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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Maple Leaf Foods 2014 third-quarter results conference call hosted by Mr. Michael McCain. Please be advised that this call is being recorded. (Operator Instructions).

I would now like to turn the meeting over to Mr. Michael McCain. Please go ahead, sir.

Michael McCain *- Maple Leaf Foods Inc. - President, CEO*

Thank you, and good afternoon, everyone, and thank you for joining us this afternoon. On today's webcast, we will discuss Maple Leaf Foods' financial and operating results for the third quarter of 2014.

A news release and today's webcast presentation are available at MapleLeafFoods.com under the investors section.

Some of the statements made on this call may constitute forward-looking information and future results may differ materially from what we discuss. Please 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.

As normal, I will begin with an operating review and then turn the call over to Debbie Simpson, our Chief Financial Officer, to provide other financial information. We will then open up the phone lines for your questions.

I will begin on page 2 of the presentation. As you will recall, in May 2014 we implemented pricing across our prepared meats portfolio. As a result of that action, in the third quarter we benefited from improved margins during a period of unprecedented volatility and high costs in the pork market.

It shouldn't be lost, in our view, that we have in fact recovered margins in a period of record high raw material markets, and we believe this is a significant observation for the business. We're actively managing the related impact on demand and expect to recover the volume in a reasonable period of time.

Throughout 2014, the PED virus has contributed to very unpredictable pork markets. This quarter, it had a positive impact in our fresh meats and hog production businesses, but it has created a challenging environment for our prepared meats business to price in.

We continue to make important progress in our supply-chain conversion, closing one more plant this past quarter, and we are moving aggressively to complete the network conversion, which will substantially reduce costs and deliver our 10% EBITDA margin run rate in 2015.

Slide number 3 summarizes the third-quarter results. Adjusted operating earnings for the quarter was a loss of CAD20 million, the same as prior year, while adjusted EPS was a loss of CAD0.13 per share, compared to last year at a loss of CAD0.19 per share. Adjusted EPS improved, even though adjusted earnings were flat, as our net interest expense declined to CAD1.2 million, compared to CAD18.7 million in 2013, reflecting the change in our balance sheet.

Improved results in our primary pork business were offset by lower earnings in prepared meats, reflecting the continued ongoing high network transition costs and the costs of the duplicate network and weaker volumes in the wake of the price increases implemented in May of this year.

The adjusted EBITDA margin for the quarter was 0.5%, consistent with a year ago, and the trailing 12-month EBITDA margin was a negative 0.8%.

Let's turn to slide number 4, where we provide a detailed breakout of the material factors and the year-over-year change in our adjusted operating earnings. On an overall basis, the two positive drivers for year-over-year improvement were the protein markets and the prepared meats margin expansion. These were offset by transition costs, volume, and higher manufacturing costs in hog production.

In the first bar on the far left of this chart, we benefited from an CAD18 million improvement in the protein market conditions. The majority of this related to increased spread in the pork and poultry markets, though despite this improvement, industry pork processor margins remained still below the five-year average by approximately CAD7 a hog.

In the second bar from the left, we realized an CAD11 million prepared meats margin improvement over a year ago, but it is very important to know that this is lapping a quarter in 2013 where we essentially were absorbing raw material cost increases. In Q3 of this year, we feel we have brought our margins almost in line with historic and strategic expectations.

In the third bar from the left, as anticipated, the price increases in prepared meats has impacted demand and resulted in a short-term volume decline. We're actively managing this and expect to see volumes recover over the next several quarters. In bar number four from the left, the transition costs have increased CAD10 million year over year, and I will provide some more background on this shortly.

Finally, in the fifth bar from the left, operational costs in our hog production operations were CAD6 million higher in Q3 than the prior year. This was a combination of a number of smaller factors. Some were one-time in nature -- for example, a feed efficiency issue in the quarter. Some will continue forward, though, as we more rigorously protect our biosecurity protocols in an environment where we may be exposed to the PED virus.

Turning to slide number 5, we wanted to highlight, and we believe this is a very important observation, the raw material conditions that we faced in 2014 to date, simply to demonstrate how unique this year really is. The chart illustrates the industry pork cutout, which is our raw material cost, since 2013, as well as the five-year average, which is the green line on this chart.

