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OUT OF THE BLUES

WITH ITS EXHAUSTIVE
TRANSFORMATION
COMPLETE,
MAPLE LEAF FOODS'
LONG WINTER IS
FINALLY OVER

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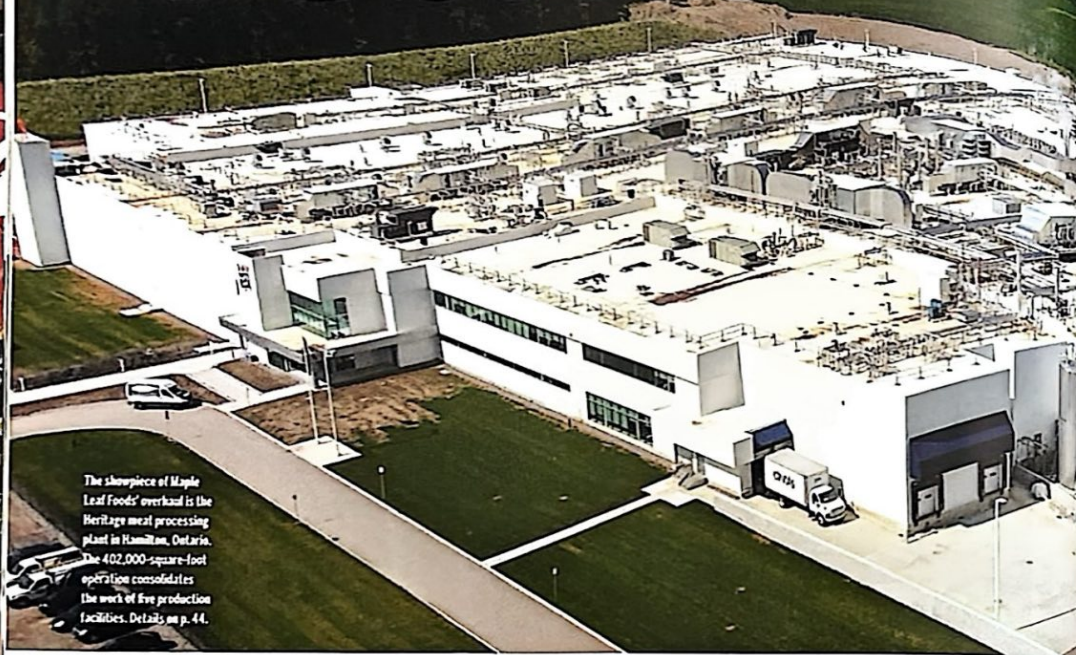
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SPRING TIME

season



The showpiece of Maple Leaf Foods' overhaul is the Heritage meat processing plant in Hamilton, Ontario. The 402,000-square-foot operation consolidates the work of five production facilities. Details on p. 44.

A YEARS-LONG RESTRUCTURING EFFORT PUTS **MAPLE LEAF FOODS** IN A LEADING POSITION, NOW AND INTO THE FUTURE.

by James Scarpa, contributing editor



AT A GLANCE

HEADQUARTERS:
MISSISSAUGA (TORONTO),
ONTARIO, CANADA

EMPLOYEES:
ABOUT 12,000

OWNERSHIP:
PUBLICLY TRADED ON
THE TORONTO STOCK
EXCHANGE; SYMBOL MFI

**2015 SALES
(PROJECTED):**
ABOUT \$3.2 BILLION
(CANADIAN)

DIVISIONS:
MEAT PRODUCTS
(VALUE-ADDED PORK AND
POULTRY PROCESSING,
PACKAGED ANIMAL
PROTEIN AND CHILLED
LUNCHEES AND SNACKS)
AND AGRIBUSINESS GROUP
(HOG PRODUCTION)

LEADERSHIP:
MICHAEL MCCAIN,
PRESIDENT AND CEO

EXPORTS:
MORE THAN 20 GLOBAL
MARKETS, INCLUDING THE
U.S., MEXICO AND JAPAN

BRANDS:
MAPLE LEAF, MAPLE
LEAF PRIME, MAPLE LEAF
NATURAL SELECTIONS,
SCHNEIDERS, SCHNEIDERS
COUNTRY NATURALS, MIHA



Maple Leaf Foods is not the company it was seven years ago.

