



## **Building Growth and Performance Platforms**

2016 was a good year for many of our businesses and correspondingly our shareholders once again did very well with our share price rising by more than 80% during the year. This is on top of 56%, 10% and 29% share price increases in 2015, 2014 and 2013, respectively. While we are pleased to see the value inherent in our company being recognized and our long-term shareholders rewarded, we do view the recent sharp increases with some caution. Our long-term objective is to generate a compounded annual return for our shareholders of 15% by investing in stable, well-run specialty food businesses with solid growth opportunities and attractive risk profiles. When our share price far exceeds this objective this does not change the way we run our business or the risks we are willing to take. So with this in mind I would like to warn our shareholders that another annual increase in our share price of 80% is likely not realistic, at least not in the short term.

We are not prepared to expose our shareholders to additional risk or choose short term wins at the expense of longer term strategies just to drive unsustainable gains in our share price. We are managing our business for the long term, not for the next quarter, as we continue to adhere to the values and investment principles that date back to 2001 when we founded Premium Brands. It took many years before the financial markets recognized the strength of our unique business model and the value inherent in our company but throughout this period we stayed the course and are certainly not going to change now. In fact we are seeing an increasing number of large national and multi-national food companies now trying to adopt many of our strategies into their business models.

The recent appreciation in our share price did, to some extent, correlate with our financial performance in 2016 with our free cash flow increasing by almost 50%. This result was partly due to a number of the long-term focused strategies that were implemented in past years including our early identification and investment in businesses focusing on a variety of on trend product categories such as seafood, meat snacks, sandwiches, European deli meats and artisan breads.

More importantly, the key to our success has been our adherence to our core principle of investing in and supporting the right management teams. The talented entrepreneurs who make up our company are by far our most valuable resource and our biggest point of difference. Stated simply, we are outperforming our competitors and exceeding the expected returns on our capital allocation decisions because we have the best people. At a time when most national and multi-

national companies in the consumer packaged goods sector are struggling with growth, the biggest challenge facing many of our businesses is a lack of production capacity as they try to keep up with consumer demand.

Over the last fifteen years we have been partnering with successful entrepreneurs and empowering them to take their businesses to the next level through the leveraging of our various resources. An entrepreneur who joined us a few years ago called access to these resources the “Premium Brands Advantage.” I cannot stress enough that it is not our corporate team but rather our partner entrepreneurs that leverage the Premium Brands Advantage to grow and strengthen our many food platforms. We are not an intrusive acquirer nor do we have a centralized vision and/or structure. When we invest in a business our first priority is not its integration into a corporate system, but rather to build trust with our new partners and to introduce them to our resources including global buying abilities, access to capital, sophisticated information systems, complementary businesses and most importantly, a talented peer network. From there it is up to them to leverage these resources to accelerate the creation of long-term sustainable value while staying true to the core principles that made their businesses successful in the first place.

I realize that what I am saying may seem like common sense. In fact, I am often reminded of a story about John D. Rockefeller. When he was asked to attend a meeting to determine the break-up of Standard Oil’s assets he politely declined stating that he didn't care who got what assets. He did, however, very much care about attending the meeting that determined which management team went where because, in his mind, if he had the right people he would be able to re-create the success of Standard Oil regardless of what assets he started with. What differentiates Premium Brands or makes the common sense principle of focusing on people a reality is that we walk the talk and always do what we say. It’s the old adage about being simple but not easy.

From a capital allocation perspective, 2016 was a very busy year. In terms of transactions, we completed six acquisitions deploying over \$240 million of capital. The nature of our deals ranged from small bolt-on acquisitions to businesses that will, over time, develop into stand-alone growth platforms. For all the transactions there was, however, a single common theme: they all came with a strong management team.

Our biggest transaction for the year was the purchase of Montreal based C&C Packing and its sister company Premier Meats (“C&C”). These two businesses fit perfectly with our Protein Distribution platform’s long term objective of establishing a national marketing and distribution infrastructure. C&C’s founder, Stanley Cons, is a great example of the qualities we look for in a partner entrepreneur. His humility, integrity, family and community values driven management style and intricate knowledge of his business hit all the buttons. Furthermore, Stanley has done an amazing job developing and mentoring his two talented sons, Ronnie and Michael, who lead the business today.