To those of us operating in the industry, this is an unprecedented condition, completely out of the historic norm for our business. We clearly prefer and have experienced in history relative stability in raw material cost, certainly relative to this year. But due to the extraordinary effects of the PED virus on the US hog supplies, costs were both high and, as you can see, extraordinarily volatile relative to the norms.

Most important, we do not feel these conditions will continue, nor be anything of a new normal in this business. This is an outlier year in that regard. As you can appreciate, these unpredictable markets make it very difficult to set stable pricing and retain stable margins.

Turning to slide number 6, this provides an overview of the timeline of executing our prepared meats network transition, which is unchanged from prior versions we have discussed with you. Our plan involves eight closures, of which five have been completed, including the recent closure of our Moncton facility in the third quarter.

We have completed the consolidation of our distribution network and are realizing the benefits from that initiative. We have also completed four plant expansions and one new build. The intensity of this entire transformation is significant, as are the benefits. We're executing against a plan that has the final three legacy facilities, which includes a very small plant in Winnipeg, closing by the end of this year.

As we get closer to that date, we will make the definitive call on exact closure timing, predicated on a clear line of sight on production readiness at our new Heritage facility. We have to calibrate these closures with absolute confidence that the Heritage facility in Hamilton is ready and can seamlessly meet our customer commitments.

These closure plants have already begun to ramp down production, but we cannot be assured of a closure date until we are right up against the expected action. Once a legacy plant is turned off, we need to be confident in the performance of the new one.

Slide number 7 breaks out our costs related to our network transition. In Q3, the costs of CAD25 million are largely driven by start-up costs in our Heritage facility, the largest in our network, along with the increased overhead costs related to additional resource requirements in running duplicate facilities throughout the transition.

The triggers for reduction in each of these three buckets of transition costs are, number one, the start-up costs for the Heritage facility, which will continue over the duration of the commissioning period. The quantum and duration of these types of costs are very difficult to precisely quantify.

We do not expect that there will be material reduction in the second bucket, duplicate overhead, until the three legacy plants close, particularly the ones in Kitchener and Toronto. The closure of the Moncton plant in September was an important milestone, but financially not material to the total.

The third and smallest bucket of transition cost is the dedicated resources that are executing the transition, which will be eliminated when we complete.

Slide number 8 provides additional color on our five major network startups. It shows the considerable progress we have made in this journey.

Three of the five plant startups are substantially complete, including fresh and frozen sausage production in Brampton, bacon and ham production in Winnipeg, and our new distribution center in eastern Canada. Our work at these facilities is now focused on optimizing operations to eliminate the minor variances to the target business case.

In Saskatoon, despite being one of the smaller expansions, we have experienced the highest level of startup challenges. The operating issues that we are facing there stem from the fact that we are integrating highly complex equipment together for the first time. We're executing against a detailed plan to resolve the operating issues we have identified. We have made some progress in Q3; however, this one is slower going.

Continue to make progress at our largest facility, the brand-new Heritage plant in Hamilton. The transfer of all wiener SKUs have been completed, which allows us to end wiener production at the Kitchener plant in the third quarter and shift our focus to optimization work.

In sliced meats, all four thermal or cooking lines in the facility have been installed and are now producing salable product. We are now fully into the volume onboarding and ramp-up phase for these four sliced meats lines.

These are two distinct but independent activities and we're working on them simultaneously. First is realizing the operational performance of individual lines and equipment and the second is the transfer of approximately 300 individual SKUs or items, each one requiring a comprehensive development process. Completion of this will trigger the closure of the remaining legacy facility.

We continue to make consistent progress with our supply-chain transition. As we have said in the past, the startup and commissioning curve at the Heritage facility continues to be our most significant variable for the balance of the year and the timing associated with hitting our 10% EBITDA margin target.

We expect it to be complete in the first quarter of 2015, but the unpredictable nature of startups of this nature is such that it could result in a delay of one or two quarters.

In slide number 9, we're updating the path from where we are to where our margin target was set. We think this is one of the more important perspectives for shareowners and analysts to pay attention to. The largest contributor here, obviously, representing over half of the improvement, from 0.5% to 10%, is 5.4%, or roughly CAD170 million on an annualized basis, increase in operating earnings, which is the completion of the network transition.