Lean, well-organized and focused on the meat business, Canada's largest protein supplier is in the final stages of a far-reaching restructuring. Its future beckons as a growth-minded, highly profitable player competitive with the leading meat processors in Canada and the United States.

In the past few years, the Toronto-based company has shed non-meat business segments, built a network of technologically advanced processing plants and strengthened its balance sheet. Product innovations leverage key consumer trends such as protein snacking, convenience, better-for-you foods and ethnic specialties. At the heart of the company is a stable of consumer processed meat brands that are perennial market-share leaders in Canadian retailing.

COMPANY *profile*

Once Maple Leaf fully ramps up the efficiency and productivity of its sophisticated new plants, the plan is to pursue growth across North America. The company does an undisclosed amount of business with retailers in the U.S., mainly in private-label meats, and is looking for more.

"We are really focused on strengthening our brands here in Canada, and developing relationships and business south of the border," says Adam Grogan, Maple Leaf senior vice president, marketing and innovation, a 17-year company veteran. "You would be crazy not to, given our population size."

THEN – AND NOW

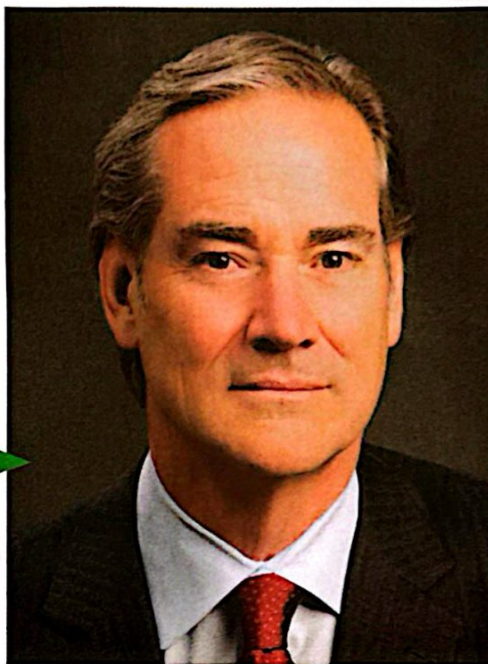
Certainly, the outlook is much brighter now than it was when **Maple Leaf President and CEO Michael McCain** and his team drafted the transformation plan. The old Maple Leaf was a food conglomerate with its attention divided among baked goods, pasta and animal rendering as well as meat processing. It had an acquisitive streak, closing 30 deals between 1996 and 2004. A network of outdated plants and distribution centers sprawling across Canada left Maple Leaf lagging in productivity and scale. The strong Canadian dollar and rising commodity costs in the middle of the decade added to its difficulties. The profit that Maple Leaf reported in the third quarter of 2015 was only its second in the last 11 quarters: Net earnings of \$18.7 million (Canadian) were up from a loss of C\$26.7 million a year prior.

"They went through a period of not investing as significantly in their manufacturing plants," notes Mark Petrie, a research analyst with CIBC Capital Markets in Toronto.

Maple Leaf has decidedly addressed the productivity gap by investing C\$1 billion over the past few years in a complete supply chain rebuild, closing a number of plants, updating others and building a showpiece mega-plant with state-of-the-art technology in Hamilton, Ontario, not far from corporate headquarters. The benchmarks of the program are economies of scale and competitive cost structure.

"In many respects, you would view this as sort of a catch-up on efficiencies relative to the larger U.S. competitors," Petrie says. "They have said that this will make them competitive on a landed cost in Canada, although [currency exchange variation] is clearly a material variable."

The showpiece of the transformation is the C\$395 million, 402,000-square-foot Heritage meat plant in Hamilton. Currently still ramp-



MAPLE LEAF'S HERITAGE FACILITY

One of the final tasks in the Maple Leaf Foods transformation is ironing out the wrinkles in its corporate showpiece, the Heritage meat processing plant in Hamilton, Ontario.

The 402,000 square-foot operation consolidates the work of five production facilities into the largest and most technologically advanced meat processing facility in Canada. It "unhesitatingly leads the industry," wrote BMO Capital Markets in a November 2015 research report on Maple Leaf.

"There is nothing like it," says Adam Grogan, Maple Leaf senior vice president, marketing and innovation. "We have had a number of large U.S. retailers tour the facility. What they tell us is that it is unlike any they have seen, and they would put it up as being one of the best facilities they have entered."

