

FINAL TRANSCRIPT

High Liner Foods Incorporated

Conference Call for Results of the First Quarter of 2018

Event Date/Time: May 9, 2018 — 2:00 p.m. E.T.

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First Quarter of 2018

CORPORATE PARTICIPANTS

Heather Keeler-Hurshman

High Liner Foods Incorporated — Vice President, Investor Relations

Paul Jewer

High Liner Foods Incorporated — Executive Vice President and Chief Financial Officer

Henry Demone

High Liner Foods Incorporated — Chairman of the Board

Rod Hepponstall

High Liner Foods Incorporated — President and Chief Executive Officer

CONFERENCE CALL PARTICIPANTS

Jonathan Lamers

BMO Capital Markets — Analyst

Analyst

RBC Capital Markets

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the High Liner Foods Incorporated Conference Call for Results of the First Quarter of 2018.

At this time, all participants are in a listen-only mode. Following management's prepared remarks, we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for your questions.

If anyone has any difficulties hearing the conference, please press the * key, followed by 0 for Operator assistance at any time.

This conference call is being recorded today, Wednesday, May 9, 2018, at 2:00 p.m. Eastern Standard (sic) Time for replay purposes.

I would now like to turn the call over to Heather Keeler-Hurshman, Vice President of Investor Relations for High Liner Foods.

Ms. Keeler-Hurshman, please go ahead.

Heather Keeler-Hurshman — Vice President, Investor Relations, High Liner Foods Incorporated

Thank you, Jack, and good afternoon everyone. Thank you for joining High Liner Foods conference call to discuss our financial results for the first quarter of 2018.

On the call today from High Liner Foods are Henry Demone, Chairman of the Board, and Paul Jewer, Executive Vice President and Chief Financial Officer.

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Also joining the call for the first time is Rod Hepponstall, High Liner Foods new President and CEO, effective May 1st. Welcome, Rod.

Today's call will start with Paul reviewing the Company's financial performance for the first quarter of 2018, followed by Henry, who will discuss key developments in the business and provide an update on 2018's objective. And then Rod will say a few words before opening the call for questions.

Before turning the call over to management, listeners are reminded that certain statements made in today's call may be forward-looking statements that are subject to risks and uncertainty. Management may use forward-looking statements as they discuss the Company's strategy and business in the future.

Actual operating or financial results could differ materially from those anticipated in these forward-looking statements. High Liner Foods includes a thorough discussion of the risk factors that can cause this anticipated outcome to differ from actual outcomes in its publically available disclosure documents, particularly in its annual report and Annual Information Form.

Please note that High Liner Foods is under no obligation to update any forward-looking statements discussed today.

Earlier today, High Liner Foods reported its financial results for the first quarter ending March 31, 2018. The news release, along with the Company's MD&A, unaudited condensed interim

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consolidated financial statements for the first quarter of 2018 have been filed on SEDAR, and can also be found in the Investor Information section of the High Liner Foods website.

If you'd like to receive our news releases in the future, please visit the Company's website to register.

Lastly, please note that the Company reports its financial information in US dollars, and the results to be discussed today are stated in US dollars, unless otherwise noted.

High Liner Foods common shares trade on the Toronto Stock Exchange and are quoted in Canadian dollars.

I'll now turn the call over to Paul. Paul, please go ahead.

Paul Jewer — Executive Vice President and Chief Financial Officer, High Liner Foods Incorporated

Thank you, Heather, and good afternoon, everyone. Before beginning my financial review, I'd like to remind listeners that we use certain non-IFRS measures and ratios when discussing our results, as we believe these are useful in assessing the Company's financial performance. These measures are fully described and reconciled to IFRS measures in our MD&A.

Please note that all comparisons provided during my financial review of the first quarter of 2018 are relative to the first quarter of 2017.

For the purpose of assessing the Company's year-over-year performance, listeners are reminded that Rubicon was acquired on May 30, 2017, and therefore is not reflected in the comparative information for the prior year.

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Sales volume increased in the first quarter by 4.9 million pounds to 88.1 million pounds, primarily reflecting 7.9 million pounds from Rubicon. Excluding Rubicon, sales volume for the first quarter decreased by 3 million pounds, reflecting lower sales volume in our US retail and foodservice businesses.

Sales in US dollars increased in the first quarter by \$43.5 million to \$319.2 million, primarily due to \$42.1 million in sales from Rubicon and a \$2.9 million increase in sales related to a stronger Canadian dollar on the translation of the US dollar sales from the Company's Canadian-dollar denominated operations.

Excluding these items, sales decreased by \$1.5 million, due mainly to product mix and the lower sales volume mentioned above, partially offset by price increases related to raw material cost increases.

