investor Update 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 hand the conference call 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, Julie, and good morning, everyone. Speaking on the call this morning will be Michael McCain, Executive Chair; Curtis Frank; President and Chief Financial – Chief Executive Officer, just changed your title, Curtis; Dennis Organ, President, Pork Complex and Incoming CEO of the new Pork Company; and David Smales, CFO of Maple Leaf.

Before we begin, I would like to remind you that some statements made on today's call may constitute forward-looking information. These statements are based on current assumptions, expectations, and estimates of management relating – of management relating to matters such as market conditions, our business, the proposed transaction, and future outcomes, as well as non-IFRS measure – as well as non-IFRS financial metrics that are intended to be preliminary, illustrative financial data.

Forward-looking information, necessary involve known and unknown risks, uncertainties, and other factors that may cause actual results or events that may materially – may be materially different from what we discuss. Please refer to the forward-looking information slide and the non-IFRS measures and management preliminary estimate slides that are included as part of the investor presentation for this call available on our website and for more detailed summary of forward-looking information and the basis of preliminary financial information, including associated risks and assumptions. We also invite you to refer to the Risk Factors section of our annual management discussion analysis for the year ended December 31, 2023 for a broader description of operations and risk factors that could affect the company's performance. We also uploaded the deck relating to this announcement to the Investor Relations section of our website, which includes support material for the – of which includes support material.

As you can appreciate, we've entered a quiet period and are set to announce our second quarter results on August 8. Our remarks today will be understandably focused on this announcement, and we will not be speaking to any near-term financial operational results. As always, the Investor Relations team will be available after the call for any follow-up questions.

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

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## Curtis E. Frank

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

Okay. Thank you, Janet, and good morning, everyone, and thank you for joining our conference call here this morning. As you have seen earlier today, we announced that Maple Leaf will be splitting into two independent public companies with the aim of unlocking value and unleashing potential. Maple Leaf Foods is set to continue to pursue its inspiring vision to be the most sustainable protein company on earth, now, as a more focused consumer packaged goods company, and we intend to spin off our pork business to become its own separate, world-leading Pork Company that will be unleashed to pursue its own distinct value creation plan.

This is an exciting next step in our company's history that dates back more than 100 years and a moment that we have been building toward from the day the McCain family began to play a pivotal role in shaping Maple Leaf Foods starting in 1995. Since that time, we have built an iconic, purpose-driven Canadian food company that houses leading brands with leading market shares, offers a diverse portfolio of protein offerings to consumers around the world, has established authentic leadership in sustainability, has invested to create a modern North American scaled supply chain, is led by an incredibly talented team, and has exciting growth opportunities that will propel us well into the future.

Today, we look to start a new chapter for Maple Leaf seeking to unlock the full potential of two distinct businesses. In February, we launched an evolved strategic blueprint, one that refined and updated the strategies that underpin our purpose to raise the good in food, and our vision to be the most sustainable protein company on earth. This evolution reflected the transition from an intensive phase of investing and building new plants to realizing the benefits of our world-class network and compelling growth platforms.

Now, with the creation of two independent public companies, each with their distinctive value creation opportunities we continue to evolve, enabling each business to continue down the path of generating shared value for all of our stakeholders. Both companies will have a sharper focus on the execution of their respective growth strategies and will enjoy the opportunity to be recognized as leaders in their respective industries.

At Maple Leaf Foods, we will realize our vision to be the most sustainable protein company on earth, now as a more focused, purpose-driven consumer packaged goods company. The new Pork Company will be unleashed

as a world-leading pork business, taking advantage of its unique business model and unlocking its own significant growth potential.

The two companies will continue to have an enduring strategic relationship. Maple Leaf Foods will continue as a key shareholder in the new Pork Company and will also serve as an anchor customer. An evergreen supply agreement between the two organizations will play an essential role in delivering value for both companies, while at the same time allowing each to pursue their individual value-creation opportunities.

Also important to emphasize that our commitment to sustainability and shared value creation will not change. This transaction will support the continuation of our leading sustainability practices across both companies, which remain foundational to who we are and what we do. We are confident that the separation of Maple Leaf Foods into two standalone businesses will offer a clear path to unlocking value at both companies. Maple Leaf will continue to be led by me as Chief Executive Officer, David Smales as Chief Financial Officer, and Adam Grogan as Chief Operating Officer.

The new Pork Company will enter the market as an independent producer of high-quality Canadian pork products with a diversified customer base led by Dennis Organ, who is currently the President of our Pork business. Dennis is a distinguished industry executive who joined us in 2023 after more than 27 years of experience in the North American food industry, including 11 years with Smithfield Foods, where he held a variety of roles, including CEO.

Investors will have increased visibility into two separate investment opportunities, each benefiting from a sharpened focus on execution from a dedicated management team with deep industry experience and an unwavering commitment to long-term success from the organizations. We believe this will ultimately lead to proper recognition of their values by the market.

Maple Leaf Foods will be composed of our Prepared Meats, our Poultry, and our Plant Protein businesses, where our engagement with customers and consumers is strong and enduring. We have the number one and number two packaged meats brands in Canada, Schneiders and Maple Leaf, and the number one sustainable meats brand in Canada and number three in the US in Greenfield Natural Meat. We also have 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 distributed through thousands of North American grocery stores and available to consumers across the vast offering of North American foodservice operations.

For Maple Leaf Foods, this transaction is the next pivotal step in our journey to bringing our blueprint to life. With global protein consumption projected to nearly double by 2050 due to growing population, rising affluence, urbanization, aging demographics, and dietary shifts towards protein rich foods, our diverse protein portfolio positions us incredibly well to capitalize on the growing demand for protein.

