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FINAL TRANSCRIPT

High Liner Foods Incorporated

Second Quarter 2016 Results

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CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

George Doumet
Scotiabank — Analyst

Sabahat Khan
RBC Capital Markets — 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 second 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 the * key, followed by 0 for Operator assistance at any time.

This conference call is being recorded today, Tuesday, August 16, 2016, at 2:00 Eastern 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, and good afternoon, everyone. Thank you for joining High Liner Food's conference call to discuss our financial results for the second quarter of 2016.

On the call today from High Liner Foods are Keith Decker, President and Chief Executive Officer, 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 second quarter, followed by Keith, who will provide an update on the business and progress of 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 risks and uncertainties. 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 its anticipated outcomes 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 second quarter of 2016. That news release, along with the Company's MD&A and unaudited condensed interim consolidated financial statements for the second 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 would like to receive our news releases in the future, please visit the Company's website to register.

Please go ahead, Paul.

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 second quarter of 2016, 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.

Sales volume increased in the second quarter of 2016 by 1 million pounds, or 1.6 percent to 62.3 million pounds, primarily reflecting higher sales volume in the US foodservice business. Sales in US dollars decreased in the second quarter of 2016 by $1.6 million, or 0.7 percent to $224.7 million.

The weaker Canadian dollar in 2016 decreased the value of reported sales in the quarter by approximately $3 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 increased by $1.2 million, or 0.5 percent, to $243 million. This increase reflects higher sales volume, partially offset by the impact of sales price decreases and a change in product mix.

Gross profit increased in the second quarter of 2016 by $3.8 million, or 8.8 percent to $47 million, reflecting increased sales volume, lower raw material costs, and higher supply chain optimization savings, partially offset by 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 $600,000 relative to the conversion impact last year. Gross profit as a percentage of sales was 20.9 percent compared to 19.1 percent last year.

Adjusted EBITDA increased in the second quarter of 2016 by $5 million, or 39.4 percent, to $17.7 million. And as a percentage of sales, adjusted EBITDA increased by 230 basis points to 7.9 percent compared to 5.6 percent last year.

This significant improvement reflects the higher gross profit I just discussed, along with further benefit from supply chain optimization activities that lowered our distribution and SG&A expenses compared to the second quarter last year. Lower fuel costs related to distribution activities and savings in US marketing costs also contributed to increased adjusted EBITDA.

Reported net income increased in the second quarter of 2016 by $1.4 million, or 35 percent to $5.4 million, with diluted earnings per share of $0.17. This increase in net income reflects higher adjusted EBITDA and lower finance costs, partially offset by the after-tax impact of higher business acquisition, integration, and other expenses related to nonroutine activities, which in the second quarter primarily related to the cessation of value-added fish operations at our processing facility in New Bedford, Massachusetts.

Excluding the impact of certain nonroutine and noncash items, which are explained in our MD&A, adjusted net income increased in the second quarter of 2016 by $4.1 million, or 87.2 percent to $8.8 million, and correspondingly, adjusted diluted earnings per share increased by $0.13 to $0.28.

Turning now to the balance sheet. The net noncash working capital balance was $204.6 million at the end of the second quarter of 2016. This is $52.4 million lower than the balance one year ago, reflecting improved inventory management and increased payables and provisions.

Net interest-bearing debt was $276.1 million at the end of the second quarter of 2016, which is $72.1 million lower than the balance at the end of the second quarter of 2015. This decrease reflects the repayment of debt with cash flow provided by operating activities.

For the rolling 12-month period ended July 2, 2016, cash flow from operating activities was $103.2 million, of which $18.1 million was generated in the second quarter of 2016. Our net interest-bearing debt to adjusted EBITDA ratio calculated on a rolling 12-month basis improved to 3.4 times at the end of the second quarter of 2016 compared to 3.7 times at the end of the first quarter of 2016 and 4 times at the end of fiscal 2015.

We expect this ratio will continue to improve towards our target of 3 times during the remainder of 2016, as adjusted EBITDA is expected to increase and free cash flow will continue to be used to reduce debt.

That concludes my financial review for the second quarter of 2016. I would now like to turn the call over to Keith for his update.

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

Thank you, Paul, and good afternoon, everyone. We are pleased with the results of the second quarter, returning to sales volume and adjusted EBITDA growth.

There is work we still need to do in 2016 to ensure improved performance going forward, but I believe the improvement in sales volume trends experienced so far this year are encouraging, and demonstrate improved execution on our part compared to one year ago.

Continuing to focus on stabilizing sales volume remains a top priority for the organization.

The significant improvement in gross profit and adjusted EBITDA margins in the second quarter reflect incremental benefit realized in 2016 from supply chain optimization initiatives. Year to date, we estimate that a total of $8.2 million in pretax savings has been realized related to these initiatives, $5.9 million of which was incremental on a year-over-year basis.

We remain on target to complete outstanding supply chain optimization activities in 2016 and to hit our target of achieving at least $20 million in annual savings on a run-rate basis by the end of this year.

In February, we announced that $7 million of the $20 million annual cost savings goal would come from ceasing value-added seafood production at our facility in New Bedford. We completed the transfer of New Bedford's production to our other facilities in mid-July, two months earlier than originally anticipated.

And this morning we announced that we have reached an agreement with Blue Harvest Fisheries to buy our processing facility and scallop businesses located in New Bedford. This deal is expected to close within the next several weeks, and we are pleased that as part of the agreement reached with Blue Harvest they will continue to supply High Liner Foods with scallops going forward.

Before opening up the call for questions, I would 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 September 15, 2016, to holders of record on September 1, 2016.