Under Ronnie and Michael’s leadership, C&C’s sales over the last ten years have grown substantially to almost \$250 million, a remarkable feat in a mature industry. I am also very pleased that Stanley, Ronnie and Michael all chose to receive a significant portion of their consideration from the sale of their business in Premium Brands shares thereby further aligning their interests with those of our long term shareholders.

We have been working closely with the C&C management team both in terms of introducing them to the Premium Brands Advantage and in executing their own acquisition strategy. Ronnie and Michael are an ideal fit with our dynamic and growth oriented culture, which is another important

feature we look for when picking our partner entrepreneurs. In January, or about nine months after joining us, C&C completed its first transaction with the purchase of Halifax based IMS. IMS is a great fit for C&C. Not only does it strengthen C&C's management team, provide important critical mass to its operations in the Maritimes and improve its buying power, but it also opens up several new supplier and customer relationships.

IMS is only one of several transactions we have been working on with C&C. Similar to many of our other growth platforms C&C has a robust pipeline of potential deals and I am confident that they will be completing more transactions over the coming months and years. C&C is quickly becoming an important growth platform for us as we solidify and expand our business in eastern Canada.

Transactions were not the only source of excitement in our Company during 2016. We also announced and initiated two significant organic expansion projects that will contribute greatly to our future growth.

In August we announced the construction of a third US based sandwich facility by our Sandwich Group. This 212,000 square foot facility, which is expected to be completed in the third quarter of 2017 and will reflect state-of-the-art design principles, will lead the industry in food safety, production efficiencies / flexibility and quality. It will not only provide our Sandwich Group with much needed capacity so that they can continue to build on their leading position as a product solution provider for quick service restaurants in Canada and the U.S., but will also help to diversify their product portfolio and enable them to pursue new opportunities in other sales channels including grocery and convenience.

Since 2010, which is when we first partnered with Steve Sposari, President of the Sandwich Group, and his talented management team, this growth platform has increased its sales from \$140 million to almost \$460 million and expanded its production capacity from three facilities totaling 215,000 square feet to five facilities totaling 610,000 square feet. Steve and his group are another example of the talented and entrepreneurial management teams that make up Premium Brands. Similar to the situation with C&C, I am also pleased to report that we are working with Steve and his team on several potential acquisition opportunities that will help us to further grow and diversify this exciting platform.

The other major organic growth project that we announced and initiated in 2016 was the expansion of our very successful, western Canada based Centennial Foodservice protein distribution business model into Ontario. Core to the project is the construction of a state-of-the-art 105,000 square foot combination seafood and protein custom cutting and distribution facility in the Greater Toronto Area. This facility, which will be the first of its kind to service the GTA, will enable us to offer both retail and foodservice customers an unparalleled array of high quality live, fresh and frozen seafood as well as a full selection of top grade traditional proteins sourced from both local and global partners.

The new facility will also incorporate the wholesale assets of our recently acquired Diana's Seafood business, which is another great entrepreneurial success story. Diana's Seafood founder, Diana Cicirello and her husband Nino Cicirello started Diana's Seafood as a modest retail seafood store in Scarborough, Ontario in 1986. At that time they did not have much in the way of resources but did have a vision of what Diana's Seafood could become. By the time I met with Diana and Nino to discuss a possible succession plan, their business had grown to \$20 million in sales, employed 40 people, operated two restaurants and was known as "the source" of the absolutely best seafood in the GTA. It was an honor and privilege for me to provide Diana

and Nino an ownership solution that will allow them to transition to retirement while Diana's son, Chris, continues to manage the business with the same care, values and passion that propelled the business to its remarkable success.

Our recently acquired Toronto based Belmont Meats business will also play a role in helping Centennial ramp up its operations in Ontario. Belmont is one of Canada's leading and most innovative manufacturers of frozen premium burgers as well as a producer of a variety of high end portion cut protein products for a range of customers in Ontario. Its President, Paul Roach, who is a long time food industry veteran with a successful track record in the Canadian consumer packaged goods industry, and the talented management team he has assembled will be working closely with the Centennial team to help them gain market insights and identify opportunities with both foodservice and retail customers in the Ontario market.