Maple Leaf will be able to put an even sharper focus on executing our compelling revenue growth platforms and the margin expansion program that we already have underway. Our focus will be set squarely on driving the growth of our leading brands, accelerating the pace of impactful innovation, expanding in new geographies, particularly the US, and leveraging our leadership in sustainable meats.

And we won't be stopping there. We are relentlessly focused on harvesting the benefits of our recent capital investments while driving out waste through a pipeline of cost reduction initiatives. Of course, growth would not be

possible without the footprint and scale of our manufacturing facilities, and our network is primed with sufficient capacity to support growth for the foreseeable future.

This, in turn, will drive both top line growth and margin expansion that, when coupled with disciplined capital expenditures, will enable our free cash flow to increase materially, enable deleveraging, and provide us with the capacity to make strategic investments that will continue to shape our portfolio of protein offerings.

I say with confidence that I have never been more excited about the future that lies ahead for Maple Leaf Foods. Together, we have done the hard work over many years to ensure that we have the right platform to meet the growing demand for sustainably produced protein. Armed with leading brands and market shares, compelling growth platforms, a modern supply chain, and an exceptional management team with deep CPG industry experience now is absolutely the right time to capitalize on what we have built and to bring our bold visions to life.

Maple Leaf will remain deeply grounded in our blueprint, and it will continue to serve as the strategic compass for our business. So, despite what's changing with this announcement, it's important to be clear on what will not change: our purpose to raise the good in food and our vision to be the most sustainable protein company on earth. And that brings us to our pork business, the new Pork Company, which is beginning a transformational journey of its own as an independent company.

I'd like to now turn it over to Dennis Organ, the current President of our Pork Complex and incoming CEO of the new Pork Company, to tell you about its own set of value creation opportunities that lie ahead. Dennis?

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## Dennis Pat Rick Organ

*President-Pork Complex, Maple Leaf Foods, Inc.*

Thank you, Curtis. And hello, everybody on the call. I'm thrilled to be speaking with you today and eager to engage with you in the weeks to come. I'm enthusiastic about the opportunity to unlock our potential as a newly independent organization. But first, let me delve into the current state of the pork business. We have a strong history of profitability in our pork business, and we are excited by the fact that market conditions have shown improvement in recent quarters. Operating from our world-class processing facilities in Alberta and Manitoba, we process around 4 million hogs annually. About 1.7 million of those are raised in-house and the other 2.3 million are sourced from our contract growers.

We sell our pork products to unique and attractive mix of customers in high growth markets in North America and internationally. This diversified sales mix is a strategic advantage to the new Pork Company and gives us options for maximizing the revenue we received for our products. Our longstanding customers trust us for the quality of our products and the value-added production capabilities that they have come to rely on.

At the core of our operations are industry-leading best practices in sustainability, worker safety and animal care. As one of North America's largest producers of pork that is Raised Without Antibiotics, we are committing to setting the standard for responsible production practices. This commitment, combined with our resilient business model, ensures our strength in all market conditions.

Now, for a look at what lies ahead for the new Pork Company. As we forge our own path forward, there are well-known opportunities for us to build value in our business, ensuring both near-term and long-term success. For instance, our Manitoba processing facility currently operates below capacity. Optimizing its utilization is a key strategic initiative that promises substantial returns without significant capital investments.

Other opportunities, such as equipment modernization and capability expansion, also offer meaningful financial returns. We also have a significant amount of continuous improvement initiatives that will deliver material value to the shareholders. There is consequential value for our entire entity to focus the light of the organization and the metrics that matter to the pork business. We will be operationally excellent.

Increases in feed costs have also begun to normalize. Feed cost increases were the primary reason that the cost to raise a pig exceeded the value of meat over the last few years. As earnings migrate towards full recovery, our control improvement initiatives, coupled with a favorable commodity outlook will allow us to invest back in the company to fuel future growth.

So, in conclusion, this transaction marks an exciting milestone for us. We are unleashing the potential of a world-class organization. We are building on our strengths, and we are providing investors with a unique chance to participate in what I believe is a rare opportunity. So, now I will turn the call over to our Chief Financial Officer, David Smales, to present some financial highlights.

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## David Smales

*Chief Financial Officer, Maple Leaf Foods, Inc.*

Thank you, Dennis. I'm going to speak briefly to the pro forma financials and next steps in the transaction. As you know, Maple Leaf Foods has not previously reported our financial results along these two business lines. In our press release, we provided some baseline data to give you a sense of the relative scale of revenue and profitability of the separate businesses. On a trailing 12-month basis, ending March 31, 2024, Maple Leaf Foods recorded revenue of close to CAD 4.9 billion. If we'd be reporting the business performance of the two businesses and adjusted pro forma for the impacts of the separation, Maple Leaf Foods revenue excluding the pork business would have been about CAD 3.6 billion and adjusted EBITDA would have been approximately CAD 395 million, and 11% margin.

In the same way, trailing 12 months revenues of the new Pork Company would have been around CAD 1.7 billion, including sales to Maple Leaf Foods treated as external sales as they will be post-separation rather than being eliminated as intercompany sales as they have been historically.

We estimate the trailing 12 months adjusted EBITDA of the new Pork Company on the same basis would have been approximately CAD 70 million producing a margin in the 4% range. These results reflect market conditions that were affected by impacts caused by the post-COVID economy. And as such, we have also provided our estimate of what these results would have been for the last 12 months with the normal market conditions.

Turning to the major terms of the transaction, Maple Leaf Foods will distribute 80.1% of the shares of the new Pork Company and will retain ownership of the remaining 19.9%. Existing shareholders of Maple Leaf Foods will receive a pro-rated allocation of shares in the new Pork Company.

