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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Welcome to the Maple Leaf Foods 2014 second quarter results conference call hosted by Mr. Michael McCain. Please be advised that this call is being recorded. Please note that there will be a question and answer session following the formal remarks and the question and answer session instructions will be read after the presentation. I will now like to turn the meeting over to Mr. Michael McCain. Please go ahead, sir.

Michael McCain *- Maple Leaf Foods - President & CEO*

Thank you, and good afternoon, everyone. I appreciate you joining us this afternoon.

On today's webcast, we will discuss Maple Leaf Foods' financial and operating results for the second quarter of 2014. The news release and today's webcast presentation are available at MapleLeafFoods.com under the investor section.

Some of the statements made on this call may constitute forward-looking information and future results may differ materially from what we discussed. I would ask that you refer to our 2013 MD&A and other information on our website for a broader description of operations and risk factors that could affect the Company's performance.

I will begin with an operating review today and then I will turn the call over to Debbie Simpson, our newly appointed Chief Financial Officer, to provide other financial information. And certainly welcome Debbie to this forum. We will then be opening the lines to your questions.

So if I could begin on page 2 of the presentation, there are six headlines from the second quarter of 2014 for Maple Leaf. First, over the last few quarters, pork input prices have risen significantly following the record run up in live hog costs due to the impact of the PED virus.

In Q2, we implemented material price increases across our entire portfolio and all channels to match increased raw material costs. As anticipated, there has been a demand response to these material price increases. We saw an immediate volume decline right after, but volumes are steadily improving. We are monitoring this carefully and showing some patience, expecting consumer and customer demand to recover.

During the quarter, we continued to make progress in converting to a new prepared meat supply chain. Performance is improving and our two Western facilities, Winnipeg and Saskatoon. And the commissioning of the new Heritage plant in Hamilton, Ontario, is proceeding on plan and in wieners and has just begun in sliced meats. However, the cost of duplicate supply chains, as you know, continues to be a significant drag on earnings.

The fourth headline is that,the protein markets were substantially higher than Q2 last year.

On May 23, we closed the sale of Canada Bread for net proceeds of CAD1.66 billion. We immediately paid off our debt and the balance sheet is now in outstanding shape.

Finally, we announced in the quarter a comprehensive organizational restructuring to properly size the new organization for effective and efficient support of our new mono-line protein company. This eliminates any potential for negative synergies in shared services related to the bakery sale.

In summary, we are managing very, very significant change along with our base business performance. Our earnings continues to be impacted by the duplicate supply chains, but we are satisfied with our progress towards our 10% EBITDA strategic target.

Turning out to slide number 3, please. Our adjusted operating earnings for the quarter was a loss of CAD12.1 million compared to a loss of CAD32 million last year. While adjusted EPS was a loss of CAD0.13 compared to CAD0.25 a year ago.

During the quarter, improved results in our primary pork and hog production operations more than offset lower earnings in the prepared meats business due to the cost of the network transition and volume reductions that I referred to earlier.

Adjusted EBITDA margin for the quarter was positive at 0.7% compared to negative of 0.8% last year and a trailing 12-month EBITDA margin that was negative 0.9%. A very, very important story beneath these numbers, however, is the progression that we saw during the quarter before and after the pricing impact, which occurred in the middle of May. There was a very significant progress between the month of April and the month of June.

Turning to slide number 4, we have tried to offer two different views to explain and describe our quarterly performance. The first is comparing our results to the prior year, and later on I will discuss the bridge to 2015 strategic targets.

On page number 4, we have got the detailed breakout of the material factors in the year-over-year change to our adjusted operating earnings. The two positive drivers for quarter over quarter improvement were protein markets and prepared meats margin expansion. We realized a CAD34 million year-over-year boost from a stronger protein market conditions. The majority of this, CAD24 million, was the improvement in the markets underlying the hog production business as hog prices have been at record highs and grain prices are lower than year ago.

We did not experience, however, the full impact of the higher hog prices generally in the market as our strategy is always to sell our hogs forward when reasonable margins present themselves, as we did in hogs late in 2013 and earlier this year. Consequently, we did not realize the full effect of the recent spike.