This has two components. Representing two-thirds of that bar is the elimination of the transition costs. The second component is realizing the full benefits of our new streamlined low-cost manufacturing network. In essence, this is the delta between full added cost and contributing benefits from the capital spend.

This bar increased in the third quarter compared to the second quarter by 0.4% as the costs to ramp up Heritage grew faster than the costs we could shed at the closing plants, as production of sliced meats at Heritage was relatively small in these initial stages.

During the last few quarters, we have incurred indirect cost in our legacy prepared meats facilities while executing the transition. These costs are primarily caused by disruptions in our manufacturing and distribution networks as production shifts and people transition to the new plants.

We have introduced a significant amount of change in our supply chain in a very short period of time. These costs represent 0.9% of this bridge or approximately CAD27 million of operating earnings on an annualized basis. By definition, when the three legacy plants close, this burden goes away.

The next bar is restoration of prepared meats margins, which has decreased to 0.9% this quarter and is worth approximately CAD27 million on an annualized basis.

There are two reasons our margins were not fully restored in the third quarter due to the pricing actions we implemented last quarter. First, input prices, primarily pork and beef, continued to rise in Q3, beyond our expectations. Second, a shift in mix from branded to private label, which typically follows a price increase, contributed to that result.

We see both of these impacts as short term. We believe that the input prices will drop over the next few months. Indeed, we are experiencing that now, and we're optimistic that our traditional branded/private label mix in prepared meats will be restored.

The fourth bar represents volume. This is worth 2.5% of EBITDA margin or approximately CAD75 million on an annualized basis.

There are two components here. First, there is the volume reduction triggered by our recent price increases in prepared meats. As already discussed, we expect this to recover within a reasonable period of time.

Second, over the last few years, as we have discussed in the last several times we had been together, we opted to shed some volume in our prepared meats business because it was either unprofitable or added complexity to our plant network.

We have concrete plans that are focused on recovering that volume in 2015. We have a high confidence level that we will reach the target in 2015 in total, but cannot offer any more certainty around the timing than we have to date at this point.

Turning to slide number 10, it is very important that we start turning our minds, and our sales and marketing teams are certainly focused, on bringing excitement and innovation to our categories that provides value and growth to consumers and drives growth in our business. Our market insight helps focus us on these areas where we see the greatest growth opportunities, and this manifests itself in new products, new categories, and new ways of reaching consumers.

One area of focus continues to be the changing demographic landscape in Canada. We have already seen our Mina Halal portfolio grow by generating strong retailer support, grassroots marketing, and a targeted print campaign, along with new frozen products. We are doing TV advertising in Cantonese and Mandarin and we will be expanding into new categories to address this rapidly growing community and marketplace. There are considerable opportunities in this country in targeting these changing demographics.

Looking at the snacking category, Maple Leaf meat snacks have grown by 21% over the prior year, outpacing the category, which grew 18%. Our Natural Selections Protinis offerings were the key driver for us in this category, and earlier this month, we started shipping our newest innovation, Protinis Skewers, launched with five-time Olympic gold medalist Hayley Wickenheiser as our spokesperson. We expect to see continued growth in this category as well.

Finally, health and nutrition continues to drive consumer behavior and we are seeing that on a number of fronts, from a shift in protein consumption to poultry and fish to a concern about the use of antibiotics. We see these areas as offering incremental growth opportunities that we will aggressively target.

In short, it is imperative for this business to migrate from the restructuring that we have been engaged in for the last seven years to driving growth through innovation, which we have clearly in our radar screen.

With that, I turn the call over to our Chief Financial Officer, Debbie Simpson, to discuss the other financial matters. Debbie?

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

Thank you, Michael. If I can ask you to turn to slide 11.

At the end of Q3, there was CAD510 million in cash on our balance sheet. Cash provided from operating activities during the quarter was CAD31 million, compared to CAD118 million in 2013. We now consider our working capital balances to be at a more normalized level.

Our net interest expense for the quarter was CAD1 million, compared to CAD19 million last year, reflecting the fact that we paid down our debt in Q2 2014 after the sale of Canada Bread closed.

