Premium Brands

2015 Letter to Shareholders

The Right Balance

2015 was an exceptional year for our shareholders. Including dividends their investment in Premium Brands returned 69% for the year. This was on top of the 17% earned in 2014 and the 42% earned in 2013. In fact, over the past twelve years our long term shareholders, assuming they re-invested their dividends in Premium Brands shares, have earned a compounded return of 22%.

Our financial performance for 2015 was also very strong with our sales increasing by 22% to $1.5 billion and our adjusted EBITDA increasing by 44% to $112 million. These results should not, however, be a surprise given our history of consistently generating record sales and cash flows as we execute our vision of becoming one of North America's leading specialty food companies.

In my Letter to Shareholders last year I mentioned that we were very confident that our success would be sustainable over the long term. This year I want to focus on one of the key strategies that fuels this continued confidence, namely the diversity and balance we have built into our business model. This applies not only to the multiple business platforms that make up Premium Brands, but also to our broad range of product lines, brands, distribution channels, markets and geographical regions. Over the past several years we have created a number of separate and distinct cash flow streams that have transformed Premium Brands into a solid investment vehicle capable of delivering above-average shareholder returns even when faced with major challenges such as the current economic downturn in western Canada.

In the early 2000s when the current management team took over, Premium Brands was mainly a western Canada focused company with assets in BC, Alberta and Saskatchewan and most of its sales being generated from pork based processed meats. Correspondingly we were very susceptible to wild cyclical fluctuations in our pork input costs and the volatility associated with the largely commodity driven western Canadian economy.

Today our company looks much different. We now operate six business platforms located across Canada and the U.S. serving customers and consumers in all geographic regions of North America. Our raw materials cost exposure is balanced across a variety of food commodities including pork, beef, seafood, dairy, flour and poultry, all of which are sourced from reputable supply partners located domestically and around the world. As a result, our company is much less susceptible to supply and economic shocks associated with a specific food commodity or market and, on a consolidated basis, is able to deliver higher, more stable margins and cash flows.

The diversification and balance we are building into Premium Brands' overall business is also being incorporated into our individual businesses thanks to the talented entrepreneurs leading them. This is best illustrated by a brief history of our Centennial foodservice business, which is overseen by one of our most talented leaders, David Carriere.

In 2015 Centennial delivered its best performance since it began operations in 1967. This was despite the challenges of a major economic slowdown in Alberta, historically Centennial's largest single market, and the soaring cost of beef, one of its major input commodities. This accomplishment did not come by accident but rather demonstrates both the benefits of diversification and balance, which have been core to Centennial's business strategies since it joined Premium Brands in 2007, and the resolve of a strong entrepreneurial management team that is able to deliver results no matter what challenges they face.

Below are some of the key initiatives that have helped Centennial get to where it is today:

Year	Initiative	Purpose
2008	Acquired B&C Foods, a Vancouver Island based foodservice distributor	To strengthen Centennial's network on Vancouver Island, i.e. outside of Alberta, acquire the expertise needed to enter the fresh seafood product category, and provide an entry into the retail distribution channel, which is one of B&C Foods' core competencies
2009	Acquired Multi-National Foods, a Calgary based protein trading business	To strengthen Centennial's buying power, expand its global supplier network and accelerate its growth in a new sales channel
2010	Acquired Wescadia Foods (formerly South Seas Meats), a Richmond, BC based distributor specializing in Halal certified protein products	To expand Centennial's specialized portfolio of protein based products
2011	Completed the expansion of Centennial's Calgary facility, including the commissioning of a new state-of-the-art burger manufacturing facility	To provide the capacity needed to produce its unique protein products for a new customer base, namely national restaurant chains serviced by broadline foodservice distributors
2013	Completed the construction of a new fresh seafood processing facility located next to Centennial's Richmond, BC facility	To provide the capacity needed to support Centennial's rapid growth in the fresh seafood product category and to further differentiate its product portfolio
2013	Acquired the salmon and sushi grade tuna businesses of Vancouver based Harbour Marine and immediately moved these operations into Centennial's new Richmond seafood processing facility	To expand Centennial's presence in fresh seafood, making it one of the largest processors in North America of sushi grade albacore tuna, and provide its new seafood facility with immediate critical mass
2014	Acquired the operations of Reddi Food Group, a Calgary based foodservice distributor	To consolidate the protein focused specialty foodservice distributors in the Calgary market and to strengthen Centennial's Calgary network

As a result of the above initiatives, Centennial is not only much more profitable but is also better able to manage the various commodity and economic risks inherent to its business. This is clearly illustrated by its record performance in 2015. Furthermore, Centennial's focus on diversification and balance has positioned it to capitalize on a number of demographic trends including a growing and ethnically diverse population looking for more exotic food offerings, an aging population looking for premium protein products and a more informed consumer who is demanding cleaner protein products from sustainable sources.