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

Q&A

Operator

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, press the # sign. We will pause for just a moment to compile the Q&A roster.

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

George Doumet — Scotiabank

Good afternoon, guys, and congrats on a solid quarter.

Keith Decker

Thanks, George.

Paul Jewer

Thanks, George.

George Doumet

We've seen a bit of a—some, I guess, more input cost inflation and a tougher lap in the back half. How should we think of the sustainability of the positive volume trend for the rest of the year?

Paul Jewer

I think one important factor to look at, George, in that case is you've got to remember Q2 was particularly poor for us last year, so you shouldn't expect to see the same level of improvement quarter over quarter when you look at the back half of the year to the previous year. But we're focused on continuing to strive for some low level of volume growth, similar to what we were able to achieve in Q2.

We've had some innovation efforts that paid off, but also as Keith highlighted, importantly, better execution in sales and marketing was a big factor for us in this quarter.

George Doumet

Thanks for your help.

Keith Decker

I would also anticipate, George, that we will continue to focus on incremental improvement quarter over quarter, so I think that we were pleased with the stabilization of our volume in the first quarter and now to get some growth, especially in our US foodservice business, was important.

George Doumet

Yeah. Thanks for that. And how should we think of our leverage comfort zone at this point before we can see some mid- to larger-size M&A? Is it a bit lower than it sits today?

Paul Jewer

No, I think it really would depend on what the opportunity was, George. We clearly, if there is no M&A activity in the near term as we identified in the call, we'll see leverage get down closer to our 3 target. And that clearly would put us in a position to do deals with debt.

But we've been open in the past that for the right strategic opportunity we would consider the right overall financing package including, if necessary, the issuance of some equity for the right strategic deal. But a small deal, or if a midsize deal was certainly available today, on our balance sheet we've got lots of liquidity with a $180 million line that is essentially unutilized at this point.

George Doumet

That's helpful. And just one more, if I may; can you maybe comment a little bit about the Canadian business? There hasn't been much year-over-year improvement there from a volumes and earnings standpoint. How should we think of that segment going forward? And if you can maybe share with us some market share data there it'd be helpful. Thanks.

Keith Decker

I think that the business is stable. I would say that a lot of work has gone into identifying new opportunities with some key customers for promotional activities, so we're in the process of working on that. I believe that the execution work that we’ve put in place since the second quarter of last year is starting to pay dividends.

I would continue—I would anticipate it's going to continue to improve as we roll forward now over the next few quarters. And I think, really, it's just better dialogue with the customers and the consumers and our ability to execute well will give us some increased volume moving forward.

George Doumet

All right. Thanks. Those are my questions.

Operator

Once again, if you'd like to ask a question, press *, then the number 1 on your telephone keypad.

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

Sabahat Khan — RBC Capital Markets

Thanks and good afternoon. The first question is just on there's a sizable gross margin improvement this quarter. I’m just trying to understand the split in contribution from the lower raw material cost versus the supply chain savings there.

Paul Jewer

I would say the supply chain savings were the most significant factor in the improvement in gross margin. Obviously some raw material benefit as well, but some of the raw material benefit we used in order to invest in pricing to help achieve the volume growth that you saw.

So I would point to the supply chain optimization piece as being the most significant quarter-over-quarter impact.

Sabahat Khan

Okay. And then just following up on that, I guess would you say you're in the early stages of realizing those raw material savings? Is this kind of a stable run rate we can assume for the rest of the year?

Keith Decker

I would think that with the exception of farm-raised salmon, which has shown quite a bit of volatility over the last 60 to 90 days with some algae bloom issues down in Chile, most of our raw material cost impact I would anticipate to be fairly stable for the back half of this year on most of our major species.

Sabahat Khan

Okay. Great. And then on the called-out product mix a couple of times, a slight headwind. Can you maybe provide some colour on what that was during the quarter?

Paul Jewer

Yeah. So we saw—no specifics to offer up—but we did see an increase in the non-value-added sales in the quarter, and so that did have an impact on the sales dollar number because those products are typically sold at a lower price point, and also would have been slightly negative to gross margin.

But obviously the positive benefit in terms of the supply chain optimization piece some good cost management and the improvement in the raw material were the factors that allowed us to offset that.

Sabahat Khan

Okay. And then just one last one for me. In the Canadian retail segment, you called out a little bit of lower trade spend. Just want to kind of get your thoughts on that how we should think about that with there's news of a lot of grocers out there looking to go back to suppliers for some savings and things like that. Is there a potential that might tick up a little bit? Or is that a strategic change to just spend lower on trade from kind of your company point of view?

Keith Decker

Our focus wasn't to spend less on trade. Our focus was really on spending trade more efficiently, right? So it's using insights and analytics to really drive improved results through our trade marketing activity.

So the benefit, of course, is we ended up spending less, but we're just spending it more efficiently.

Paul Jewer

Yeah. And I think it's important, you can't really look at list price and trade independently. Both of those things move hand-in-hand as you over time price the category to generate some volume growth, so while there may have been a reduction in trade, there may have been a change in list prices, or vice versa.

So we look at those two things together as we evaluate our performance in the category.

Sabahat Khan

All right. Thank you.

Operator

Once again, if you'd like to ask a question, please press *, followed by the number 1 on your telephone keypad.

We do not have any questions over the phone at this time. I will turn the call over to the presenters.

Keith Decker

Well, thank you, everyone, for your participation in today's call. We look forward to updating you with the results for the third quarter on our next conference call in November.

Operator

This concludes today's conference call. You may now disconnect.

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