These new Pork Company shares will be listed on the TSX, and investors will receive a prospectus with detailed information on the business of the new Pork Company. The spinoff will be completed as a return of capital transaction, with an expected closing date early in 2025. This transaction is subject to shareholder approval, along with certain lender consents and other customary approvals to be secured prior to closing.

Shareholders will be asked to approve the transaction at an upcoming special meeting of shareholders. Details of the meeting, along with a comprehensive discussion of the transaction, background and rationale, will be published in an information circular prior to the meeting. I'll now pass it back to Curtis briefly prior to Michael closing the prepared remarks.

## Curtis E. Frank

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

Okay. Thank you, David. I hope and trust that you can hear from our enthusiasm for what we have presented here today that Dennis and I couldn't be more excited about the prospects of unlocking the full potential of these two great businesses as we look to lead them into the next chapter of pursuing their own growth strategies.

Before we turn it over to Q&A, I'll now ask that Michael McCain, Executive Chair of Maple Leaf Foods, to provide some concluding remarks. Michael?

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## Michael H. McCain

*Executive Chairman, Maple Leaf Foods, Inc.*

Thank you, Curtis and team. It's wonderful to be here with you again today. It's been some time and it's a real pleasure to be here again with you today. As you know, over nearly 30 years of history of Maple Leaf Foods, we've never shied away from bold moves to create a better future. Never. Our company has never been stronger than it is today. More inspiring, more vibrant, and more differentiated in its position in the marketplace than it is right now, right now. Now, here we are at another pivotal moment in that journey. I have to say, I love the words unlocking and unleashing, because that's exactly what this team is doing. We're unlocking value and a world-class CPG company with an inspiring vision under Curtis' leadership. And we're unleashing the uniqueness of our best-in-class pork company to grow and prosper without limitation, led by Dennis.

Curtis and Dennis have given you an excellent picture of the strengths and potential of their respective organizations, and they've given you a clear explanation as to why this is the right transaction at the right time as we move forward, aspiring to create value for all stakeholders. Each of these companies will have a distinct value proposition. They will have unique growth trajectories and investment opportunities to build on their industry-leading performance. They will benefit from the focus of a dedicated management team, each aligned to our sustainability vision.

As two distinct public companies, investors will have the opportunity to – and visibility of individual business models and investment opportunities, allowing them to properly understand and properly value each in the capital markets. My family and I are proud to be long-term owner operators with significant shareholdings in each one of these businesses. And we intend to play the same role in both. Each business will share a commitment to leadership and sustainability as a central strategy, and we'll find pathways for all stakeholders to create value. I can't tell you how excited we are about the future of this transaction creates. I hope you all share in that enthusiasm as we embark on this transformational opportunity ahead and enter a new era of value creation at Maple Leaf Foods. Now, I'll turn it back over to Curtis and ask the operator to poll for questions. Curtis?

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## Curtis E. Frank

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

Okay. Thank you very much, Michael. And operator, if we could turn now to open the lines to Q&A, that would be wonderful. Thank you.



## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] Your first question comes from Luke Hannan. Please go ahead.

**Luke Hannan**

*Analyst, Canaccord Genuity Corp.*

Q

Thanks. Good morning, everyone, and congratulations on the announcement. Michael, if I can, I'd like to get your perspective on what ultimately led to this transaction, in your view, being the best way to create value for shareholders as opposed to perhaps any other alternative structures or corporate actions? And then also, I know we'll be getting a little bit more detail in the circular, but can you just give us the broad strokes of maybe how long this process has been running in the background as well?

**Michael H. McCain**

*Executive Chairman, Maple Leaf Foods, Inc.*

A

Luke, is that directed at me? It's Michael.

**Luke Hannan**

*Analyst, Canaccord Genuity Corp.*

Q

Yeah. Yes, correct.

**Curtis E. Frank**

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

A

Michael, perhaps you could cover your perspective on the transaction and I can cover the timing element.

**Michael H. McCain**

*Executive Chairman, Maple Leaf Foods, Inc.*

A

So, since the beginning of time, Luke, the capital markets, for reasons we all understand, has differentiated between the upstream businesses and the downstream businesses. We have both in our portfolio. The challenge in keeping them together in this way, the way that they've been to date is it becomes restrictive for each one of them.

The CPG company inside that mixture doesn't have its virtues properly unlocked in the capital markets and recognized. The upstream business becomes restricted in its opportunities in capital availability to grow because the amalgamation doesn't want to increase the exposure – the capital exposure to that upstream business when it's combined.

So, you will note that, in most other examples, a separation like this makes really good sense to both unlock the value of the CPG company and unleash the potential for growth, its own independent growth, in the upstream business. Just because they're different doesn't mean one is better than the other. They're just different. And there's many examples when – in the food industry when the upstream and the downstream businesses should be separated like this.

So that's the overarching why here. It creates opportunities and potential, I think, Luke, for both businesses. I can tell you, as a share owner, we are really, really proud to have a long-term ownership position in each one of them. And I think it just makes a ton of sense.



In terms of the timing now, it's – it would have been incredibly challenging to complete this transaction during the pandemic or in the post-pandemic economy when the pork industry was facing not cycle but dysfunction. And I draw a distinction there between cycle and dysfunction. We're coming out of that now. We're actually recovering from that dysfunction and you're seeing that in the quarterly results. So, the timing is basically perfect right now. Curtis?

**Curtis E. Frank**

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

A

Luke, did you get your question answered there or is there any additional color that we can provide?

**Luke Hannan**

*Analyst, Canaccord Genuity Corp.*

Q

No, that's excellent, unless you had something else specifically that you wanted to get across, Curtis?

**Curtis E. Frank**

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

A

No, I think Michael characterized it appropriately. I mean, this is something that's been contemplated over a period of time and carefully contemplated over a period of time. The post-pandemic economy certainly played a role in the timing.