Gross profit increased in the first quarter by \$5.1 million to \$60.6 million, and was 19 percent of sales compared to 20.1 percent, primarily reflecting \$5 million in gross profit from Rubicon. Excluding Rubicon, gross profit increased in the first quarter by \$100,000 to \$55.6 million, and was 20.1 percent of sales, consistent with the first quarter of 2017.

This slight increase in gross profit reflects price increases, partially offset by lower sales volume and plant inefficiencies in our US business.

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In addition, the stronger Canadian dollar had the effect of increasing the value of reported US dollar gross profit from our Canadian operations in 2018 by approximately \$600,000 relative to the conversion impact last year.

Adjusted EBITDA increased in the first quarter of 2018 by \$1.9 million to \$24.2 million. Excluding the impact of converting our Canadian-dollar denominated operations and corporate activities to our US-dollar presentation currency, a decrease of \$1.1 million in 2017 and \$700,000 in the same period last year, adjusted EBITDA increased by \$2.3 million.

\$1.1 million of this increase was attributable to Rubicon, and the remaining increase reflects the impact of price increases and lower corporate administrative expenses and US sales and marketing expenses, partially offset by lower sales volume, plant inefficiencies, and increased distribution costs in our US business.

Adjusted EBITDA was 7.6 percent of sales in the first quarter of 2018, or 8.4 percent excluding Rubicon, compared to 8.1 percent in the same period last year.

Reported net income decreased in the first quarter of 2018 by \$400,000 to \$10.3 million, with diluted earnings per share of \$0.31. This decrease reflects an increase in depreciation and amortization expense and finance costs, partially offset by the increase in adjusted EBITDA mentioned previously.

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Excluding the impact of certain nonroutine and noncash items which are explained in our MD&A, adjusted net income decreased in the first quarter by \$100,000 to \$10.7 million, and correspondingly, adjusted diluted earnings per share decreased by \$0.03 to \$0.32.

Turning now to the balance sheet. Including trailing 12-month adjusted EBITDA for Rubicon, net interest bearing debt to rolling 12-month adjusted EBITDA was 5.6 times at March 31, 2018, consistent with the end of fiscal 2017. Net interest bearing debt was \$386.1 million at the end of the first quarter compared to \$387.9 million at the end of fiscal 2017.

Net cash flows from operating activities increased by \$21.3 million to an inflow of \$9 million in the first quarter of 2018 compared to an outflow of \$12.3 million in the first quarter of 2017, primarily reflecting more favourable results from operations, a tax refund, and a more favourable change in net noncash working capital, partially offset by higher interest payments.

Net noncash working capital requirements increased by \$5.7 million to \$244.8 million at the end of the first quarter of 2018 compared to \$239.1 million at the end of fiscal 2017, primarily reflecting lower accounts payable and accrued liabilities and increased accounts receivable largely due to the Lenten period, partially offset by lower inventories.

That concludes my financial review, and I will now turn the call over to Henry.

Henry Demone — Chairman of the Board, High Liner Foods Incorporated

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Thank you, Paul, and good afternoon, everyone. It is my pleasure to formally introduce you to Rod Hepponstall, High Liner's new President and CEO. Rod has more than 25 years of experience in the food industry in both Canada and the United States.

He's worked for several large food companies, including Maple Leaf Foods, George Weston Bakeries USA, Conagra Foods, and most recently Lamb Weston, a spin-off from Conagra Foods in 2016. Rod was Senior Vice President at Lamb Weston, one of the worlds' leading suppliers of frozen potato products. Lamb Weston is a publically traded company listed on the New York Stock Exchange. In his most recent role, Rod had overall responsibility for the performance of the Company's North American retail and foodservice business units.

We are very pleased to have Rod as our CEO. He is a strong leader with a great track record of success, and I have full confidence in his ability to successfully lead High Liner Foods to its next phase of growth.

Rod is going to speak in just a moment, but first I want to reiterate that improving the efficiency of our manufacturing facilities remains our primary focus to improve performance in 2018.

Other areas of increased focus to improve performance continue to include improving pricing methodologies, lowering fixed costs, increasing the effectiveness of product innovation, and simplifying the business. Through these initiatives, Rod and his team will work to mitigate the impact of higher raw material costs on certain species and higher supply chain expenses.

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One final item that I'd like to share is that earlier today, the Company's Board of Directors approved a quarterly dividend of \$0.145 per share on the Company's common shares payable on June 15th to shareholders of record on June 1, 2018.

I will now turn the call over to Rod. Rod, please go ahead.