Once ramp-up issues, such as inconsistent throughput and excess labor, are resolved, the plant has the potential to reduce Maple Leaf's production costs "in line with best-in-class North American operators (despite geographical disadvantages) and significantly ahead of its Canadian peers," BMO Capital wrote.

In the new plant, automated, continuous processing lines have replaced batch processing. High-speed robotic equipment slices and packages meats, doing away with manual loading. An X-ray system, rather than stop-and-go sample testing, screens raw materials in receiving.

The Heritage facility is the fruit of a multi-year quest by Maple Leaf to scout out best-in-class plants and state-of-the-art technologies in the U.S. and Europe. "We took that learning, whether it was food-safety systems or equipment or manufacturing practices, and assembled bits and pieces to create a facility that would rival any other and stay competitive for many years," Grogan says.

"Now it's all about getting the plant running at ideal state, which we are close to doing, and leveraging this excellent network of plants and facilities to jump start our innovation agenda and set the long-term path for the company," Grogan says.

COMPANY *profile*

"WE ARE REALLY FOCUSED ON **STRENGTHENING OUR BRANDS** HERE IN CANADA, AND DEVELOPING RELATIONSHIPS AND BUSINESS SOUTH OF THE BORDER."



—ADAM GROGAN

ing up, it consolidates the workload of five plants into one (see sidebar, p. 44).

"We wanted it to be right up there with the best in the United States and quite frankly, the rest of the world," Grogan says.

Throughout the company, operations have been simplified and streamlined for greater efficiency. For example, Maple Leaf now goes to market with fewer

brands and clearer market positioning. At one point, the company reduced the number of different wiener formulations it makes to 35 from 78.

Distribution has been streamlined as well, with 19 warehouses folded into two. Shipping zones were reduced to 323 from more than 1,700 and total shipping distance cut to 26 million kilometers from 34 million. The average

delivery size has been bumped up from less than 1,000 kilograms to 12,000.

Smaller in scale, but advanced in technology nonetheless, are processing facilities that Maple Leaf has upgraded and expanded, such as the plants in Winnipeg, Manitoba, and Saskatoon, Saskatchewan.

"They have embraced new technology and manufacturing efficiency, which

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is really in contrast with many other smaller players in the country," says Sylvain Charlebois, professor of food distribution and policy at the University of Guelph in Ontario. Maple Leaf

management says the path is clear to reach a strategic goal of 10 percent adjusted earnings before interest, taxes, depreciation and amortization (EBIT-DA) margin in 2016, once it overcomes

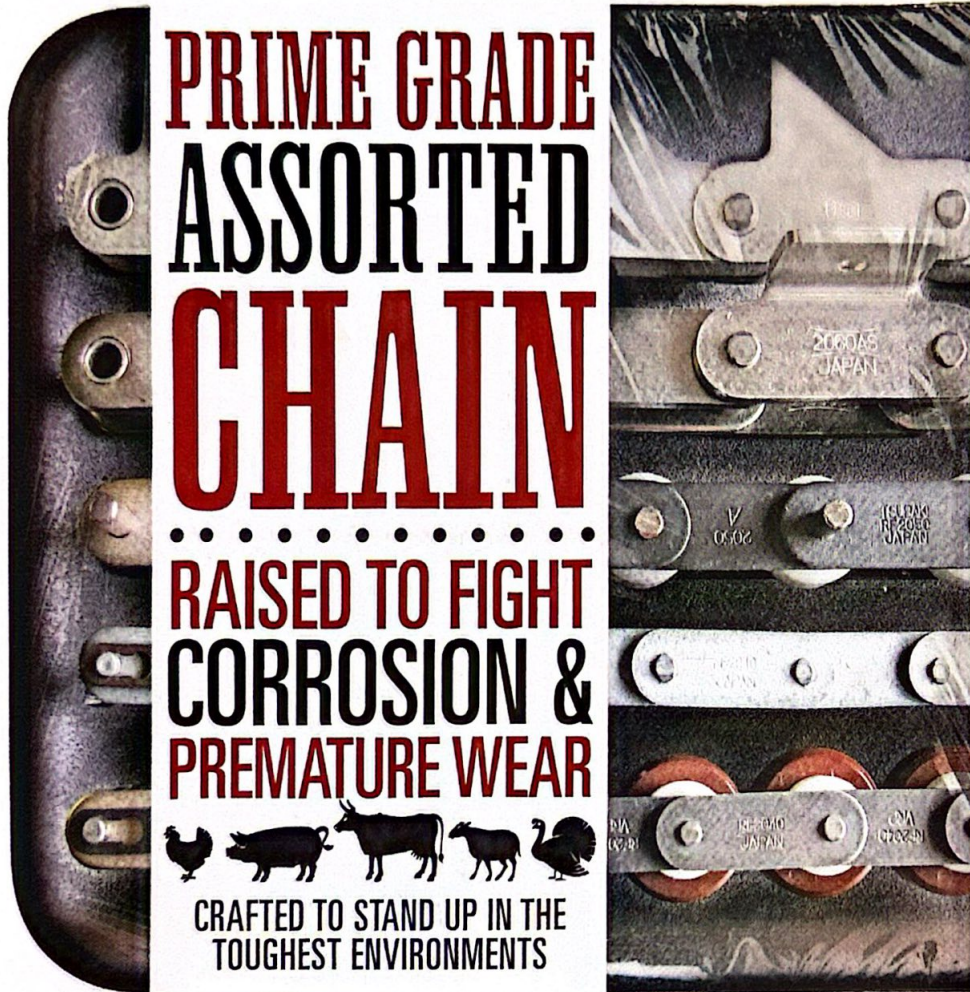
"IT IS IMPORTANT TO BRING TO MARKET PRODUCTS AND STRATEGIES THAT ENABLE THE WHOLE CATEGORY TO GROW."