And I think the only thing that I would add with respect to it being the right time to complete the transaction beyond the normalization that's naturally happening in the pork business today, is the fact that we've just completed a very significant capital investment program in the Prepared Meats and Prepared Foods business at Maple Leaf Foods.

And the timing of putting that behind us, combined with the normalization of the pork markets makes a completely appropriate time to engage in this transaction. So, it's been contemplated for some period of time, and we obviously have some period of time ahead of us until we get to an ultimate close.

**Luke Hannan**

*Analyst, Canaccord Genuity Corp.*

Q

Okay. That makes a lot of sense. Thanks. And then my follow-up here and then I'll pass the line. But the commentary on there being a taxable capital gain to Maple Leaf as a result of this transaction. Can you give us a little bit more detail on that, maybe why that is? And to the extent that you can share this, maybe any visibility, roughly speaking, into what that amount could be?

**Curtis E. Frank**

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

A

Sure. We'll give you some important context. David, perhaps you could maybe comment on that question, please?

**David Smales**

*Chief Financial Officer, Maple Leaf Foods, Inc.*

A

Yeah. So, obviously, as we went through the process in conjunction with our advisors, we looked at a range of options for the spinoff structure. We ultimately concluded there wasn't a clear path to securing the approvals we'd need to execute a more tax effective option.

But, at the same time, when you look at the overall value creation and our view of the significance of that, by separating the two companies, the board determined that the transaction was still beneficial overall to shareholders, regardless of the tax implications. In terms of additional details, obviously, that will all be laid out in the prospectus and management information circular at that time.

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**Luke Hannan**

*Analyst, Canaccord Genuity Corp.*

Q

Great. Maybe one final, final question before I pass it along. When, roughly speaking, should we expect the prospectus and the circular, pardon me, to be filed?

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**Curtis E. Frank**

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

A

We're – impossible today, Luke, and we prefer not to give a precise date only because we don't have a precise date at this stage. However, we are expecting the transaction to close within the early parts of 2025 and obviously a prospectus and management circular in advance of that will be appropriate. So, we'll give you some more context for that. We have an important milestone coming up at our Q2 earnings and another opportunity to check in and if there are any new developments in terms of specific timelines, we'll share them at that time.

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**Luke Hannan**

*Analyst, Canaccord Genuity Corp.*

Q

Great. Thank you very much.

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**Operator:** Your next question comes from Michael Van Aelst. Please go ahead.

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**Michael Van Aelst**

*Analyst, TD Cowen*

Q

Okay. Thank you and congratulations on the news. Just clarifying, so you don't have a date yet for the extraordinary general meeting? [indiscernible] (00:29:53) roughly a month, like a rough timeframe?

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**Curtis E. Frank**

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

A

We don't, Mike. It's – the priority today is to assure the news of the announcement and our intention to complete the transaction. And we'll have to follow up with you in due course with the precision around those dates.

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**Michael Van Aelst**

*Analyst, TD Cowen*

Q

Okay. You provided margin potential for the pork business. What do you see as the margin potential of the CPG company that in light of the past comment that the combined company would be in that 14% to 16% range?

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**Curtis E. Frank**

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

A

Yeah, Mike, I think a couple of important comments I'd offer in that regard. Number one, I just commented that we expect the transaction to close into 2025, which means we'll be continuing to operate the business on a consolidated basis between now and that ultimate closing date. And in that period of time, the forward-looking guidance that we've provided for the combined organization, low to mid-single digit revenue growth progression in our margins toward our 14% to 16% target and discipline in capital allocation. That forward-looking view will remain unchanged.

We did – made an attempt to – try to provide some early color. Unfortunately, you're going to have to wait for the detail of the prospectus and management circular to be ultimately distributed. But we did try to, at least at a high level, provide some pro forma estimates with the appropriate disclaimers on them. But things will naturally change as we finalize the separation of the two companies in our materials. It's premature at this stage to set margin targets for the individual companies, premature. Ultimately, we will provide some direction on that in the months ahead. But I think I'm going to have to leave you with the response that it's premature at this stage. What I know for certain is that the margin we show from an LTM perspective in the pork business is not reflective of its earnings potential.

I mean, what we've endured over the last call it 12 to 24 months or longer in a pandemic and post-pandemic economy is not normal market conditions. And we've tried to demonstrate what more normal market conditions would look like in terms of the impact to the pork business. And important to keep in mind and what's demonstrated in Maple Leaf Foods, that trailing 12 months and doesn't include the full benefits of our capital programs and other items that we expect to contribute to margin expansion over the course of time at Maple Foods as well. So, premature to give individual targets today, but ultimately, we will head in that direction [ph] as time goes (00:32:41).

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**Michael Van Aelst**

*Analyst, TD Cowen*

Q

Okay. So, let me ask it a little different way then. Is there any reason to believe that once you do provide those forecasts, that when we adjust for the intercompany revenues, that those margins would lead us to the combined 14% to 16% for the two operations at some point in the foreseeable near future?

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**Curtis E. Frank**

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

A

There is, I would say, two things. Number one, I want to be clear, we have not changed our targets for Maple Leaf as a combined entity, which should answer the question of, is there any reason that we would expect that 14% to 16% is no longer achievable, that is not what we're communicating today. That continues to be well within our expected range of the combined entity. And again, when it comes to setting individual targets for the two individual companies, that will have to unfold over time.

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**Michael Van Aelst**

*Analyst, TD Cowen*

Q

Okay. And then, are you not able to give any kind of range of capital gain exposure like on the tax – from tax perspective?

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**David Smales**

*Chief Financial Officer, Maple Leaf Foods, Inc.*

A

So, at this stage, Mike, there's a lot that goes into that in terms of valuation and etcetera, etcetera, that will play out as we get closer to the closing of the transaction.