The transition services agreement relating to the sale of Canada Bread remains in place and we are supplying services to Grupo Bimbo for up to two years from the closing date of the sale. The largest component of these transition services is information technology support and the agreement is on a cost recovery basis.

If I can ask you to turn to slide 12, we recorded CAD42 million in capital expenditures for the quarter, compared to CAD96 million in 2013. Of this amount, CAD18 million was strategic capital supporting our prepared meats network transition.

You can see from the graph there, our capital spending has been reducing significantly, reflecting the tail end of our strategic capital spending program.

On a net basis, our strategic capital spending is almost complete and largely in line with our initial estimate to complete this program. This amount is, however, made up of the remaining plant spend, netted against some expected capital inflows, and there is a potential for a disconnect in the timing between these cash flows.

Moving on to slide 13, in the third quarter the Company recorded CAD14 million in restructuring costs on our income statement, of which approximately CAD10 million relates to future cash costs and CAD3 million non-cash costs that charge accelerated depreciation.

This included CAD7 million of restructuring charges related to the prepared meats network transition. This is primarily employee retention, severance costs, and accelerated depreciation for facilities that are expected to close later this year.

In addition, there were CAD7 million in severance costs related to the reorganization of our SG&A structure following the sale of the bakery business. For the remainder of 2014, we anticipate an additional CAD10 million in cash restructuring.

I will now turn the call back to Michael.

Michael McCain - ***Maple Leaf Foods Inc. - President, CEO***

Thank you very much, Debbie. Let me conclude briefly with a few summary remarks.

In the quarter, we accomplished improved margins in our prepared meats portfolio, which was a major focus and, we believe, major accomplishment in the quarter. While we are experiencing anticipated softer demand in volume, we have initiatives in place to restore this and we believe patience is the most important response.

We accomplished major milestones in our network transition this quarter, including a further plant closure, and we are well into commissioning our largest and most complex prepared meats facility, indeed one of the finest in North America. Once completed, the transition in our prepared meats supply chain is going to dramatically transform our cost structure, increasing our competitiveness and the profitability of our business. Building blocks to the 10% EBITDA margin target are in place and we have plans to deliver on them as these markets and the network stabilize.

So now I would like to turn the call over for your questions and welcome anything that you have on your mind.

QUESTION AND ANSWER

Operator

(Operator Instructions)

Questioner

Good afternoon, everyone. Michael, I was wondering if you could just share with us the Board's current views on return of capital, capital structure, timing, magnitude, et cetera.

Michael McCain - ***Maple Leaf Foods Inc. - President, CEO***

As I said, for the last quarter, the Board was very clearly focused on not acting on that question until we had clear line of sight from what we define as job number one, which is completing the network transition and realizing our strategic targets, which we have well described.

There has been basically no change to that position, so we really have nothing to report of any consequence that would be different than what we have discussed for the last quarter.

Questioner

Just to clarify, Michael, and I know I was splitting hairs here, but when you say clear line of sight, does that mean really the other -- Heritage is up and running, the other plants have been decommissioned, and we know that we are on solid ground? Or could it possibly be a little bit before that?

Michael McCain - ***Maple Leaf Foods Inc. - President, CEO***

Honestly, to try and put a fine point on that, I think, would be a mistake for us or for you, because it's one of those things where you will know it when you see it and I think that's the Board's perspective.

It is a topic that it gets discussed certainly quarterly, if not monthly, and it is one of those things where we are in a very important state of transition that has just inherent unpredictability and volatility attached to it. We have known that for years and years, and this is very normal, and we're all extraordinarily confident in what we are doing in managing through that unpredictable and volatile period, but yet it's very prudent for the Board to take it one step at a time and evaluate it constantly.

So, to put a fine point on does that mean a certain trigger has to be met or a financial trigger has to be met, it really is too unpredictable or indefinable to be able to do that.

–Questioner

Thank you. That's very helpful. You mentioned that simultaneously the shift is returning somewhat -- or, sorry, the focus is somewhat returning to thinking about growth as we come closer to the end of this seven-year process. In the past, you have alluded to acquisitions, and I was just wondering if you could share your current thoughts on that.

