



Michael McCain on Maple Leaf's turnaround

Taking stock as an
'un-Canadian' overhaul
nears its completion

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bonus pay measure up?

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THE GLOBE AND MAIL

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SECTION B


Report on Business


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 **S&P/TSX**
15,224.52 (-122.82)


 **DOW**
17,840.52 (-195.01)

 **S&P 500**
2,085.51 (-21.34)

 **DOLLAR**
82.89 (-0.28)

 **GOLD**
1,182.40 (-27.60)

 **OIL**
59.63 (+1.05)

 **GCAN 10-YR**
1.576% (-0.004)

ENERGY

FOOD

Maple Leaf's big gamble now paying off

Seven-year, \$1-billion corporate remake has resulted in modernized, streamlined competitor with zero debt and strong focus

ERIC ATKINS TORONTO

Michael McCain is finally on a roll.

The chief executive officer of **Maple Leaf Foods Inc.** is nearing the end of a seven-year, \$1-billion campaign of selling divisions, closing plants and building new ones. A new 400,000-square-foot plant in Hamilton is almost in full swing, and is on its way to churning out 22 million packages of cold cuts this year. Factories in Winnipeg, Saskatoon and Brampton, Ont., have been modernized and a twisted distribution network of 19 warehouses has been pared to two.

Eight old factories are closed, and the final one, in Toronto, is closing today.

At the same time, the dollar is comfortably below par, energy costs have plunged and the world's appetite for protein is soaring.

"It's been a long journey," said Mr. McCain, seated on a leather couch in the company's office in midtown Toronto.

It's a journey that's not over: the maker of Shopsy's and Schneiders meat has lost money in seven of the past nine quarters, and last year lost \$213-million from continuing operations as the company ran old plants while building and starting new ones.

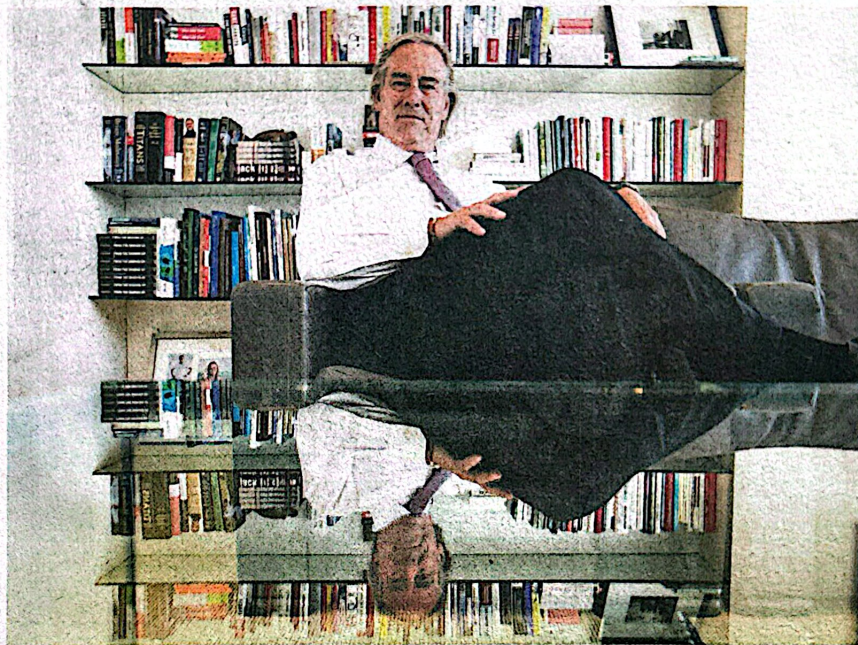
On Thursday morning, Maple Leaf reported a net loss from continuing operations of \$2.8-million, or 2 cents a share, compared to a loss of \$124-million in the year-earlier quarter. The adjusted profit was \$10.4-million, or 5 cents a share, compared with a loss of \$29-million a year ago. The results met analyst expectations.