**Michael Van Aelst**

*Analyst, TD Cowen*

Q

All right. Thank you. I'll hop back in the queue.

**Operator:** Your next question comes from Mark Petrie. Please go ahead.

**Mark Petrie**

*Analyst, CIBC World Markets, Inc.*

Q

Hey, good morning. Thanks. I wanted to ask the 4% margin on the new Pork Company and then the 11% that you sort of provided as a marker, is the delta there simply the – what you've previously articulated as the impact of the Pork Complex versus the five-year average, the negative impact on MFI? Is that the delta?

**Curtis E. Frank**

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

A

Good morning, Mark. The short answer is yes. We've been demonstrating on a quarterly basis the delta in our earnings to the five-year average or what we would call normal market conditions pre-pandemic, and including the implications of our Japan business. So, commodity markets in Japan, and this is simply reflective of that same methodology.

**Mark Petrie**

*Analyst, CIBC World Markets, Inc.*

Q

Yeah. Okay. Excuse me. And then maybe I don't know if you can follow up offline or whatever. But I know you've changed the methodology a little bit in terms of how you've quantified that number over the last little bit. Can you quantify what that number is for the LTM period like versus the 9.7% that you've delivered over LTM, what would be the impact of the Pork Complex versus the five-year average on that number?

**David Smales**

*Chief Financial Officer, Maple Leaf Foods, Inc.*

A

We can follow up with you offline, Mark. But it would be roughly 200 to 220 basis points in that kind of range. So, we could follow up with you offline with more details.

**Curtis E. Frank**

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

A

Yeah. I think to put more precision on this, we would have to follow up, Mark. The other thing I would...

**Mark Petrie**

*Analyst, CIBC World Markets, Inc.*

Q

Yeah.

**Curtis E. Frank**

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

A

...point out in the question here. And maybe, Michael, this might be an update for you to add some color as well. If you have any comments, I'll just say this first and then I'll pass it your way. When you look at that 4%, I mean, it's on the surface, materially lower than we would have expected to deliver in the last couple of years. What I would point you to other public company benchmarks in the pork industry. In the last couple of quarters, we frequently

talked about the fact that we're very pleased with our performance on a relative basis as compared to our peers. And I know sometimes frustratingly so, we haven't been able to break out what that performance is as compared to others. But this would give you an indication of how that performance looks relative to others.

So, Michael, I will pass it your way and you can add a little color for Mark, if you'd like.

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**Michael H. McCain**

*Executive Chairman, Maple Leaf Foods, Inc.*

A

Yeah. Sure. And I hope this is helpful, Mark. But, over close to 30 years in the industry here, the one thing about the pork industry is there are statistical cycles that are attached to the industry itself, that presents some volatility, which is why these businesses trade maybe at a slightly lower level than others. But there is some kind of normal business cycle that's attached to it. What this business has experienced in the last two years, not 30, but the last two years, two to three years, has nothing to do with cycle. It's been – I think the only way you could accurately describe it is growth dysfunction as a result of some macro geopolitical global issues that created that dysfunction that has never – it's unprecedented in my 30 years with this industry. I think anybody else in the industry.

The best way to look at the comparisons is, okay, Maple Leaf's got a business that during that dysfunction, a big chunk of that LTM is inclusive of the dysfunction. Maple Leaf delivered 4% EBITDA margins. I can tell you, you just have to pull out the – as Curtis just identified, pull out some of the industry pure-play industry pork numbers, and you'll see numbers that are deeply red, like not a little red, deeply red during this dysfunctional period. Deeply. And in a business like this while that 4% looks like a low number, I look at it and say that is a colossal victory, actually, a victory.

And demonstrating the resilience and the strength of the business that we have, that the dysfunction of the last few years that contributed to that deep red in the industry, it just by definition is not going to continue. And so, what David and his team and Curtis and others tried to give you is what does that LTM look like and what's the potential of this business if we do our level best to estimate the value of that dysfunction? And that's what I think they've tried to do. But I encourage you to pay attention to that 4% relative to some of those other benchmarks because it's a very material fact.

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**Mark Petrie**

*Analyst, CIBC World Markets, Inc.*

Q

Yeah, no, I understand that. And I appreciate the fact that, obviously, the last few years have been unprecedented in terms of the impact. For me, it's really more about trying to get at what the right level is for the CPG business. But obviously, we'll have to continue to work through that.

One question I have is just about the relationship between the two segments and how the contracts, not obviously in the details, but how the contracts would roughly be structured. And I guess, maybe simply put, how will the ups and downs of the pork commodity complex affect the profitability of the CPG business? Because that's obviously something that the market has grappled with over time. And I presume that the intention here is to be able to deliver much more stable margins in the CPG business and then have a lot of the volatility contained in the new Pork Co. But I just want to understand that a little bit better. So, any insights you could provide would be great.

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**Curtis E. Frank**

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

A

Yeah, sure, no problem, Mark. I'd be happy to. I think the key points are firstly, Maple Leaf Foods will have a significantly reduced commodity exposure as a result of the transaction that we're putting forward, significantly

reduced commodity exposure will obviously be a 19.9% shareholder in the Pork Company. View that as a very positive and constructive thing and transparently reflective of our confidence in the future of the pork business and one we're excited to be obviously investors in. There will be a supplier, an evergreen supply agreement in place that we commented on in the materials. And that's frankly to the benefit of both companies.

For Maple Leaf Foods, that provides us with security of incoming high quality Canadian sustainable meat, raw material supply. And for the Pork Company, it provides them with an anchor customer and no different than they have today. So, the intention of the evergreen supply agreement is just simply to solidify the behavior between the two companies that essentially exist on an intercompany basis today. So, that's important.