Poultry and pork markets were also improved this quarter compared to a year ago in the amount of CAD10 million. The profitability of our Japanese business improved through the quarter as we increased pricing in that market as well. It is still below our long-term averages where we think it will end up, but is substantially higher than what it was prior to this pricing action.

Although protein market factors have improved on the year-over-year basis, it is important to note that they are still only neutral against our five-year averages. Protein commodity markets continue to be highly volatile due to the -- due in large part to the PED virus effect in the US markets.

As referenced earlier, in May we took a very significant price increase, roughly 8% on average, across our prepared meats portfolio. As a result of this, we were able to recover our historic margins, which is an increase year-over-year in the quarter of CAD18 million.

As expected, a price increase of this magnitude had a short-term impact on volumes as volume decline was most dramatic in the first weeks after the price increase, but since then has been steadily recovering. We are cautiously optimistic that all our volumes will be restored, but that patience is required. The pace at which this occurred is certainly -- the pace at which this occurs, I should say, is one of the outstanding risk factors for the balance of this year.

Our network transition costs increased by CAD12 million, reflecting a much higher level of activity compared to Q2 last year. Most of this was connected to the initial startup phase of our largest investment, the Heritage plant in Hamilton. In absolute terms, these costs were CAD25 million in the quarter compared to CAD13 million in 2013.

The other negative of CAD9 million shown on this chart contains a number of items. But the two most significant are poultry plant inefficiencies, and increased advertising and promotional spend, which we pulled forward in the year to help transition to higher pricing.

Slide number 5 reiterates that we are still operating a two-for-one supply chain model in our prepared meats business. This drives a significant amount of duplicate overhead cost. Our organization is focused on racing to complete our mission to get our new state-of-the-art, low-cost supply chain fully up and running.

This intense activity is going to continue throughout 2014 as we commission the new Heritage plant and transfer volume out of our subscale legacy facilities by the end of the year. We are within six months of that goal and we are starting to feel very energized by it, notwithstanding the significant work that we still have ahead of us.

On slide number 6, you can see the steady progression toward or upward of our transition costs as our activity level underlying this has increased. Transitional costs were CAD25 million in the quarter. The dynamic here is that the startup costs are reducing in our Western plants, namely Winnipeg and Saskatoon, but this has been more than offset by the cost of ramping up the Heritage facility in Hamilton.

Turning to slide number 7, you can see that the hog price -- hog prices declined initially during the quarter. But, then, a very -- quickly rose again to new record highs, which occurred in July. In response, we implemented the significant price increase in May, which I referred to earlier, and that was sufficient to restore our margins.

Obviously, this is a challenging time in the meat industry as hog prices have set 50-year record highs. You can see from the futures graph that hog prices are predicted to decline as we move through the third and fourth quarter. However, they are forecasted to still be well above the five-year averages for that time of year.

As well, there is material volatility in the marketplace that is unprecedented in this industry. This is an industrywide challenge. We are paying very careful attention to it and managing it day to day.

On slide number 8, I will take you through the current state of our network startups, which is very important information. In the Brampton facility, this project went satisfactorily and Brampton is now the center of excellence for our fresh and frozen sausage business. We will continue to optimize line efficiencies and yields throughout 2014 in that facility.

In Winnipeg, we have made excellent progress in moving productivity and yields for bacon and ham towards their targets. In aggregate, we're now substantially at target for this facility.

In Saskatoon, we continue to face challenges. We are making some progress to improve production volumes, but we still have significant issues with negative operational variances in that facility. However, given that this facility is relatively small, the financial gap to target is not overly material.

In the Heritage facility in Hamilton, the wiener plant or hotdog plant is fully operational and performance continues to improve. We're still producing hot dogs in Kitchener, and we expect to transfer this volume over in the third quarter. The Heritage sliced meats phases received full occupancy and CFIA approval in the second quarter and that is a very significant milestone, which makes the construction phase for the Heritage plant now complete.

For sliced meats, there are four thermal lines, i.e. cooking lines. They are being installed and tested now. We produced our first salable product on these lines in one of them just last week. There are 13 slicing holes to support these four thermal lines.