Rod Hepponstall — President and Chief Executive Officer, High Liner Foods Incorporated

Thank you, Henry, for the introduction, and good afternoon, everyone. I'm delighted to be here today, and look forward to leading the High Liner Foods team.

I've been asked a few times, why would I trade frozen potatoes for frozen seafood? And it's because of the significant opportunity I believe exists for both seafood and High Liner Foods.

We know that today's consumers are looking for healthy, sustainable protein choices, yet North Americans on average are not consuming even close to the minimum amount of seafood recommended by dietary experts.

This screams of opportunity, and I believe the Company best positioned to take advantage of this opportunity along with a leading market position and well-known brand, a company like High Liner Foods.

I believe our greatest opportunity to raise the profile of seafood with North Americans and grow demand for this underrepresented protein is by working closely with all of our constituents, customers, operators, and consumers, to develop creative and easy-to-prepare seafood solutions that compel North Americans to enjoy seafood more often than they do today.

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I've already had the opportunity to speak to several of our customers, customers that I've already known from my previous positions, and I was impressed by what they had to say about High Liner Foods. It shows we're doing a good job of building strong customer relationships, which are the key to success of any business.

I'm looking forward to speaking to many more of our customers in the coming months and understanding how we can best work together to grow their seafood business and ours.

Since joining the Company just over a week ago, I've had the opportunity to visit Lunenburg, Halifax, and Portsmouth, and I've been very impressed by the calibre of people working at High Liner Foods and their commitment to the Company. Employees clearly share my belief that seafood has a much greater role to play in helping North Americans live better lives and, like me, want to be a part of making this a reality.

Operator, I'd like to now open the call for questions. Thank you.

Q&A

Operator

At this time, I would like to remind everyone in order to ask a question, please press *, 1 on your telephone keypad. We'll pause for a moment to compile the Q&A roster. Again, press *, 1 on your telephone keypad to ask a question.

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Your first question comes from the line of Jonathan Lamers with BMO Capital Markets. Your line is open.

Jonathan Lamers — BMO Capital Markets

Hello. On the breaded-and-battered category, can you tell us by how much the industry breaded-and-battered category declined in Q1 for the US and for Canada, if possible?

Paul Jewer

Yeah. I don't have an overall industry number for you Jonathan, but in terms of the market in retail where we do have published stats, there were single-digit declines in both Canada and the US again this quarter in the category at retail level for frozen seafood.

Jonathan Lamers

And do you have a sense for how the category performed at foodservice in the quarter?

Paul Jewer

I don't have the same external market stats, so I can't give you a market number. You would have seen reference to our foodservice business where we did have some decline overall in our foodservice business. And that decline was driven by the processed part of our business, rather than the unprocessed part of our business.

Jonathan Lamers

Okay. Thanks. And, Paul, do you have an estimate for how much the longer Lent period would have benefitted sales volumes or revenue for Q1?

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No. I mean, there would have been some benefit in the last part of March in the prior year because of longer Lent, but nothing that I'd quantify at this point.

Jonathan Lamers

Okay. And are you able to comment on your sales in April ideally for the US, Canada, and whether product mix remains favourable?

Paul Jewer

Really nothing I'd give in terms of guidance on April at this point, other than to say the trend is not significantly different than what we saw in the first quarter.

Jonathan Lamers

And moving on to the margin line, in Canada we saw quite an EBITDA margin improvement. Can you describe some of the savings on administrative and consumer marketing expenses you were able to achieve this quarter?

Paul Jewer

Sure, yeah.

Jonathan Lamers

And whether there were opportunities for the US?

Paul Jewer

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Sure. Yeah. And there were really a couple of things in Canada besides the cost savings. Margin was also better in Canada in the first quarter. As we mentioned in the call script, there were rising raw material prices and we did have to pass those on to the marketplace, and we did that. But with our inventory position, that actually was slightly beneficial to margin in the first quarter in our Canadian business.

And you are correct. There were also some SG&A and sales and marketing savings; nothing particular that I would point to it. It was really just, frankly, good management across the board.

Jonathan Lamers

Okay. So nothing that was kind of part of your strategic initiatives for 2018?

Paul Jewer

No. I mean, Henry mentioned a few of the areas that were focused on. Obviously, we're trying to be more effective in managing our trade spend. That's one area in particular, on the sales and marketing line. We are also, where we can, as Henry mentioned in his remarks, working on continuing to simplify our business. And I think that is another area where we were able to find some savings in the Canadian business in the first quarter.

Jonathan Lamers

Okay. The US organic sales volume trend did appear to worsen a bit versus Q4. You highlighted that breaded-and-battered category at retail continued to decline, and there may have

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been some benefit from Lent in the prior-year quarter. Is there anything else that you would attribute that to?