The other thing that's important is the basis for the supply agreement in terms of pricing is tied to USDA markets that are fully transparent and are traded daily. So, you get daily price disclosure on USDA markets for transfer pricing between the two companies. So, there's a complete and full transparency, and that's essentially the same methodology that takes place today. So, on the commodity buying side, it does not change the exposure to commodities which we price for very effectively through our revenue management process in the Maple Leaf business. And the Maple Leaf Company will own 20%, 19.9% in the Pork Company and, of course, there are benefits to both organizations, the Pork Company and Maple Leaf Foods, to an evergreen supply agreement.

So, hopefully that provides you with some color, Mark, and answers your questions.

---

**Mark Petrie**

*Analyst, CIBC World Markets, Inc.*

Q

Yeah. Yeah, that's helpful. And I guess maybe just the last sort of topic. There might be a couple of questions here, but the last topic is just with regards to the actual sort of production plans. And so, maybe first for the CPG business for MFI, with 100% of MFI needs be supplied by the new Pork Company or would MFI be procuring from other entities as well?

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**Curtis E. Frank**

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

A

The vast majority of our pork needs would be procured from the Pork business. A big portion of our portfolio, Mark, as an example, comes in the Poultry business where we'll continue to supply ourselves internally through our Poultry business and in the Plant Protein space. But when it comes to the Pork business, we would have some outside purchases, but the vast majority would take place through the Pork Company today.

---

**Mark Petrie**

*Analyst, CIBC World Markets, Inc.*

Q

Yeah. Okay. And then just last, I guess on the – for the new Pork Co., would you intend to shift the ratio of hogs produced versus procured? I think that's low 40% range today. I mean, you talked about being under capacity in brand and would that be – like would the ratio of hogs produced versus procured be part of fixing that or part of addressing that or how do you go about it?

---

**Curtis E. Frank**

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

A

Dennis, this is probably a good question for you to maybe take for Mark. So, you go ahead, if you wouldn't mind?

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**Dennis Pat Rick Organ**

*President-Pork Complex, Maple Leaf Foods, Inc.*

A

Yeah. So, the answer is we're working through it right now, but highly likely that we will increase the amount of hogs that we produce ourselves. I think the important point there is that we have latent capacity and immediately utilizing that has overhead dilution benefits plus incremental margin opportunities. And the location of brand is a strategic advantage there because it's located in a high hog-producing area which actually exports a significant amount of hogs in the US. And so, a lot of interest in the local folks that are keeping those in Canada.

**Mark Petrie**

*Analyst, CIBC World Markets, Inc.*

Q

Yes. Okay. Okay. I will get back in the queue. Thank you.

**Operator:** Your next question comes from Michael Van Aelst. Please go ahead.

**Michael Van Aelst**

*Analyst, TD Cowen*

Q

Yeah. So, you just answered one of them. But, on the debt situation, how much debt can we expect to be transferred to Pork Co. or what would be the leverage you'd be expecting to have at the new Pork Co.?

**Curtis E. Frank**

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

A

We're probably not going to give you the details you want in the moment, Mike. But, David, maybe you could provide some color on the...

**David Smales**

*Chief Financial Officer, Maple Leaf Foods, Inc.*

A

Yeah. An overriding priority, as it has been for the last number of quarters, is deleveraging the balance sheet of Maple Leaf. Obviously, the capital structure for both businesses going forward is something we will be focused on between now and when this business closes and we'll have more details in the circular.

But, obviously, the focus is setting both businesses up for success in terms of the capital structure and their ability to take advantage of the opportunities they see going forward. But the first priority is an overall deleveraging, which will contribute to optimal capital structures of both businesses going forward, but more details to be shared on that.

**Michael Van Aelst**

*Analyst, TD Cowen*

Q

Okay. All right. So, I'll wait for the circular on that. The other – my earlier question about the taxable gains potential, just trying to figure out the leakage and how much separate – how much you lose or you get back as part of a separation. But how about transaction fees and expenses to do this? Is there any way you could quantify those?

**Curtis E. Frank**

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

A

David?

**David Smales**

*Chief Financial Officer, Maple Leaf Foods, Inc.*

A



Again, all that information will be laid out in the prospectus in the circular and information we'd want to share with all shareholders at the same time through appropriate disclosures. So, not something I can quote on this call.

**Michael Van Aelst**

*Analyst, TD Cowen*

Q

Okay. The last question is on the Pork business. It sounds like you'll be looking to source more hogs to increase the capacity in that facility. I guess I'm thinking back to, I don't know, 20 years ago, 25 years ago, when Maple Leaf was somewhat doing a feed-the-world-type strategy and processing I think it was 7 million hogs, if I remember correctly, back then or slaughtering. And the currency went to par and took away your advantage. How much does the strategy in the Pork business – in terms of growth long term, how much does that rely on the currency staying roughly where it is?

**Michael H. McCain**

*Executive Chairman, Maple Leaf Foods, Inc.*

A

Maybe, David, I can...

**Curtis E. Frank**

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

A

Yeah, go ahead, Michael.

**Michael H. McCain**

*Executive Chairman, Maple Leaf Foods, Inc.*

A

Curtis, maybe [indiscernible] (00:48:41) I can give you some of the – I can go back to 2000 – I think it was 2005, Michael, when we were in that position, 2005-2006, and we modified that strategy around that time. The difference back then, Michael, is that we were processing about 7 million hogs in six plants across the country, none of them world-class scale.

So, we were operating Brandon on a single shift at the time and we had facilities basically coast-to-coast slaughtering hogs. We've subsequently consolidated the supply chain. We now operate Brandon and a small operation in Lethbridge that is basically a value-added niche for the Japanese market. But Brandon is a single facility that Dennis is seeking to expand the asset utilization. So, it's a very different circumstance than 2005.