There are two dimensions to the commissioning and startup of this facility. First, achieving the operational performance of individual lines and equipment. And, second, the transfer of over 300 individual SKUs with each requiring a comprehensive development process. Once complete, this will trigger the closure of the final four legacy facilities.

Finally, the eastern distribution center is a project that has been well executed. Most of the milestones have been met and we are just in the final cost optimization phase, which we expect will be complete by the end of the third quarter. All in all, we are making consistent progress.

That said, the startup and the commissioning curve at the Heritage facility in Hamilton, which is in front of us for the balance of this year, continues to be our most significant risk factor for the balance of the year and the timing associated with hitting our 10% EBITDA margin target for 2015.

We expect it to be complete for the first quarter of 2015, but the unpredictable nature of such startups could easily yield an uncontrollable delay of a quarter or two. This is fully consistent with our expectations of risk that has been previously discussed.

On slide number 9, as I referred to earlier, we are updating the bridge or path forward where we are at today versus our target of 2015, 10% EBITDA margin, and baselining this off our actual results in the second quarter. Consistent with last quarter, the largest contributor, which represents about half of the improvement at 5%, or roughly CAD165 million, increasing our operating earnings on an annualized basis, is the completion of the networked transition.

This has two components: the elimination of the transition costs. The most significant element here is the elimination of the duplicate overhead costs, which occurs when we close the four old plants. The second component of the network transition bar is realizing the remaining cost benefits from running our business off a streamlined low-cost manufacturing network. In essence, this is the delta between full added cost and contributing benefits from the capital spent.

During the last few quarters of the transition, we have incurred indirect costs in our legacy prepared meats facility as we executed the transition. These costs are primarily caused by disruptions to our manufacturing and distribution facilities as production shifts and people transition to these new plants. We have introduced a significant amount of change into our supply chain in a very short period of time and this is the collateral damage.

These costs represent 1.1% of that bridge or approximately CAD30 million of operating earnings on an annualized basis. By definition, when the four legacy plants close, this cost burden goes away.

The next bar is the restoration of the prepared meats margins, which has decreased in the quarter to 1% and is worth approximately CAD30 million in annualized operating earnings. As we discussed, we took pricing halfway through Q2, which dramatically closed this gap. The expectation is that this bar will continue to reduce in Q3 if the equilibrium between our pricing and input remains -- input prices remains intact.

The one gap to target on this slide that has gotten larger in the second quarter, and expectedly so, is the volume bar. This is now worth 2.1% of EBITDA margin or approximately CAD60 million. There are two components of roughly equal size here. First, there is the volume reduction triggered by our recent price increases in prepared meats. As recently discussed, the recovery of this is progressing well.

The second component of this volume bar is that, over the last few years, much as we have discussed in the last several quarters, we have shed some volume in our prepared meats business because it was either unprofitable or added unnecessary complexity to our network. We have concrete plans to recover this in 2015. And, finally, we have an other bucket to capture a variety of other smaller items which are not significant.

So we clearly understand the building blocks to our 2015 margin target and what it takes to deliver each one of them. We have a high confidence level that we will reach the target. The issue that we potentially see is around timing, and that is no different than what our perspective has been for the last year.

The most significant risk, as we have said consistently to our timing, is the startup of the Heritage plant. By its very nature, the difficulty of plant startups are hard to predict in advance. Our plan has us hitting the 10% EBITDA margin rate by Q1 2015, but if the Heritage plant startup is extended, as I described earlier, it is possible that we could be delayed hitting that target on a run rate basis by a quarter or two.

And, with that, I will turn the call over to our brand-new CFO, Debbie Simpson. Debbie, welcome to the team.

Debbie Simpson - ***Maple Leaf Foods - CFO***

Thank you, Michael, and good afternoon, everyone. Turning to slide 10, as Michael mentioned in his opening remarks, our balance sheet is in very -- is very strong following the sale of Canada Bread. The transaction closed on May 23 for proceeds of CAD1.66 billion, and concurrently we repaid virtually all of our debt.