Sales in the first quarter rose by 10 per cent to \$780-million, after Maple Leaf raised prices amid soaring pork costs. Analysts had expected sales of \$740-million.

Still, Mr. McCain can point to a stock price that has risen by 31 per cent since 2013, zero debt and a lean corporate structure focused on making fresh and prepared meat.

Gone are bakery divisions, a pasta maker, the rendering plants and 1,500 low-skilled jobs.

In their place are hundreds of higher-skilled jobs and four modern meat factories, including the



Maple Leaf Foods CEO Michael McCain, seen in the company's Toronto offices Wednesday, reflects on Maple Leaf's successful revamp as a 'competitive and strong and profitable' world player. MARK BLINCH FOR THE GLOBE AND MAIL

“Looking back today, we are proud of the fact we made the choice to invest here in Canada rather than sell out.”

Michael McCain
CEO of Maple Leaf Foods Inc.

\$395-million plant in Hamilton that can crank out 750 packs of hot dogs every minute.

In an interview with *The Globe and Mail*, Mr. McCain describes the decisions he and the company's board faced in 2007, when Maple Leaf was a sprawling food maker comprised of old plants assembled over several decades, shielded by a weak Canadian currency that protected inefficient companies while hampering innovation by making investment capital unaffordable.

The stock price was prone to deep plunges, and went nowhere between 2002 and 2011. The deaths of 22 people who ate listeria-tainted meat from Maple Leaf's Toronto plant in 2008 highlighted the need to update the company's supply chain with a new focus on food safety.

"In 2007, when we faced the fix-or-sell decision, the sell decision would have been easier then," he said. "To be able to say I've got to invest a billion dollars in this business and rebuild the supply chain and do what we had to do to make the investment for long-

term sustainability of the business, the sell would have been a lot more goddamn easy in 2007 than the fix option. But that's not the choice made and we're very pleased about it."

"We had all the fundamentals of brands and people in place but we didn't have the manufacturing network. We were, in some ways, the poster child of the Canadian productivity gap. We just hadn't invested over the prior 50 years the money to close the productivity gap with our U.S. peers in what really drives that productivity, which is scale and productivity," Mr. McCain said. "Looking back today, we are proud of the fact we made the choice to invest here in Canada rather than sell out."

Sylvain Charlebois, a professor at the University of Guelph's Food Institute, said the revamped company is highly exposed to volatile hog prices, but should benefit from growing demand for pork, especially as beef prices soar.

Prof. Charlebois called Maple Leaf's billion-dollar gamble a rare case of a Canadian company

embracing technology and change in a bid to stay competitive.

"Upgrading existing plants and building new facilities like the one in Hamilton is so un-Canadian, frankly," he said by phone. "We tend to capitalize on a weak currency and a captive market to grow a business ... You have to give credit to Michael McCain. The company's decision to move forward with that decision wasn't unanimous. There were a lot of tensions on the board."

Mr. McCain, the company's biggest shareholder and a native of New Brunswick, said he made the choice to reshape the company instead of selling it because it was the best business decision, not because of any loyalty to Canada.

Indeed, Maple Leaf sold at least three of its divisions, including Canada Bread, to foreign owners.

"There's an element of sadness every time a Canadian business or brand isn't Canadian any more. That doesn't mean that it's not right. That doesn't mean that it's not in the wider stakeholders' interest," Mr. McCain said. "So we did not make the investment we did in this business simply because we're playing the Canadian card. We had to make the right business decision first. But it's very gratifying because all of us are strongly Canadian and believe that Canadian companies can be great on the world stage. And we feel very proud of the fact that the right business decisions supported keeping this business here with investments here in Canada to make it competitive and strong and profitable, competing with any other in the world. It's in our DNA, and we feel good about that."

The *Globe and Mail* has reported global food giants have expressed interest in Maple Leaf when the company's overhaul is complete, offering Mr. McCain an exit.

Mr. McCain said he's not selling the business, has no need of capital from a big investor and has no plans to leave the company he has led since 1999. "This is all I know," he said.

Maple Leaf Foods (MFI)
Close: \$20.15 - up 5.6%