**Michael Van Aelst**

*Analyst, TD Cowen*

Q

Okay. So, as far as your export growth opportunities, the cost advantage of operating in Canadian dollars isn't necessarily a barrier to that?

**Michael H. McCain**

*Executive Chairman, Maple Leaf Foods, Inc.*

A

No. None. Zero.

**Curtis E. Frank**

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

A

I think the important – just the context I would add, Mike, the important context is we have processing capacity today predominantly at our Brandon facility in Manitoba. And over the course of time, one of the priorities for

Dennis and his team will be to utilize that capacity in a way that's incrementally profitable for the Pork business. And it's one I think, Dennis that you would certainly see as an exciting opportunity for the future.

**Michael Van Aelst**

*Analyst, TD Cowen*

Q

Okay. And actually, one other question. On the CPG side, you talked about the potential to expand your business in the US further and being a protein company. What do you see as the goal post in terms of the type of products or the type of proteins that you want to be able to sell over the next – over the long term? Like, what would you like to add to your portfolio?

**Curtis E. Frank**

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

A

Well, the protein, Mike, can be, as you know, defined very broadly. But there are analogs in terms of competitors in the US, who have produced a similar playbook with respect to broadening their approach to having more diverse proteins in their portfolio. But we, for certain, for the long term, will be focused on growing our brands in both Canada and the United States in our Prepared Meats business, where we have a leadership position today. We will, for certain, be focused on accelerating the growth of sustainable meats, particularly into the US, where we have a very significant strategic point of difference.

And when it comes to capital allocation after deleveraging, which to David's point, remains a key priority to us, we will for certain have optionality in terms of how we reshape our protein portfolio. We're thinking about protein in a very broad definition, everything from plant and meat to other sources of protein. But I think there's a pretty critical filter attached to how we would look forward when it comes to inorganic opportunities, Mike, sized appropriately after deleveraging, advance our vision to become the most sustainable protein company on earth, the areas where we have unwavering confidence that we can for certain add value, and as I said, protein broadly defined. So, there'll be many opportunities which I'm personally excited about in the future and we'll look forward to taking them on as they come.

**Michael Van Aelst**

*Analyst, TD Cowen*

Q

Okay. And on the RWA side, where you – I know you sell fresh poultry RWA into retail and other areas. And then on the Pork side, you have RWA value-added products, but you also have some fresh pork that's RWA. To the extent that that is sold as a private label, is that going through the CPG business or directly from the Pork business? And is there any kind of competition restrictions involved that would be expected – to be expected to be put in place to prevent some kind of overlap in the future?

**Curtis E. Frank**

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

A

Dennis, I'll allow you to give some color on the forecast. So, there are no competition restrictions that I'm aware of. Mike, so the answer to that is no or none that I'm aware of. And the RWA pork, I think the example you cited was maybe fresh pork in private label will be sold through the Pork business, right? Dennis, maybe give a little...

**Dennis Pat Rick Organ**

*President-Pork Complex, Maple Leaf Foods, Inc.*

A

Those are existing relationships that we'll continue to maintain. So, the private label business is obviously done through the retailers and their specs are all in their control. And so, that will sort of continue as is,

**Curtis E. Frank**

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

A

And that's unchanged from what we do today, Mike, and no customer disruption, which is really important to us, obviously.

**Michael Van Aelst**

*Analyst, TD Cowen*

Q

Okay. So, fresh pork and that's sold as private label will go directly from pork with the Pork segment.

**Curtis E. Frank**

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

A

Correct.

**Dennis Pat Rick Organ**

*President-Pork Complex, Maple Leaf Foods, Inc.*

A

Correct.

**Michael Van Aelst**

*Analyst, TD Cowen*

Q

All right. Thank you.

**Curtis E. Frank**

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

A

Thanks, Mike.

**Operator:** Your next question comes from Vishal Shreedhar. Please go ahead.

**Vishal Shreedhar**

*Analyst, National Bank Financial, Inc.*

Q

Hi. Thanks for taking my questions. With respect to the information that you intend to disclose in the prospectus, it's difficult for us to evaluate the direct market impact without some of those data, but is there intention to disclose sufficient historical revenue performance at each segment and profitability performance so we can understand the volatility in addition to the CapEx intensities at the various businesses? Is that the intention?

**Curtis E. Frank**

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

A

David, perhaps you'd take this one, please.

**David Smales**

*Chief Financial Officer, Maple Leaf Foods, Inc.*

A

Yes, absolutely, Vishal. There will be historical carve-out statements contained in the prospectus. So, all that information for both businesses will be apparent.

**Vishal Shreedhar**

*Analyst, National Bank Financial, Inc.*

Q

Okay. And the volatility comment that you've made relating to the different businesses and the new MFI business being less volatile that will come through, notwithstanding the pandemic volatility that we've seen, with the historical data that you provide us?

**Curtis E. Frank**

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

A

Yes. Presumably, presumably, yes. You will see that. Vishal, I would point to normal levels of volatility in consumer packaged goods. They're still quarter-to-quarter like in any business, the volatility that exists in consumer packaged goods businesses broadly. And we expect to kind of fall into normal standard deviations of that range of volatility in the consumer packaged goods business.

**Vishal Shreedhar**

*Analyst, National Bank Financial, Inc.*

Q

Okay. And you've referenced the pork industry going through a difficult time period and the conditions improving, making this a good time to announce this transaction. So, in the upcoming quarter, the cadence of improvement that you're referencing related to pork, will we see that? Is that what that comment suggested?