Michael McCain - ***Maple Leaf Foods Inc. - President, CEO***

Don't think it's changed any from where we have been in the past. We certainly believe that there is lots of opportunities, both organic and inorganic growth, in our domestic footprint today, longer term, and I underline longer term. I would expect that we would look at out-of-footprint opportunities, but that's well down the road.

Domestically, the organic growth would be in things like filling out our category. But there are some holes in our portfolio where the market shares are lower than others, and we would likely seek to fill that in, and it can grow or be accomplished in some form within the combination of organic and inorganic and there is many opportunities.

Obviously, it's not prudent for me to discuss any one individual element of that, but there is always opportunities in this market to accomplish that.

Questioner

That's great. Thanks. I will leave it at that for now. Thank you, Michael.

Questioner

First question is just about the competitive behavior out there right now. I would like to get a sense from you how your competitors are reacting to the drop in the hog costs of late, and whether or not they're reversing any of the price increases taken in May.

Michael McCain - ***Maple Leaf Foods Inc. - President, CEO***

If you look at the chart, on page number 5 of our deck, which shows the history of these markets in 2014, what you see is some pretty extraordinary volatility of ups and downs throughout the year.

I don't believe any competitor in this market anywhere in North America has overreacted to this because what they have experienced is what has gone down in at least three occasions has gone dramatically back up in very short order.

The more recent drop that you are referring to is only a few weeks old, and it is highly -- it's not clear yet exactly how that will unfold in the marketplace, but I think the answer ultimately -- if it sustained itself at these lower levels, the answer is depends on the category. Some categories we would expect and can absorb, right, because they would tend to track more closely to the markets, a category like bacon, for example, whereas other categories tend to be more stable in their pricing and track consumer response.

Overall, the markets coming into this fall are higher than we expected, than most people expected. We fully expected when we established our pricing for the raw material costs to come down this fall, and so we have to see how this all unfolds through this quarter, see where our margins should end up.

If your question is where will our margins be in the context of these markets, we are highly confident that we will be at or above our strategic margin targets for 2015 in these declining markets.

Questioner

And when you look at the futures out there for the hog pricing, you see it forecasting some big drops. Is that -- what kind of confidence level do you have in the future markets?

Michael McCain - ***Maple Leaf Foods Inc. - President, CEO***

It is beyond my skill capability or good judgment to try and second-guess futures markets or the USDA in their projections in the marketplace, so I can't give you any insight, other than to say that they are what they are.

–Questioner

All right. You mentioned that you had 300 SKUs to be transferred to the new plant. Is that what's remaining or is that in total and you are already partway through there?

Michael McCain - ***Maple Leaf Foods Inc. - President, CEO***

No, that's in total, and in our SKU moves, we are probably somewhere in the 20% to 25% complete.

–Questioner

All right, thank you very much.

Questioner

Just following up a little on those last questions, what have you guys seen in your export markets in terms of your pricing and volume impacts? Was the price increase that you passed through on the export market similar to what we saw domestically?

Michael McCain - ***Maple Leaf Foods Inc. - President, CEO***

Yes, that would be specifically around the Japanese marketplace, and I think what we have experienced in that market is an improvement in the results, although not a full restoration to where we would like to be or think it is going to be.

But our experience in the Japanese markets is that, to be blunt, things happen slowly and deliberately. We have got a long-term position in that market, and following the very difficult conditions of 2013 in Japan, we've been slowly and deliberately improving them and they are improving. They are not back to where they need to be.

Except that I would highlight that's separate and distinct from what we've experienced in our domestic packaged goods market. That's a fresh meat condition that is attached just to the Japanese market.

Questioner

Right, okay, that's very helpful. With the Canadian dollar having weakened materially here against the US dollar, do you see more potential for a stronger export business into the US, now that your products become increasingly competitive?

Michael McCain - ***Maple Leaf Foods Inc. - President, CEO***

100%, absolutely true. It takes time for that to effect itself in the marketplace. We see that actually in two dimensions. The first is the impact on pressure from imports and the second is in opportunities for exports.

It is very clearly on our radar screen. We think there's an opportunity there. There is certainly an opportunity to utilize not only the capacity that we had planned for in our current network, but also in opportunities to improve the utilization year-round to excess capacity that we have seasonally in some of our facilities.