ramp-up inefficiencies related to excess labor and supervisory staff and equipment maintenance in its new network. "Our current model forecast has them hitting that in [the second quarter] of 2016," Petrie says. Maple Leaf's fiscal year coincides with the calendar year.

BIG

Maple Leaf Foods grew over the past century by absorbing other Canadian food companies across several industries. The 1991 merger of Maple Leaf Mills Limited and Canada Packers Inc. created Maple Leaf Foods Inc., Canada's largest food processor. Maple Leaf Mills itself was created in 1961 from three other business entities and traces its origins back over 170 years to Grantham Mills, built in 1836 in St. Catharines, Ontario. Growth by acquisition has continued in the modern era, with the 2004 purchase of J.M. Schneider Inc., a premium branded meat producer.


The darkest chapter in company history is the 2008 listeria outbreak in Canada linked to Maple Leaf products that caused more than 20 deaths and a meat recall that cost the company more than C\$100 million in direct and indirect costs. Thanks largely to McClain's



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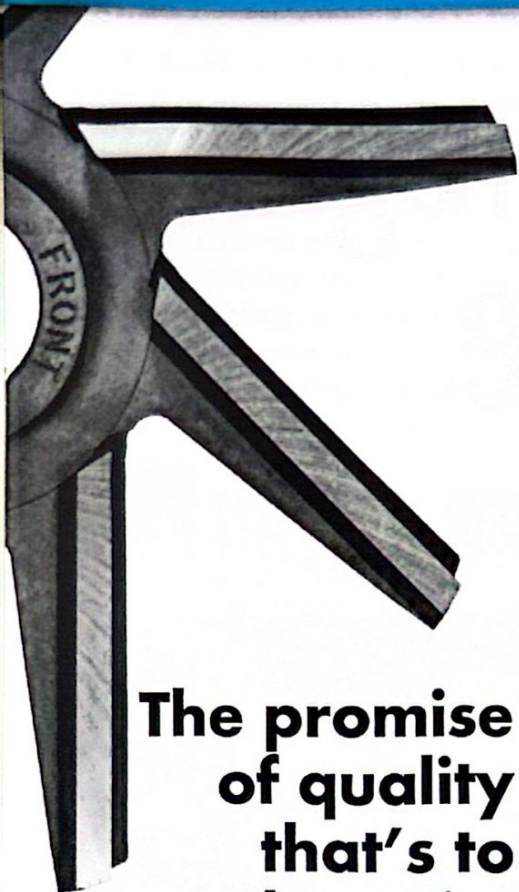
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COMPANY profile

UP/DOWN



Renewed focus.

Maples Leaf has zeroed in on a few protein-based business lines.



Significant upgrades in production technology.

In some cases productivity has been boosted 5x.



The vicissitudes of currency exchange rates. Seeking growth south of the border also increases exposure.



