FINAL TRANSCRIPT

High Liner Foods Incorporated

Conference Call for the Results of the First Quarter of 2016

Event Date/Time: May 11, 2016 — 2:00 p.m. E.T.

Length: 26 minutes

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

Keith Decker
High Liner Foods Incorporated — President and Chief Executive Officer

CONFERENCE CALL PARTICIPANTS

George Doumet
Scotiabank — Analyst

Sabahat Khan
RBC Capital Markets — Analyst

Marc Robinson
Cormark Securities — Analyst

PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the High Liner Foods Incorporated Conference Call for the Results of the First Quarter of 2016. 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 questions. If anyone has any difficulties hearing the conference, please press *, followed by 0 for Operator assistance at any time.

This conference call is being recorded today, Wednesday, May 11, 2016 at 2:00 p.m. Eastern Standard 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, you may begin.

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

Thank you, and good afternoon, everyone. Thank you for joining High Liner Foods' conference call to discuss our financial results for the first quarter of 2016. On the call today from High Liner Foods are Keith Decker, President and CEO, and Paul Jewer, Executive Vice President and Chief Financial Officer.

Today's call will start with Paul reviewing the Company's financial performance for the first quarter, followed by Keith, who'll provide an update on our strategic goals before opening the call up 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 risk and uncertainties. Management may use forward-looking statements as they discuss the Company's strategy and business in the future. Actual operating results 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 its anticipated outcomes to differ from actual outcomes in its publicly 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 of 2016. That news release, along with the company's MD&A and unaudited, condensed interim consolidated financial statements for the first quarter of 2016, have been filed on SEDAR and can also be found in the Investor Information section of 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 will 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 of the first quarter of 2016, I'd like to remind listeners that we use certain non-IFRS measures and ratios in 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.

Sales volume decreased in the first quarter of 2016 by 1.3 million pounds or 1.5 percent, to 88.2 million pounds, due to lower sales volume in the US foodservice business, reflecting a shorter promotional period associated with Lent in 2016 as compared to 2015, and the impact of lower demand for traditional breaded and battered frozen seafood products.

Sales in US dollars decreased in the first quarter of 2016 by $19.7 million, or 6.4 percent, to $290.5 million. The weaker Canadian dollar in 2016 decreased the value of reported sales in the quarter by approximately $5.9 million, relative to the conversion impact in the same period last year. In domestic currency, which is before the impact of converting our Canadian operations to the US dollar presentation currency, sales decreased by $14.5 million or 4.4 percent, to $312.4 million. This decrease reflects lower sales volume, price decreases, and a change in product mix.

Gross profit decreased in the first quarter of 2016 by $4 million, reflecting lower sales volume and an unfavourable change in the US dollar-Canadian dollar exchange rate. The weaker Canadian dollar had the effect of decreasing the value of reported US dollar gross profit from our Canadian operations by $1.5 million, relative to the conversion impact last year. Gross profit as a percentage of sales was 22.2 percent and relatively consistent with 22.1 percent in the prior year.

Adjusted EBITDA decreased in the first quarter of 2016 by $1.3 million or 4.2 percent, to $29.4 million. The majority of this decrease is due to the weaker Canadian dollar, and in domestic currency, adjusted EBITDA was relatively consistent at $31.5 million, compared to $31.6 million in the first quarter last year. As expected, we benefitted in the first quarter from lower raw material cost and supply chain optimization savings, and as a result, adjusted EBITDA as a percentage of sales increased by 20 basis points to 10.1 percent, compared to 9.9 percent last year.

These are the results on a consolidated basis, and I will now discuss the adjusted EBITDA results by country. Adjusted EBITDA for our Canadian operations increased in the first quarter of 2016 by $1.8 million, and as a percentage of sales increased by 350 basis points to 10.4 percent compared to 7.9 percent last year. This increase reflects a change in product mix, foreign exchange gains related to favourable hedging activities, and supply chain optimization savings.

Adjusted EBITDA for our US operations decreased in the first quarter of 2016 by $2.8 million, reflecting lower sales volume, the impact of price decreases, and an unfavourable change in foodservice product mix, partially offset by lower raw material costs, supply chain optimization savings, and lower fuel prices. As a percentage of sales, adjusted EBITDA for our US operations decreased by 70 basis points to 9.9 percent compared to 10.6 percent last year.