We originally estimated that cash costs associated with the transaction would be CAD160 million. At the end of Q2, we have recognized CAD142 million of these costs. You will recall that the biggest component was the debt repayment premium. We are now expecting to come in under the CAD160 million estimate, as the only remaining costs left to recognize are approximately CAD8 million in additional restructuring.

For the quarter, cash used in operations was CAD341 million. There are a number of puts and takes on our cash flow statement, but the most significant items are the Company's investment in working capital and the one-time payments of CAD100 million for a make-whole payment, swap settlement costs, and other financing costs related to the retirement of our long-term debt facility.

The CAD226 million investment in working capital has two components to it. The first is approximately CAD125 million and restores working capital for Maple Leaf Foods closer to what we view as historic and more normalized levels for the business.

In addition, the cash flow reflects the impact of Canada Bread up until the May 23 sale date. And, as a result of that, approximately CAD100 million of this working capital increase relates to Canada Bread. In addition, the recent price increases have put upward pressure on working capital at the end of Q2.

We ended the quarter with a positive cash position of CAD540 million and, given the sale of Canada Bread, we reduced our remaining credit facility to CAD200 million in the period.

Moving to slide 11, during the quarter, we took steps to streamline our SG&A structure to fit the new protein-only business. This resulted in CAD8.9 million in cash restructuring charges during the quarter and there may be further adjustments when the Grupo Bimbo transition services agreement ends. These reductions eliminated negative synergies in shared services related to the bakery sale and are consistent with attaining our 10% EBITDA margin target.

On to slide 12, we invested CAD74 million in capital expenditures from continuing operations or the protein business in the quarter, compared to CAD78 million in 2013. Of this amount, CAD60 million comprised strategic capital in our prepared meats network.

In 2014, we are estimating that net capital expenditures for the protein group will be CAD215 million, including CAD140 million of strategic capital. In 2015, we estimate that maintenance capital expenditures for the protein business will be approximately CAD80 million. Of course, there could be incremental project capital on top of this, but that would have returns attached to it.

Moving on to slide 13, in the second quarter the Company recorded CAD20 million in restructuring costs us on our income statement, of which approximately CAD13 million relates to future cash costs and CAD7 million to non-cash costs such as accelerated depreciation. This included CAD11.1 million of restructuring charges related to the prepared meats network transition. This is primarily employee retention, severance costs, and accelerated depreciation for our facilities that we expect to close this year.

In addition, there was CAD8.9 million in severance costs related to SG&A rightsizing that was executed during the quarter. For the remainder of 2014, we anticipate an additional CAD25 million in cash restructuring to flow through the income statement. And, at that, I will now turn the call back to Michael.

Michael McCain - ***Maple Leaf Foods - President & CEO***

Thank you very much, Debbie. Before turning to the summary slide, I would like to make a brief commentary on the capital structure of the Company. As we said in the last quarterly discussion, the Board has had preliminary discussions on how to properly deploy capital or return the capital on the balance sheet today.

The first priority is clearly completing the task of job number one, and there will be unlikely any action taken prior to that occurring, which is the prudent course of action. The second consideration is to fully assess the growth prospects for the business and the opportunities that they present, which is work that is underway. And the third consideration is determination of the appropriate capital structure once the business is stabilized and the growth path identified. All I can tell you is that this is work in process, with nothing further to report other than that there is no immediate action.

Turning to slide number 14, in summary, we are currently experiencing what is broadly recognized as unprecedented market conditions from the PED virus. We have taken aggressive pricing action in the market to respond to these rising raw material costs in order to restore our margins, which we have done. Predictably, this led to short-term slumps in volume right after the price increase occurred, but those volumes have been improving steadily since then.

Network transition is proceeding, but startup risks continue to exist. We are expecting positive trends in the second half of 2014 as we benefit from the recent pricing, the recovery in volumes, and we are able to close our four older plants near the end of the fourth quarter. The building blocks to our 2015 10% EBITDA margin targets are in place and we have very specific and actioned plans to deliver on them.

We are now just months away from completing the transition of our prepared meats supply chain that will dramatically transform the cost structure in the business, our competitiveness in the marketplace and our profitability for shareholders. We believe the finish line is in sight.