Innovation. Maple Leaf's goal of growing its "artisanal" and value-added products is on-point, but the company is way behind the competition.

leadership, the company has been able to earn back the confidence of Canadian consumers. In fact, McCain was voted 2008 Business Newsmaker of the Year by *The Canadian Press* for his handling of the tragedy – taking responsibility, communicating clearly to the public and revamping the company's food safety procedures. Indeed, in 2014, Maple Leaf conducted more than 180,000 bacteriological tests on its products.

"From a food safety perspective, people are still talking about this incident," Charlebois says. "But the way they handled the crisis is generally perceived as a success story. From a risk communication point of view, their approach was – I would not say flawless, but almost."

Brands are a major strength of Maple Leaf Foods. They are the Canadian market-share leaders in seven product categories and hold second place in two others. The top performers are lunch kits, with a 99 percent market share, frozen sausages, with 72 percent, canned meats, with 59 percent, and wieners with 50 percent.

In light of those high market shares, Maple Leaf serves as "category captain," or lead vendor for category management, for the major Canadian retailers it supplies. "It is important to bring to

market products and strategies that enable the whole category to grow," Grogan says. The company also brings dedicated support staff "who ... eat, sleep and breathe the customer's business," Grogan adds.

That extensive brand and category expertise are benefits that Maple Leaf can offer to U.S. retailers as well. "We're a large branded company in Canada that supplies largely private label into the U.S., but we understand what they are going through as category leaders," Grogan says. "We bring to them insights that we garner from other parts of our business to help enable theirs ... as opposed to being just a contract manufacturer."

INNOVATION

However, having strong positions in bacon, wieners, deli meats and the like is not the growth engine it once was. Canadian consumers, like their U.S. counterparts, are eating less processed meat, largely because of health concerns.

Thus, Maple Leaf is stressing value-added new product creation, leveraging trends such as protein snacking, convenience and the demand for cleaner, healthier foods. "Overall, they have shown an ability to innovate and drive volumes," Petrie says. "Clearly,

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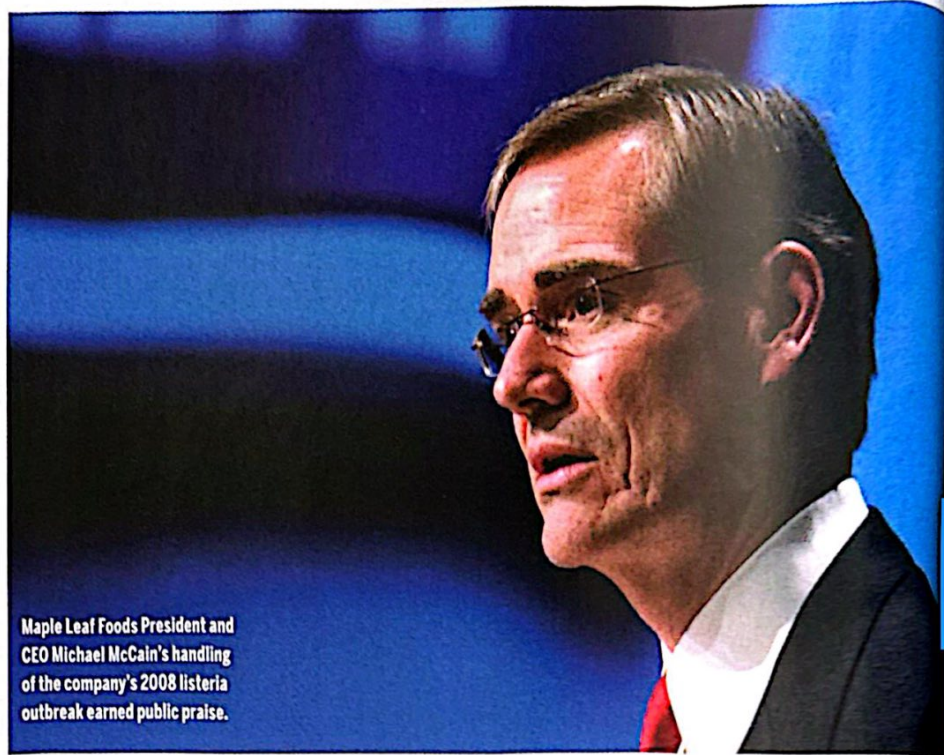
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COMPANY *profile*



Maple Leaf Foods President and CEO Michael McCain's handling of the company's 2008 listeria outbreak earned public praise.