I will now go back to consolidated results. Reported net income increased in the first quarter of 2016 by $1.2 million or 9.6 percent, to $13.7 million, with diluted earnings per share of $0.44. This increase in net income reflects the after-tax impact of lower business acquisition, integration and other expenses related to non-routine activities, and lower finance costs, partially offset by the decrease in adjusted EBITDA as just explained. Excluding the impact of certain items, which are explained in our MD&A, adjusted net income decreased in the first quarter by $200,000 or 1.3 percent, to $15.4 million and correspondingly, adjusted diluted earnings per share decreased by $0.01 to $0.49.

Turning now to the balance sheet. The net working capital balance was $216.6 million at the end of first quarter of 2016. This is $42.3 million lower than the balance one year ago, reflecting improved inventory management, along with lower receivables, partially offset by decreased payables.

Net interest-bearing debt was $288.4 million at the end of the first quarter of 2016, which is $62.8 million lower than the balance at the end of the first quarter of 2015. This decrease reflects the repayment of debt with cash flow provided by operating activities. For the rolling 12-month period ended April 2, 2016, cash flow from operating activities was $94.2 million, of which $19.4 million was generated in the first quarter of 2016.

Our net interest-bearing debt to adjusted EBITDA ratio, calculated on a rolling 12-month basis, was 3.7 times at the end of the first quarter of 2016, marking an improvement from 4 times, which was the ratio at the end of both the first quarter of 2015 and the end of fiscal 2015. We expect this ratio will continue to improve during the remainder of 2016, as adjusted EBITDA is expected to increase, and free cash flow will be used to reduce debt.

That concludes my financial review for the first quarter of 2016. I would now like to turn the call over to Keith to provide an update on our strategic goals.

Keith Decker — President and Chief Executive Officer, High Liner Foods Incorporated

Thank you, Paul, and good afternoon, everyone. We are encouraged by the results of the first quarter. The trend in sales volume improved compared to the year-over-year declines experienced throughout 2015. We realized the benefit from supply chain optimization activities completed in 2015, raw material costs decreased, and strong free cash flow allowed us to pay down debt and improve debt leverage.

On our last call in February, I confirmed that as we entered 2016, our focus continued to be on increasing sales volume and managing costs to improve earnings. We believe the results of the first quarter demonstrate we are making progress on this, but there is work we still need to do in 2016 to ensure improved performance going forward. We will continue to focus on stabilizing sales volume, and completing outstanding supply chain optimization activities is a priority, to ensure we realize the full benefit associated with these activities.

On our last call, I also shared that as part of meeting our supply chain optimization target to achieve a minimum $20 million in annual cost savings on a run rate basis by the end of this year, we are consolidating our production network by ceasing value-added fish operations at our New Bedford facility in Massachusetts. The transfer of New Bedford's production to our other three manufacturing facilities is progressing as planned and is on track to be completed by the end of the third quarter of this year.

On a pretax basis, the annual ongoing reduction in operating costs as a result of this consolidation are still estimated at $7 million, with $5 million in onetime costs to be incurred this year. We continue to assess the opportunities associated with the scallop business that is also located at the New Bedford facility.

Before opening up the call for questions, I'd like to share with you that earlier today, the Company's Board of Directors approved a quarterly dividend of CAD 0.13 per share on the Company's common shares, payable on June 15, 2016 to holders of record on June 1, 2016. This represents an increase of CAD 0.01 or 8.3 percent, from the CAD 0.12 per share quarterly dividend, paid on March 15, 2016 to common shareholders of record on March 1, 2016, and reflects the Board's continued confidence in the Company's operations. This marks the ninth consecutive year of dividend increases.

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

Q&A

Operator

Certainly. If you would like to ask a question, please press *, followed by the number 1 on your telephone keypad. If you would like to withdraw your question, please press the # key. We will pause for just a moment.

Your first question comes from the line of George Doumet with Scotiabank. Your line is open.

George Doumet — Scotiabank

Hey. Good afternoon, gentlemen.

Paul Jewer

Hey, George.

Keith Decker

Hi.

George Doumet

In the last quarter's prepared remarks, you guys suggested seeing positive volume growth after this quarter, so in the Q2 period. Is that still the case? And can you maybe share with us which geographies or which channels we would expect to see the highest relative gains in?