So we do think it's actually a very good opportunity, but the caveat is that to develop those opportunities take a rather lengthy lead time, so it's not something that is going to impact us in the next few months, but I think one and two years from now, it will be a very positive impact.

Questioner

Okay, thanks, and then just one more, if I can. Can you guys just give us some color on the magnitude of the volume declines, domestically, following your price increases? Have you seen the volumes come back from their initial declines when you first implemented the price increases?

Michael McCain - ***Maple Leaf Foods Inc. - President, CEO***

Like in all charts of that nature -- it is a very good question. It is one that we micromanage on a weekly basis. I would tell you that we had a very steep decline, well over double digits in the first month following the price increase, which was June. That's long in our history books now.

More recently, it has been stabilizing down in the mid single digits range. I would say 4% to 6% in total. But it bounces around quite a bit period to period, and largely because we are trying to exhibit both discipline and patience as we see that -- as we work that back.

We're very focused on the components. If you double-click on that components of the year-over-year shift, which is very different category by category, channel by channel, even customer by customer, and so we think it's much wiser to be patient and to work that back at a granular level like that than it is to try and overreact.

So it is probably steeper than what we would like, but certainly the price increases that we experienced in the spring were bigger than we had ever executed in our history, in my personal history. So having volume recovery that stretches between one and three quarters following a large price increase is not abnormal, and this is only the first quarter after that price increase.

So that's largely what we are experiencing this first quarter post the price increase. We expect to manage that back to full recovery into start of next year.

Questioner

I just wanted to clarify some of the commentary about the closure of the legacy plants, the full ramp-up of Heritage, and it sounded like that was still on track by year-end, but then there was commentary about Q1 and also a potential delay of a quarter or two. So I just want to clarify what you are referring to specifically around the timing of the plant closures and the ramp up, and then the achievement of the 10% margin run rate.

Michael McCain - ***Maple Leaf Foods Inc. - President, CEO***

Sure, that's a great question. Let me begin by being very clear that our perspective today is no different than what it has been for the last couple of years, actually, which is that the highly unpredictable nature of plant startups like this don't allow us to pinpoint a specific time with any degree of confidence or accuracy.

We have a baseline plan and we still are focused on that plan, but I've said for a long, long, long time that we expect to be on run rate in our base case in the first quarter of 2015, but the volatility of plant startups and the unpredictability of plant startups like this could result in a delay of a quarter or two very easily, and that position is no different today than it was -- has been over the last year, year plus.

Drilling down on that to look at the specifics of the Heritage startup and the legacy plant closures, one of the paradoxes of this is it is a wholesale network transition from old to new, particularly with these two large facilities, the Courtland Road facility in Kitchener and the Bartor Road facility in Toronto, that we are really unprepared to turn off that old capacity, which burns a supply bridge, until the very last moment and we see that the new capacity is stable, predictable, secure, and able to handle even at peak capacity the full demands of our customer base.

It is the kind of thing where we can be on track today and off-track tomorrow and back on track the day after, and we won't really know until just prior to the time when we flip the switch. That switch could be delayed by a week, a month, a quarter, and, as I have tried to be clear with, even up to and including a couple of quarters.

It's highly dependent on how that equipment all performs at full load, not how it performs at 20% load, but at full load and in a predictable, stable manner. It won't be until we make the decision at the last minute that we are prepared to turn off the old capacity, because that's when we start taking customer risk that we are unprepared to take.

I am not sure if that explains the nature of this type of a transition and why it is so difficult to predict, but it is. But we're still -- we are still working towards the run rate in the first quarter, but it very easily could be, as I have said for years, a quarter or two delayed from that, just due to the nature of these types of startups.

–Questioner

That's helpful. How long would you need to see a stable full production at the Heritage facility, under full load, before you felt confident about shutting off Kitchener and Bartor?

Michael McCain - ***Maple Leaf Foods Inc. - President, CEO***

That depends on the conditions. Without giving you a very technical answer, I think that depends on the conditions and the nature of the gaps.

Bluntly, you have to be able to demonstrate it under various loads. We do burst tests. We do sustainability tests. There is a whole range of very technical equipment testing that we do to satisfy ourselves that we are taking limited to no risk in cutting off the supply chain, the old supply chain, before we operate the new one. So it very much depends on the outcome of those tests and not so much length of time.