With that, I will now turn the call over for your questions?

QUESTION AND ANSWER

Questioner

First question has to do with the working capital. I understand your explanation for the most part, but just so I understand, though, what do you view as an appropriate level for working capital for the protein business? Is there some kind of formula that you use in terms of receivables, inventories, and payables in terms of the ratio that you are looking for?

Debbie Simpson - ***Maple Leaf Foods - CFO***

We don't have a set formula or ratio, Michael, but I think where we are now is where we would expect to be. There is a little bit of -- it is a little bit on the high side just because of the price increase impact, but that is not significant. And there is a little bit of seasonality between first half and second half, but, again, no real significance there.

Questioner

So you mentioned that at the end of Q2 you did see it move up because of the upper pressure on the commodity prices. So that was fully in there at the end of Q2, and if commodity prices start to come down, that we should see a little bit of relief there?

Debbie Simpson - ***Maple Leaf Foods - CFO***

Correct.

Questioner

Okay. Thank you for that. So, on another topic, we are hearing a lot about the hog shortages in Manitoba and labor shortages. How much of a problem is this in terms of being able to source adequate volumes of hogs and pork? And how do you see a resolution to this?

Michael McCain - ***Maple Leaf Foods - President & CEO***

So it is a problem. There are two issues in Western Canada, Michael, and it really comes down to pigs and people. The people issue is related to the impact of the changes in the temporary farm worker program on our industry. And I think the industry is in -- entire industry is in very constructive dialogue with the government to consider ways to find workable solutions for our industry.

I would remind you that we have been very positive and constructive users of that program, but it hasn't been so much a temporary worker program as much as it has been a path to permanent residency for those people in Manitoba. And we are very proud of how that has been deployed with the support of both the community and the unions in that area. So we are cautiously optimistic that will get resolved.

With respect to the hog supply, certainly that is a challenge. The full effect of that hog supply is felt in the second quarter, so we don't see it getting any worse than what we experienced in the second quarter and potentially some better through nominal growth. But, much like we are working on the people availability issues, we are also working collaboratively with the government of Manitoba to find ways and paths forward for responsible growth in the industry there. But that will take some time.

The key question that you asked is the materiality of that. In total, we do not believe that those two issues will stand in the way of our ability to achieve our targets. Are they problems and obstacles? Yes. Are they material obstacles to our target -- the achievement of our target? No.

Questioner

Okay, thank you. That did answer my part B question. And then, last question for now is just, as you looked out at that futures curve for hog prices coming down, even though they stay above the five-year average or so, trending down over the next 18 months or so, should it actually pan out that way, what happens to the price increases that you implemented in May? Do those start getting retracted to some degree? Do you promote more off of more trade support? What do you do with that?

Michael McCain - ***Maple Leaf Foods - President & CEO***

Well, that's a very complicated question and the answer is we do a mixture of things. So we have very -- first of all, it depends on which cuts and which timing. It depends on what the changes are relative to expectations, because we keep a good portion of our pricing stable for an entire year with the expectation that there is highs and lows during the year. So, how do those changes relate to our expectations for the decline, we expected some of those declines when we built into our pricing.

It depends on how do we handle the inflation and other factors, because we have ongoing inflation in many parts of our business where we would normally take price increases on at least once year regardless of market movements. So there is a very complex set of calculations that go into that. At a minimum, our goal would be obviously, is we would retain our margins, our strategic margins as those raw material markets declined. But, to say what specific action we would take would depend on too many variables, really, to predict.

Questioner

Michael, just thinking through the evolution of the transition costs since the first quarter of last year, clearly we have hit a peaky level in Q1 and Q2. How should we be thinking about Q3 and Q4? Presumably a key piece will be getting the four plants closed in Q4?

Michael McCain - ***Maple Leaf Foods - President & CEO***

Yes. I think, and Debbie will add some color commentary, but I think the answer is, you should think about them as being flat to that number for the balance of this year.

Debbie Simpson *- Maple Leaf Foods - CFO*

Yes. You are absolutely right. So the critical part to it is getting those four plants closed. If we run to schedule, which we hope to do, the first one closes late October, early November, but the balance of them is late and towards the end of the year.