Paul Jewer

Yeah. So I think at this point, the trend we saw in Q1 is continuing to some degree in Q2, although you'll recall Q2 last year started very slow for us from a sales perspective. So we would—based on the start to the quarter thus far—we would expect to see some sales pound growth in Q2 of 2016 versus 2015. Obviously from a dollars perspective, you've got to factor in deflation and the Canadian dollar currency impact, when you think about it from a dollars perspective.

George Doumet

That's helpful. I guess, it looks like we gave up about 3 to 4 percent in pricing, and lost about 1 percent or so in volumes this quarter. How should we think about the relationship there? Is it more near-term stabilization? Or is that just in general, like the cost of generating volumes on a go-forward basis?

Paul Jewer

Yeah. I think initially, clearly, that we've made some investment in—of the lower raw material costs, to drive some volume in the business. It also, though, reflects some impact in terms of the shift in mix, where we have an increase in the non-value added products and a decrease in the value-added product. And then also, as we mentioned in the script, some change in mix between the Canadian business and the US business in terms of sales as well.

So we believe that a lower raw material pricing environment continuing provides us with an opportunity to help with EBITDA margin growth as we go forward. At this stage, I would say more of our EBITDA margin growth has been driven by our initiatives such as supply chain optimization and some efforts on the costing. (phon)

George Doumet

That's helpful. And just one last one, if I may. I think we've seen, obviously, some meaningful working capital gains in the quarter. Is there anything you can share with us in terms of expectations for the remainder of the year there?

Paul Jewer

No. I mean, a big part of that working capital benefit is already baked into the numbers; we would expect that trend to continue. In terms of incremental working capital benefit, we always focus on trying to improve inventory returns and reduce day sales outstanding. But I think it's more likely to be incremental benefit, on top of what we've already achieved, rather than the kind of significant magnitude that we've been able to enjoy over the past year, through the result of our efforts.

George Doumet

That's really helpful. Thank you.

Operator

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

Sabahat Khan — RBC Capital Markets

All right. Thanks. In the prepared remarks, you commented on the lower demand for some traditional breaded and battered products. Can you maybe comment on overall trends in the category in US and Canada at retail?

Keith Decker

Sure. So we have seen some continued declines in the first quarter, in both Canadian retail and US retail, in the overall volume trends of the category. However, our market share continues to improve on both sides of the border when it comes to our market share. So the category is declining, but we are taking more share as part of that.

What we are also seeing is, you know, you talk about a trend or a shift that's taking place. I believe that we've got a focus where we've got opportunities to continue to penetrate around the frozen seafood sector, as we move toward the fresh counter, and I think that there's some incremental opportunities there.

We saw some exciting progress made on a major retailer in the United States with a new line of products, which really addresses that idea of clean, healthy, better-for-you, packaged in a an attractive package, and that's merchandise in a bunker next to the fresh seafood counter. And that would continue to support that trend that the perimeter of the store is experiencing volume growth at the expense of the centre of the store, and there is some opportunities for us to continue to penetrate that department area.

Sabahat Khan

All right. Thanks. And just maybe on the US side, what are you seeing in terms of your customers in the US food service, if you look at it by restaurants versus some of your institutional customers, just in terms of demand for seafood in general?

Keith Decker

Well, I think that what we have seen is menu importance—the number of items on the menu—are slightly down on a year-over-year basis, so that's the number of items on the menu. We do see that there is some promotional activity coming back with some lower price points now, and so that's a benefit, as we can start to take advantage of promoting more seafood on the menus.

But in general, I would say that over the last year plus we've seen still some decrease of seafood as menu importance. And so, I think that as we move forward, that we've talked importantly about the fact that lower prices are helpful, because they will enable us to get more seafood on the menu and also be able to promote it more.

When it comes to the various segments of the business, I would say that Broadline Distribution seems to be doing okay. I wouldn't say that they are necessarily—their growth is not on the back of seafood products, but in general, their overall business is doing better. And I would say the same for the restaurant industry as a whole, seems to be doing better. But once again, it's really about how we can get more seafood menued in that sector.

Sabahat Khan

All right. Thanks. And just one last one from me on the supply chain savings. Would you say you're largely through pretty much activities on your end? And it's just a matter of the savings flowing through? And how are the savings tracking versus where you had expected at this point of the year? Is there any update on that front?

Keith Decker

Yeah, sure. We're largely through the activity to benefit—to drive savings—other than we're obviously still in the middle of the closure of the New Bedford facility. That facility will be closed later this year. Once that is closed, then the work associated with generating savings will be complete.