AP Images

the industry itself doesn't carry organic per-capita consumption growth, so innovation is an important lever to deliver volume growth."

Maple Leaf's nexus of R&D, trend tracking and customer collaboration is the ThinkFOOD! Centre, a C\$12 million, 25,000-square-foot facility opened on the corporate campus in 2009.

ThinkFOOD! was the first facility of its kind in Canada. Staffed by chefs, food scientists, microbiologists and marketers, it houses a foodservice kitchen, sensory and product development areas and trend library.

With the Maple Leaf transformation nearing realization, "the buzz is electric in the innovation center now, because everyone in the organization sees the possibilities," Grogan says.

In the ThinkFood! Centre, Maple Leaf product development and marketing teams collaborate with customers, sharing market insights and doing benchtop product development.

"The future of innovation is bringing your best food scientists and marketers together with your customers, the

"THEY WENT THROUGH A PERIOD OF NOT INVESTING AS SIGNIFICANTLY IN THEIR MANUFACTURING PLANTS."

retailers, so you can understand what is strategically important to them," Grogan says.

New product teams are working on products that appeal to the fast-growing ethnic constituencies in Canada's diverse demographic mix, as well as mainstream consumers with a taste for global fare.

Take Maple Leaf Chinese-Style Sausage, which features an authentic flavor profile, launched last year. It follows in the footsteps of the Mina halal product

COMPANY profile

...which includes everything from fresh chicken parts and beef burgers to halal lunch kit with chicken bologna, crackers, cheese and Nerds candy. Mina has become Canada's premier halal brand since its introduction in 2012.

"We're certainly also looking at other ethnicities, given their importance in Canada as well as in North America," Grogan says.

Portable protein snacking is the premise of the Maple Leaf Protinis line.

Variations include

Protinis Glazed Oven Roasted Chicken & Superfruit, a combo of fully cooked chicken strips and dried cranberries and blueberries, and Protinis Prosciutto & Provolone, a snack of cheese, dry-cured ham and crackers.

The Protinis line "has generated relatively strong returns," wrote BMO Capital Markets in a November 2015 research report on Maple Leaf Foods, adding that the company "likely will continue to innovate products to capitalize on the snacking and convenience trends."

NATURAL FACTS

One of the most important areas of activity for Maple Leaf is simpler, more healthful foods. "They have had some big wins, such as their [Schneiders] Country Naturals and [Maple Leaf] Natural Selections brands, which focus on additive-free [products]," Petrie says. "The raised-without-antibiotics meats business has performed very well."

Natural Selections Deli Meats, for example, are made entirely with natural ingredients, as defined by the Canadian Food Inspection Agency. The products of Greenfield Natural Meats Co. brand,

are made from animals raised without antibiotics or added hormones.

"We are the largest supplier of RWA pork and poultry in Canada," Grogan says. "And we now supply many major U.S. retailers with antibiotic-free pork."

"To me, 2015 was a watershed year, because we saw so many companies shifting toward natural ingredients," Charlebois says. "Maple Leaf's approach is consistent with that. They are offering natural products that are tasty, without ingredients that consumers cannot identify."

Assuming the corporate transformation reaches fruition as planned, Maple Leaf is writing a new chapter.

"I would not be surprised to see Maple Leaf expand, particularly beyond the Canadian border, because of our currency now," Charlebois says. "[It] is vulnerable when you look at the Canadian market. Relying heavily on one market is never a good idea."

Maple Leaf management "has begun to identify growth opportunities for 2016," BMO Capital wrote in its November 2015 research report. The company "likely will remain focused on organic opportunities while seeking opportunistic acquisitions" such as artisan meat and value-added poultry.

For its part, Maple Leaf is mum about establishing a U.S. presence with its branded foods. "I wouldn't say never," Grogan says. "I would characterize that as being possible, but the vast majority of our effort now is in the private-label space."



To read Meetingplace's 2009 interview with Michael McCain, go to meatm.ag/McCainThoughtLeader09

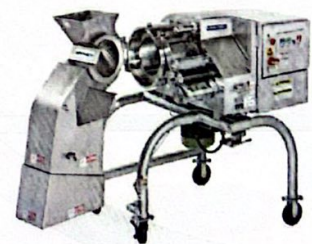


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