Questioner

Thank you. That's very, very helpful. And then, Michael, just going back to your closing remarks, if I understood you clearly, what you are trying to signal is that decisions around any kind of return on capital will be deferred until you have some very good visibility on the actual closing of the plans and the transition of the volume. Is that correct?

Michael McCain *- Maple Leaf Foods - President & CEO*

I believe that would be a very accurate takeaway. I believe that is consistent with the expectations that we have articulated to date and I think that that is a prudent response and direction of the Board. So, yes, all of the above.

Questioner

That's great. Thank you for that. And just, clearly, there has been some consumer reaction to the price increases. But, wondering, just overall, the tone of the conversations you been having with the retailers given all of the discussions that we are hearing about retailers trying to push back on the suppliers.

Michael McCain *- Maple Leaf Foods - President & CEO*

I think virtually all of our retail and food service customers understand the underlying issues here. I don't think there is any degree of pushback to the extent that we are dealing with a commodity market that was affected by a virus in the US hog herd. So there is no -- there really -- it is such a widely understood, widely communicated, documented, covered in the media factor in what is driving this commodity increases. It is so widely known that everybody broadly accepts that piece of it.

I think we are working collaboratively with our retail customers, partners, and food service customers to basically find ways to mitigate that volume in the marketplace -- volume impact in the marketplace. Internally, we have used the cold arms of how to generate excitement without changing your price. And one of the factors which we described in my remarks was pulling forward some of our advertising and promotional spending into the second quarter as a way to soften that transition.

As the new pricing levels become habitualized in the marketplace and accepted as new value propositions in the market, then you start to see the glide slope upwards of a volume recovery. And we are seeing that. So we are optimistic that will continue, but it obviously is a risk factor because it depends on a lot of conditions being true.

But, generally speaking, we have been aligned with -- to your question, aligned with our retail partners that this is an unavoidable factor in the industry. And we have to work together to try and find a solution that transitions us to higher pricing levels.

As an aside, I would tell you that this condition exists not just in the pork industry. I think most retailers would say they are seeing this kind of inflation broadly in beef, in poultry, in many seafood items, and, indeed, in some of the produce aisles. So it has been broadly impacting the entire fresh component of the food space.

Questioner

Absolutely. And then just one final question, if I might, Michael. Innovation has been an important -- something very important -- and something very important for Maple Leaf Foods. Certainly if we go back to previous investor days and presentations, innovation is a key factor just in terms of long-term volume and value growth. Just wondering how you balance out that innovation piece with what is a very, very extensive manufacturing challenge.

Michael McCain - ***Maple Leaf Foods - President & CEO***

Balance it out in what way, ? Can you help me with your question a little bit more?

Questioner

I guess more around, do you take a bit of a step back on innovation, new product introductions as you go through this extensive production facility transition? Or does it continue apace?

Michael McCain - ***Maple Leaf Foods - President & CEO***

No. It continues apace. We fully expected and have built into our planning for that to continue at pace and we think that is a really important ingredient to our transition. We can't back off in being the most innovative food company in the country in that regard. And we have demonstrated that.

One of the things that is important, in some of our innovations we will try to direct to plants that are not in the transitional or transformational state. For example, our new line of snacking items, Protinis, are not a product that is produced in any one of the transformation plans. Most of the transformation activity is going forward in our legacy -- in our legacy categories, our large volume legacy categories.

But even in those categories, you have things like the Natural Selections platform, which has been enormously successful for us. Or the -- what we are doing, for example, in our line of products that is raised without antibiotics. All of these innovations typically show up in formulation changes and packaging designs, and are relatively easily accommodated in our new or old manufacturing platform. So we are trying to make sure that our innovations don't really become obstacles, but we have got to continue at pace with that innovation agenda.

Questioner

I was hoping you could give us an update on how two of your key export markets are doing. Japan, it looks like pork volumes have recovered the last couple of months. Is that less competition from the US or higher demand overall? And then, on the US, it looks like volumes have been a bit sluggish there. Is that still a symptom of the cool?