There were incremental savings in this quarter of approximately—just over $2 million—on top of what was already realized in last year. So with the additional savings that we would expect to just flow through the year, from past activities and with the New Bedford savings, we do expect to get to our $20 million annual run rate.

Sabahat Khan

Thank you.

Operator

Your next question comes from the line of Marc Robinson with Cormark Securities. Your line is open.

Marc Robinson — Cormark Securities

Thanks. Just on that last question, maybe just asking it more directly. Are we kind of like 9 million realized in total of the expected 20 million now?

Paul Jewer

Yeah. We would be just under 9 million, based on what we've realized this year plus the incremental amount in Q1.

Marc Robinson

Okay.

Paul Jewer

And as we identified, the New Bedford ceasing of production in that facility gives us an incremental 7 million, and then the balance will be made up of the other benefits expected from the activity we undertook last year in the plant.

Marc Robinson

Okay. Are you able to quantify what the extra day in February did, as it relates to volumes?

Paul Jewer

Extra week, I think you mean, in terms of the promotional period?

Marc Robinson

No, I'm talking about the leap year.

Paul Jewer

The leap year. Actually, no, we haven't quantified that, but it would be relatively insignificant, but we can get back to you with that number, Marc.

Marc Robinson

And just on the flip side. Are you able to quantify in any way, what the shorter Lent period did to negatively impact volumes?

Keith Decker

No, I mean it was certainly one of the factors in the food service volume declines in the US business, less of a factor in Canada. No specific quantification, but it was at least a week, if not 10 days short of promotional period in March. So we saw—if you look at our quarter, January and February were more positive than March, as a result of the fact that that March promotional period was shorter.

Marc Robinson

Okay. And can you maybe give some numbers, revenue, EBITDA or whatever you're able to, around what the sort of run rate, remaining scallop business in New Bedford does?

Keith Decker

No, it's not something that we segregate. It's something that we, I think, identified perhaps first, when we acquired the American Pride business. But now, frankly, it's integrated into our business, so we haven't separated numbers there. But as you know, as we've said over the last couple of years, there's been a significant decline for us in terms of scallop sales and profitability, as a result of what's been going on in that business, both from a pricing perspective and from the competitive environment in that business.

Marc Robinson

And given that it’s still sort of sitting out there in New Bedford as a standalone, and some of the language in the MD&A about how you’re sort of looking at options for that business. Is a potential monetization of that something that you would consider?

Keith Decker

Yeah. I mean, it's a possibility. We’re still assessing what our options are, and clearly we need to make a decision on what we’re going to do with the processing plant that we've already announced that we’re going to cease activity in. And we would expect that we’ll be back to you and the market, before the next call with what our plans are for that business in totality.

Marc Robinson

Okay. And then just finally. You did mention, sort of broad strokes, around this working capital improvement. What exactly—because if you go back and you look at Q1 it's typically working capital is a use of cash and quite a substantial source of cash. It looks like a lot of it came from inventory. What exactly are you doing there to improve the draw on working capital?

Paul Jewer

It really is about inventory management. That is the key driver, and, frankly, it's good work by our procurement group to shorten lead times from the time that we have to commit to paying or buying product to the time that it ends up in our warehouses in North America. But also, some activity in terms of managing inventory within our plants and distribution facilities in North America as well. Obviously, as you consolidate activity in fewer plants, that again has a positive impact on inventory as well.

Keith Decker

I'd also add that there's better execution and discipline as part of our supply chain optimization on the front end, from a forecasting perspective, which obviously drives the whole inventory pipeline. And then the connectivity of all the handoffs of inventory through our system, and refining the safety stocks that sit within there. As part of our supply chain optimization, clearly, there's a benefit here with just better execution.

Paul Jewer

And, Marc, the last point on that is clearly lower seafood raw material prices—

Marc Robinson

Right. Yeah.

Paul Jewer

Help (unintelligible) as well, so.

Marc Robinson

Right. Okay. That's it from me. Thanks.

Operator

Again, if you would like to ask a question, please press *, followed by the number 1 on your telephone keypad.

And I'm showing that we have no further questions at this time. I turn the call back over to Mr. Decker.

Keith Decker

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

Operator

And this concludes today's conference call. You may now disconnect.

*****