We are very pleased with our progress over the past year in expanding our protein focused business platforms eastward. The additions of C&C Packing, Premier Meats and IMS provided us with best-in-class assets and additional talented management teams in Quebec and the Maritimes while the acquisitions of Belmont Meats and Diana's Seafood further solidified our already strong foundation in Ontario. Over the coming years I have no doubt that we will continue to strengthen our position in these markets through additional acquisitions as we are in ongoing discussions with a number of talented entrepreneurs who have built successful food businesses and are looking to partner with us. We are excited about working with them to develop customized ownership solutions that meet their short and long term objectives.

As I stated earlier, our approach to acquisitions is non-intrusive, long term oriented and focused on partnering with talented entrepreneurs. Having completed 38 deals over the last eleven years, we recognize that our success can be primarily attributed to our formula of investing in talented management teams then providing them with access to our various resources so that they can strengthen and accelerate the growth of their businesses. By empowering our management teams and enabling them to make key decisions on critical business functions such as innovation and general business development, we have built a unique and entrepreneurial culture that thrives on creating value for all our stakeholders.

Nowhere is this more evident than with our US Protein platform, which is led by one of our most experienced and talented partners, Steve Bates. Over the past 10 years Steve and his management team have grown our US Protein platform's sales from virtually zero to almost \$100 million and in the process have positioned the Hempler's brand as the number one premium processed meats brand in a number of markets across the western U.S. Steve and his team also oversee our Isernio's and Fletcher's brands, two of the most iconic processed meat names in the U.S. Pacific Northwest. They have done a remarkable job in challenging and disrupting the industry status quo and in the process have helped to re-define the way consumers view and connect with food in general, and protein specifically.

I was very pleased when on a recent trip to the US I visited a major retailer's store and saw that we had more branded product listings in the refrigerated meat section than any other consumer packaged goods company. This is an amazing feat for Steve and his team and a testament to their passion, vision and resilience, especially considering the specialty nature of their business and the large international food companies that they are competing with for shelf space. I am also pleased to say that we are working with Steve on a number of exciting initiatives that will help us expand our US Protein platform both organically and by acquisition. Having known Steve for almost 30 years, I am both proud and inspired by his success and look forward to working closely with him to continue to add more chapters to this remarkable story.

The final growth platform that I want to comment on is our Bakery Group. 2016 was a breakout year for them both in terms of operational success and acquisitions. For the last several years the Bakery Group's talented management team, led by Zahwil Dossa, Tony Esteve, Aziz Dossa and Ab Sayani, have been working towards achieving the right sales mix for their new state-of-the-art artisan bakery. This goal was reached in 2016 and correspondingly the Group generated record results for the year. As important as this milestone was, during 2016 the group had an even more important accomplishment, at least in terms of long-term value creation, namely its merger with one of western Canada's other leading artisan bakeries, Island City Baking. This transaction not only greatly enhanced the Bakery Group's management team with the addition of Carmelo De Luca and An Nguyen, the two talented and passionate entrepreneurs who created Island City, but also brought with it fresh bakery production assets that are very complimentary to our Bakery Group's strength in frozen breads and a very successful direct-to-store distribution network.

We have wanted to partner with Carmelo and An for a number of years and jumped at the opportunity when they approached us about a possible merger. As is the case with all of our other growth platforms, we are confident that this group is now well positioned to accelerate its growth both through organic initiatives and acquisitions.

I want to conclude this letter by talking about what I mentioned earlier is our most important resource, our people. As both the leader of Premium Brands and an immigrant to Canada myself, I find our ethnically diverse, 5,500 strong employee base, which spans most of Canada and large parts of the U.S., deeply inspiring. I have always believed in respecting people's individual dignity, customs and heritage, and as such have always been inspired by the diversity of our team and how, despite this diversity, we all share common values including treating people with respect, humility, community engagement, charitable giving and inclusiveness. I strongly believe that our combination of diversity and common core values make us a much stronger and more resilient company. As a final note I would like to thank all of our great people for their dedication and hard work as our past and continued success is and will be due solely to them.

George Paleologou  
President and CEO