Michael McCain - ***Maple Leaf Foods - President & CEO***

No, I think the US is more transactional a niche depending on market conditions at any moment in time. I think the more important question that impacts our results is the Japanese market. And, yes, we have had -- I think our volume in general has been basically flattish into the Japanese marketplace. I don't have the statistic right in front of me, but I think generally speaking it has been relatively roughly flat.

The bigger story is what has happened in our margins. As you know, that has been a drag for the last year and we have been very explicit about what the story is with that, around that. The success in the quarter, actually, is we were able to achieve some material price advances in the -- not just in our domestic markets, but also in the Japanese markets in the quarter. And that demonstrated or yielded a substantial improvement in our Japanese margins into the Japanese marketplace during the quarter, although not back all the way to where we want it to be.

So the Japanese market is an important strategic market for us. It has been a huge success for many, many decades for us. We have great relationships in that marketplace. It has suffered terribly in the last year, but it is getting better. And we expect it to continue to get better and be back to where we needed to be by the time we have to achieve our strategic target. So I think it is a relatively good news story.

Questioner

Okay. And the pricing action that you took in that market, you're not expecting to see a volume decline there? After taking those price increases?

Michael McCain - ***Maple Leaf Foods - President & CEO***

Well, we did short-term in some areas, but it came back relatively quickly.

Questioner

I don't know if you answered this; I didn't get it. Did you talk about the elasticity that you actually experienced right now? I know you kind of talked around it, but can you give us some anecdotal evidence one way or the other way, to what extent it is actually happening? And when do you think it'll subside a little bit? Are other competitors actually following suit? Just give a little more color to that.

Michael McCain - ***Maple Leaf Foods - President & CEO***

Yes. So our volume -- again, it is a moving target. Our volume for the quarter was down just slightly over double digits in the first instance, like in the first few weeks right after the increase. But for the quarter -- but, it improved actually, too. By July, actually, it is down to low single digits. For the quarter, I think it was down 5% or something like that for the whole quarter.

But, keep in mind, there is a slope of the curve there where it was down double-digits and then started to recover during the quarter. I think our run rate in July and around that is like down low single digits, which is still a big number, by the way. But, that has been the demand response.

So, in the first instance, the double-digit decline was a little bit shocking for us, as you can imagine. But I think we have been very patient and diligent in approaching it. The recovery is in a responsible way and we have seen the glide slope of improvement.

With respect to what happened in the marketplace, our share change is -- because the whole market fell for a period of time, but the share change was largely -- we ceded a little bit of share to private label for the most part, which is our primary competitor in the marketplace. We have -- basically the most of the brand activity is ours. So we ceded the share to mostly the private label, which I would highlight is absolutely the normal and expected outcome with a significant brand price increase.

Private label did follow. The competitors did follow and the behavior has been largely consistent and disciplined across the marketplace; a few minor exceptions, but for the most part that has been the case. But, the brand/private label share shift is something that we would describe as expected and normal, and that is the shift that will normalize as time passes. So does that give you the information you are looking for?

Questioner

That's perfect, actually. And it sounds like the elasticity is actually going -- may have been sharper earlier, but it seems like it is tailing off quicker.

Michael McCain - ***Maple Leaf Foods - President & CEO***

Quicker, right, it's tailing off. I mean, at the end of the day, it is still -- this will be a risk factor for the balance of the year, right, because even low single digits is still an important volume consideration. And we have got to -- I think the whole industry is focused on just being cautiously optimistic that the consumer and customer behavior will respond to these higher pricing levels that are necessitated by the raw material costs. But, we have to be a little bit patient here.

Questioner

And then, just from a housekeeping issue, the sequential decline in transition costs in the back half of the year, does it go down from 25 -- how low does it go and what is the cadence of it? Do you know?

Michael McCain - ***Maple Leaf Foods - President & CEO***

I'm not sure. How low does it go when?

Questioner

In the third and fourth quarter, like, does it start going -- because you said, I think, in the first quarter 2015 it will be sequentially much lower. And then what about the third and fourth quarter? Is it going to stay at this level or does is start going down.

Michael McCain *- Maple Leaf Foods - President & CEO*

Are you talking about 2014?