**Curtis E. Frank**

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

A

I think it would be completely inappropriate for me to give you a forward view of our earnings for Q2. I would point you to two external metrics that we track very carefully, which is the vertically-integrated margins that are publicly available in the Pork business, so the vertically-integrated spread, as well as the packer margin. I think if you look to those two things, Vishal, will give you the external data you need to come up with a conclusion with respect to the progress that the pork industry is making more broadly in terms of the pace of recovery. And then when we come back on August 8 for Q2, we will confirm the progress that we are making in our earnings as appropriate when we release earnings on August 8.

**Vishal Shreedhar**

*Analyst, National Bank Financial, Inc.*

Q

Okay. Why not sell the Pork business? Why list it as a publicly-traded company? You could sell it. You can establish certain relationships and contracts to establish the supply that's needed?

**Curtis E. Frank**

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

A

Well, we can, and, Michael, perhaps this might be one that you would comment on. I mean, ultimately, we feel this is the greater path, Vishal, to value creation for the two companies and the importance of the supply agreement and the relationship strategically that exists between the two companies. One is an anchor customer, the other in terms of security of supply. We felt this was the appropriate structure to create economic value.

But, Michael, if there's anything you would like to add, I'd be happy to pass it over your way.

**Michael H. McCain**

*Executive Chairman, Maple Leaf Foods, Inc.*

A

Thank you, Curtis. Just to add on exactly what Curtis just said, which is I totally agree with obviously. What's important in the architecture here is the criticality of the relationship strategically and tactically over time, both as an anchor customer and as a critical existential supplier. And building an architecture that protected that in a durable way and I would argue that contractual relationships are healthy, but not in and of themselves, by themselves, anywhere close to the same durability thinking in the very, very long term, over time, cannot be accomplished just through a transactional agreement structure.

So, I think, based – with that in mind, it is really, really important to understand that this unlocks and unleashes without taking risk on the customer or the supplier side of the relationship in an enduring way.

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**Vishal Shreedhar**

*Analyst, National Bank Financial, Inc.*

Q

Okay. So, with respect to unlock and unleash, correct me if I've got this wrong, but it's predominantly related to the valuation arbitrage of the differences between CPG companies and the more pure-based pork meat producers. Is that statement correct that that's predominantly the unlock and unleash portion of it? And if it isn't and there's more organic and margin opportunities associated with separation, will that result in an increase in that 14% to 16% that we'll see somehow [ph] rooted to the individual (00:59:59)...

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**Michael H. McCain**

*Executive Chairman, Maple Leaf Foods, Inc.*

A

Well, what you've just described is the unlock portion, but that's not the unleash portion. The unleash portion is – and this is going to – Dennis has today stewardship over a highly differentiated, very unique, and I would argue unprecedented in its performance as a fresh pork business. His opportunities for growth are limited today being part of the Maple Leaf supply chain for obvious reasons.

Unleashed means that he has, over a long period of time, countless opportunities, inorganic and organic, to expand that and leverage those – that uniqueness in the marketplace that he just simply would not be able to do as part of the Maple Leaf supply chain when he's just a supplier of Maple Leaf Foods. And that's the unleash portion. It's very exciting future. I'm proud to be a shareholder of that future over a very long period of time, and I think there's extraordinary opportunities to leverage that strength that aren't available to us today.

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**Vishal Shreedhar**

*Analyst, National Bank Financial, Inc.*

Q

Thank you.

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**Operator:** Your next question comes from Luke Hannan. Please go ahead.

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**Luke Hannan**

*Analyst, Canaccord Genuity Corp.*

Q

Thanks. I know we're just past the hour here, so I'll keep it to one question. Michael, you had sort of answered it in your last response there. But, Dennis, I'm curious if you can share. So, some of these new margin enhancement initiatives that you're now going to be able to explore within the new Pork Company going forward. I mean, is it possible at all to get some of those underway even before this split actually happens or is it just going to be after that vote and the close happens that maybe some of those newer initiatives that you might be able to pursue will take place?

## Dennis Pat Rick Organ

*President-Pork Complex, Maple Leaf Foods, Inc.*

A

Yeah. So, the answer is it's already underway, especially some of the longer-term conversations that have to happen. And maybe to touch back on the conversation or the questions Michael just answered. In my mind, the reason I wouldn't sell it or maybe the reason why I moved up here is because I believe too much in the future. We talked about typical commodity cycles that impact this business, but the pure dysfunction, if we use the word Michael used, over the last few years is that we're recovering from plus the latent capacity that I already described and numerous investment opportunities from small to large that span the range of things like automation in our plants and software automation through some of our process, as well as capacity expansion for things that we are currently selling to middlemen that sell to our customers.

So, relatively low risk return is why I think that the future is really bright here, that we finally get some tailwinds behind us. We get on our feet and get sort of our balance sheet under control, and then the next few years will be really remarkable.

## Luke Hannan

*Analyst, Canaccord Genuity Corp.*

Q

Thank you very much.

**Operator:** And there are no further questions at this time. I will turn the call back over to Curtis for closing remarks.

## Curtis E. Frank

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

Okay. Thank you again for joining us this morning on such short notice. We hope we've demonstrated Dennis and I are super excited about this next step in the transformation of Maple Leaf Foods, as are all of us here at Maple Leaf and in our Pork organization. By unleashing our two businesses and unlocking value, we firmly believe this transaction will remain true to our values. We found it in our principles of leadership and sustainability and shared value creation and be beneficial for all of our stakeholders, especially our shareholders, allowing you to participate in and value these two world-class companies who are accelerating into the next era of growth.

We look forward to catching up with you on our Q2 earnings call, which will come on August 8, and I'm sure we'll have some more information to share, including our Q2 results at that time. So, look forward to catching up then and thanks again for joining us here today.

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

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