Paul Jewer

Nothing specific that I would attribute it to, but you are correct. I mean, that was one of the areas where we would have liked to have seen a slightly better performance in the first quarter would have been in foodservice, US sales, and margins.

Jonathan Lamers

Okay. And like on the plant inefficiencies, how did the plant performance trend in Q1 versus Q4? I know that there were inefficiencies looking on a year-over-year basis, but can you kind of comment like sequentially how the plants have been performing and how your sort of initiatives there are taking hold?

Henry Demone

Yeah, Jonathan, when I came back in August we were just coming out of the impact of the recall, and at that point in time we had customer services issues and plant efficiency issues in all three plants.

During Q1, the Canadian problems really were resolved, right? So we put that behind us. The production problems in one of the two US plants were resolved, so we put one of the two US plants back on track in the US. And we got customer service back on track in the US, unfortunately, at the end of the quarter, right?

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So there's been good improvement there, but still work to do, right? And that'll be a priority for Rod and the team going forward.

Jonathan Lamers

So, Henry, the Canadian problems you said were resolved in Q1 of 2018, and—

Henry Demone

Yes

Jonathan Lamers

—in US; one of the two plants some issues were resolved in Q1 '18, but there's still some work to be done. Is that—

Henry Demone

Correct. Correct.

Jonathan Lamers

Rod, I understand you've only been at the Company for a week, but this is kind of the first chance that the analyst community has had an opportunity to speak with you. Can you discuss a little bit the plans that you have for executing on some of the Company's strategic initiatives, whether those are improving focus on customers, more effective production management, product innovation, sales strategies, et cetera?

Rod Hepponstall

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Yeah. I appreciate the question. Given your point I've been here eight days, it's probably a bit premature for me to address those in specifics, but given the comments that Henry's made, we're making progress. We'll continue with the focus of our strategic initiatives and certainly see those through, and continue moving forward.

Jonathan Lamers

Okay. I'll pass the line. Thanks.

Operator

Again, if you'd like to ask a question, please press *, 1 on your telephone keypad.

Your next question comes from the line of Sabahat Khan with RBC Capital Markets. Your line is open.

Analyst — RBC Capital Markets,

Hi. This is Kirnan (phon) on behalf of Sabah. I just had a few questions. It was mentioned in your outlook that you will work to mitigate higher raw material costs for some species. Can you talk about that look for input cost for the rest of the year? And any progress on passing those price increases through?

Paul Jewer

Sure. So we did pass some price increased through already in Q1. The species where we're seeing the more significant impacts from a cost perspective are haddock and cod. And we will continue to look at what we need to do, both from a pricing perspective in terms of mitigating lows

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as we move forward through the back part of the year, but also from a cost margin management perspective as well in order to mitigate those.

But we are now getting to the point where we've been selling through the beneficially priced inventory that we had bought back in 2017.

Analyst

Okay. And can you share your thoughts on the outlook for leverage reduction? Are you still targeting below 4.5 X by year-end?

Paul Jewer

We certainly believe we can reduce leverage quite significantly from where it is today by the end of the year. Whether or not we'll get all the way to 4.5 is still something we're looking at. But we see substantial free cash flow generation in the remaining eight months of the year, and we'll use that to reduce the debt.

So you will see leverage come down nicely from the level at the end of Q1.

Analyst

Okay. And last one for me. What's the current outlook for the demand in the US retail and foodservice segments? And how are these two markets trending?

Paul Jewer

So I would say from a foodservice perspective, what we're seeing in the market overall is— and you can see this from the public companies that report in that space that are a large customer of

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ours, including a number of the large restaurant chains—the trend is a little negative in terms of volumes in that business, but that’s for the business overall. And so we’re working hard to find ways to grow seafood with our existing customer base.

They are also both operators and our customers are facing some increasing costs, particularly in the area of logistics. And so we’ll continue—and labour—and we will continue to find ways where our product, particularly from a labour perspective, may be able to help them deal with some of those challenges.

I would say in retail overall, I mentioned earlier our market share data would suggest there continues to be some decline in the processed portion of the category, and we need to work hard to continue to find ways to drive consumer demand to offset that. And a large number of our customers have been very focused on their buy and reducing costs in their business as they face competitive threats, particularly from large online retailers as an example.

Analyst

That’s it for me. Thank you.

Operator

Again, if you’d like to ask a question please press *, 1 on your telephone keypad.

There are no further questions at this time. I’ll turn the call back over to the presenters.

Rod Hepponstall

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Thank you, everyone, for your participation in today's call. We look forward to updating you with the results for the second quarter of 2018 at our next conference call in August.

Operator

This concludes today's conference call. We thank you for your participation. You may now disconnect.

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