Questioner

Okay, thanks. I know it's not a key market for you guys -- a key export market for you guys, but can you just talk about the market reaction in terms of supply and pricing to Russia's decision to ban Canadian?

Michael McCain - ***Maple Leaf Foods Inc. - President, CEO***

I don't -- I think the global markets have been relatively stable for us. We are not just focused on the Russian market.

Obviously, it has an indirect impact on us, but certainly we have seen robust demand in the markets that we are focused on, which is namely Japan, and, as I said, our margins are improving. We don't see that as being an enormous influence on either our business or the marketplace.

–Questioner

Does the agreement with South Korea open things up for you?

Michael McCain *- Maple Leaf Foods Inc. - President, CEO*

It does, but it's not particularly material. We think on the margin, it has some benefit to us, but we think it's a good thing for the industry in Canada, but we've said both to government officials and industry participants, it's not -- it is a positive, but for us, we would like that outcome -- it's good for the industry, but it's not particularly material to our outcomes.

Questioner

Okay, thanks a lot.

Questioner

A couple questions. How is Maple Leaf's availability of inputs? Are you guys having any issues sourcing or getting supply on the front end?

Michael McCain *- Maple Leaf Foods Inc. - President, CEO*

No.

–Questioner

What is the expected transition cost in the fourth quarter and first quarter next year? Are we starting to see some sort of tapering off or is it still going to be at that CAD25 million level?

Michael McCain *- Maple Leaf Foods Inc. - President, CEO*

I think in the fourth quarter this year, it is probably be roughly the same. Again, there's a high level of unpredictability in that forward-looking statement, but at the end of the day, that's roughly what we would think is a reasonable expectation. I think you can expect, again assuming success, that you would see that start to taper off dramatically starting in first quarter.

Questioner

I know you said the cadence of getting to your 10% EBITDA margin is unknown and it could be off by a quarter or two. Can you give any color -- are you more confident -- you're closer now. You're getting closer to that cliff. It's going to happen, I guess.

Is there a level of more confidence? Is there a level of more anxiety related to it? Where do you stand on your ability to actually get there, now that you are starting to see a little bit more into the future? You started this process several years ago. Now you are several quarters away. Can you give some color to that?

Michael McCain *- Maple Leaf Foods Inc. - President, CEO*

Totally. There is two components to your question -- my confidence in the target and the endgame and my confidence in the timing.

The confidence in the target, honestly, we can see every individual brick, we can see every grain in the brick in terms of the building blocks that are required to go from where we are to where we need to be, and we have very high confidence in that target.

The confidence on the timing, whether it's January, February, March, or, in a difficult situation, well into the third quarter, honestly, it is just so incredibly difficult to predict. I can't tell you, largely because it traces to things like tell me how that piece of equipment is going to perform relative to its performance guarantee in January as a new piece of equipment. Honestly, it's just too hard to predict.

Questioner

But the timing has nothing -- the delay in the timing has nothing to do with the operating environment that you are working within?

Michael McCain *- Maple Leaf Foods Inc. - President, CEO*

No.

–Questioner

It has more to do with your ability to actually just get that brick, one brick at a time, onto that building and do that type of stuff, so it has nothing to do with the actual operating environment. Is that a fair point?

Michael McCain *- Maple Leaf Foods Inc. - President, CEO*

With one exception and I would highlight this exception. We still are in the eye of the storm with respect to volume recovery at very high pricing and we are counting on the pace of that recovery.

Based on experience, I have a very high confidence level that volume is going to recover and then some and we will be able to fill in any blanks that we have in the marketplace, particularly with a CAD0.90 heading into the United States.

–Questioner

My very last question is if I fast-forward 12 months from now, there seems to be, at least in the US, we could potentially be swimming in hogs, which would obviously lead to a lot lower input cost for you. Would that not be a major benefit to how you're pricing, because I'm assuming you're not going to give back the pricing to the same degree? Is there something I would be missing, and is there -- I guess this is going the other way -- is there a reason not to believe that your 10% EBITDA margin in a year or two years from now is way too low? Let's say it differently. If we are swimming in hogs next year, would your input costs go down and would you be able to capture that profitability on that?