Questioner

2014, because I think you said in the slides that 2015, the first quarter, falls off, but what about third and fourth quarter of this year?

Michael McCain *- Maple Leaf Foods - President & CEO*

That was consistent with an earlier question about what we expect the balance of 2014 to be. And to reiterate, we expect the third and fourth quarter to be reasonably consistent with what you saw in the second quarter.

Questioner

I just had a question regarding the innovation pipeline and your outlook, maybe contrasting the retail channel and the suit food service channel for volumes over the next 6 to 12 months, and how innovation will impact those differently.

Michael McCain *- Maple Leaf Foods - President & CEO*

I would say -- I would suggest that it will impact both of them equally. In the retail channel, we tend to innovate in our own brands at our own pace and our own timeline. In the service channel we tend to innovate collaboratively in partnership with our customers. So we are actively engaged in both constantly. So I don't know that there is any point of distinction or difference between the two.

Questioner

On the poultry side of the business, can you explain the reasons for that unfavorable mix and the plant inefficiencies? I know you had some pretty good success over the past few years and moving mix in a very favorable direction. What happened this quarter?

Michael McCain *- Maple Leaf Foods - President & CEO*

First of all, if you look at the year-to-date performance, we clearly had some both mix and operational variances that were connected to weather earlier on in the year. But, extending into the second quarter, we have had some changes in mix with some (technical difficulty) -- and to some operational variances which, quite frankly, we have internally concluded that they're highly strategic. And we are actually supportive of those short-term mix variances, because they support the long-term direction with several of these customers.

So without violating the confidentiality of those relationships and activities with the customers, we think it is a very prudent thing to accept those variances, which we have. The rationale for it is what was basically the long-term strategic growth in the category with those customers. So it certainly affects the short-term, but we are actually very positive about what the outlook will be.

Questioner

You got cut off earlier in your comment, but what was behind the long-term direction change?

Michael McCain - ***Maple Leaf Foods - President & CEO***

We have a mix shift. I am not sure which part of it you caught and which part you didn't. I'm sorry about that. Maybe we had a technology problem there, but to reiterate, we had a mix shift with some key strategic customers that we -- that came with some operational variances. We have accepted those operational variances because they are of a very strategic nature in the relationship of those customers and will result in long-term growth with those customers. And so it is really one of those things where we have got some short-term pain, but we are very happy with -- we are very optimistic and pleased with what the ultimate outlook will be.

Questioner

And do we have to wait four quarters for you to cycle through this, or is it just -- or is it a shorter timeframe?

Michael McCain - ***Maple Leaf Foods - President & CEO***

I think -- that is a very good question. There is a lot of variables attached to that. I think the reasonable expectation would be that we will face this for two to four more quarters. That would be a reasonable expectation. But I am hesitating because there are enough variables attached to that where it may not be the case exactly. But honestly, this is a good news story, not a bad news story.

Questioner

And is the profit impact material enough to throw you off at 10% at all?

Michael McCain - ***Maple Leaf Foods - President & CEO***

No. No. No, not at all. The answer is clearly no.

Questioner

Okay. Then a final question, given all the moving parts with the ramp up of the plants and the capital going in, and then the four plants closing, can you give us some guidance for depreciation for next year??

Michael McCain - ***Maple Leaf Foods - President & CEO***

Guidance on depreciation?

Debbie Simpson - ***Maple Leaf Foods - CFO***

About CAD80 million, Michael -- sorry; about CAD $95 to $105 million.

Questioner

Does that include the unallocated of CAD4.5 million per quarter?

Debbie Simpson - ***Maple Leaf Foods - CFO***

That would be an all in number.

Operator

There are no further questions registered at this time. I will now like to turn everything over to Mr. McCain.

Michael McCain - ***Maple Leaf Foods - President & CEO***

Well, thank you very much. Appreciate all your questions and your very intense and capable interest in our journey. We are making very substantial progress. And, as I said, in my closing remarks, that we can see the finish line in sight.

So thank you very much for your support and patience and interest, and we will look forward to updating you in the next quarterly call. So thank you very much and have a wonderful day.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time. Thank you for your participation.