Michael McCain *- Maple Leaf Foods Inc. - President, CEO*

Certainly, declining markets for us are a benefit, but there is a natural -- there are natural economics in this business where we -- where, for a short period of time, we probably might or would, just as we absorb these things on the way up, sometimes.

I do think that there is natural economics that equilibrates at a certain level, so I think the best thing to model, if you are a long-term shareholder and you want to focus on long-term shareholder value, we believe that in these -- in declining markets, we will be at or above our strategic margin targets in the business. I don't think I would be modeling the prospect for windfall, although, certainly, declining markets are helpful to us.

–Questioner

All right, great. I will follow up off the line, because I think Hillshire and the guys in the US tend to enjoy a big benefit from it, but I appreciate the honesty. Thank you.

Michael McCain - ***Maple Leaf Foods Inc. - President, CEO***

At the end of the day, we will always do our best, as well, but I don't want -- right now, we are focused on meeting the targets that we've set and I don't think it would be prudent for us to be discussing overachievement.

Although I think , and I have said this a number of times, as a long-term investor who has set a strategic target seven years ago of 10% EBITDA margins -- margin target, we are now completing that journey and highly confident that we will achieve that on a run rate basis in 2015.

We are now turning our attention to what that environment is going to look like between 2015 and 2020, and for the next five years, we are viewing 10% as a floor, not a ceiling. We think that there is steady opportunities for us to continue to improve the profitability of the business on a step-by-step basis, not quite so dramatic as what we have experienced in the last number of years with significant capital to spend, but through the good work of innovation and growth and continuous improvement from a cost structure.

Anybody who is experienced in manufacturing will always tell you that when you invest in a brand-new plant, you achieve your baseline returns on a brand-new plant once you get it running to target, then you spend the next five years trying to optimize it beyond what your expectations were in the first instance, and the incremental add-ons are worth considerably more sometimes than even the first investment.

That's a normal response to significant manufacturing investments, like new kit to new equipment. We do have -- we are starting to formulate growth plans between 2015 and 2020 that would give us that perspective, but we don't -- it is very hard to pin what that looks like. But what that doesn't do is answer the question tell me specifically when this network will be in transition in 2015, and that's the hard part to predict because we are still in startup mode.

–Questioner

Great, I appreciate it. Thank you.

–Questioner

Just wanted to follow up on one thing as it relates to shifting production. Is there any learnings that you guys have had from the shifts in some of your other plants that you can apply to Toronto Kitchener, moving into Hamilton, or are these more individual type of issues where every plant is different?

Michael McCain - ***Maple Leaf Foods Inc. - President, CEO***

Probably the one learning was when we originally closed the North Battleford facility in favor of our bacon production in Winnipeg, we had not done probably in retrospect adequate statistical load testing to be 100% certain that at peak loads at peak seasonality that we wouldn't have some short-term production issues.

That makes us a little bit more cautious and a little bit more knowledgeable in doing some of that peak load testing, which I referred to earlier, for the remaining plant closures. The good news is in retrospect we worked our way through it in bacon a year ago. All of this occurred a year ago, and I think that has colored our conservatism in making sure that we -- before we burn the bridge of old capacity, that we are really confident and certain in the peak load and peak capabilities to service our customers in the new capacity.

That's probably a headline, but there's always 100 others that would be behind that.

Operator

Thank you. There are no further questions registered at this time. I would now like to turn the meeting back to Mr. McCain.

Michael McCain - ***Maple Leaf Foods Inc. - President, CEO***

Thank you. I appreciate your engagement and your questions, and we do have a very interesting, if not challenging, time period in our history that gives us confidence in the end game, but certainly working through the issues of timing and startups.

There is a lot that has gone very well and there is obviously some challenges that we are working our way through. At the end of the day, we think we are going to end up with a stronger, more profitable, growth-focused business when this is all done, and that excites us for the long-term health of the business.

So thank you for your support and your engagement and we appreciate that immensely, and we will look forward to updating you at the end of -- the fourth-quarter results. Have a great day.

Operator

Thank you, Mr. McCain. The conference has now ended. Please disconnect your lines at this time and we thank you for your participation.