Looking forward, Centennial is further diversifying and balancing its business through its recently announced initiative to expand its operations into Ontario by partnering with our Ontario based Ocean Miracle seafood distribution business. This will further hedge Centennial's exposure to Alberta's economy by positioning it to benefit from the increased economic activity in central Canada that is generally associated with lower oil prices, i.e. a weaker Alberta economy, and a corresponding lower Canadian dollar. Furthermore, with our recent acquisition of C&C Packing, a very well managed Quebec based protein wholesaler and processor, Centennial will be uniquely positioned among specialty foodservice distributors to offer premium and customized protein solutions on a national basis.

As a final note on Centennial, I would like to comment on the contrarian approach its management team is taking with respect to investing in Alberta. They continue to be very bullish on the long term prospects for Alberta and, despite its current economic challenges, are in the midst of expanding Centennial's Calgary facility to ensure it has the capacity needed to meet the growth expected in this market over the next five years. I should also note that this expansion will include western Canada's only dedicated large scale dry aged beef operation. This will further differentiate its product portfolio and enhance its leadership position as the top supplier of high quality protein products to hotels, restaurants, institutions and specialty retail stores in western Canada.

Our strategy of continuing to invest in markets even when they are going through temporary economic downturns is not new to us and, in fact, has served us well in the past. Two other examples are our recent investments in our U.S. based SK Food Group and Hempler's businesses. Since the economic meltdown in 2008 / 2009 we have invested over US$115 million in these businesses' and their respective capacities to service the U.S. market. While others were rushing out of the U.S. market in the late 2000s we chose to rush in. The end result has been a resounding success. Today both of these businesses are benefiting from the strength of the U.S. economy with their combined sales rising from US$12 million in 2008 to US$349 million in 2015 representing a compounded annual growth rate of approximately 62%.

From a Premium Brands perspective, our contrarian approach to investing in the U.S. market has further diversified and balanced our business and played a key role in our record results for 2015, which were despite the challenges in what was once our sole market, i.e. western Canada. The benefits associated with our investments in the U.S. market are also starting to spill over to some of our other businesses. In particular, our western Canada based deli and bakery businesses are now leveraging our U.S. infrastructure and the weak Canadian dollar to develop new markets along the U.S. west coast, an area that has approximately 50 million consumers all within a day's travel of their plants. One of the things I find most rewarding in my role as President and CEO is the multiplier effect we often see when you get great management teams working together.

Overall, the sales of our U.S. based businesses now represent approximately one third of our total sales, up from just a nominal amount ten years ago.

During 2015 we also continued to build diversification into our business through our corporate acquisitions strategy. We completed two acquisitions with each one expanding our product portfolio and further diversifying our business geographically and economically. As usual, both transactions involved partnering with highly talented management teams who understand how to build businesses under the most challenging of circumstances.

The more recent of these two transactions was our acquisition of Montreal based Expresco Foods. Dennis Papakostas and George Tiritidis started Expresco in Dennis' home over twenty years ago against almost impossible odds. Their core product, marinated and grilled chicken skewers, put them dead center in an over-regulated, supply managed segment of the Canadian food industry that makes it very difficult for new entrants to succeed. Yet despite the odds, Dennis and George were, through sheer determination, constant innovation and an unwavering winning spirit, able to build an impressive, highly differentiated business that sells its products to retailers across Canada and the continental U.S.

Our other acquisition was Seattle based Isernio's Sausage Company. Similarly, its founder, Frank Isernio, was able to establish the Isernio's brand as the premium fresh sausage brand in the Pacific Northwest while competing with very large, deep pocketed national and multi-national companies. The fact that Frank was able to position the Isernio's brand as the only regional fresh sausage brand to have a leading position in a major U.S. market is an amazing accomplishment and reinforces our resolve to seek similar partnerships with other passionate entrepreneurs looking for ownership solutions.

We are truly honoured to have partnered with both of these great companies and are confident that their very talented and innovative management teams will continue to grow and thrive under the Premium Brands umbrella.

I would be remiss if I did not expand my discussion on diversification and balance to how these strategies interplay with our views on capital allocation and investment. Even though our growth over the years now necessitates making bigger deals in order to move the needle, so to speak, we are not at all compelled to act in this manner. We will continue to pursue only transactions that are consistent with our diversification and balance strategies and do not see any wisdom or value in completing a transaction based solely on size. Our focus, as always, remains on creating long term value for our shareholders.

Our core strategy of building balance into our business and of managing it in the long term best interests of our shareholders also applies to our management compensation strategies. This is why we do not have, nor do we ever plan to introduce, stock options or other similar forms of compensation. Our view is that for companies in mature industries it is too easy for these types of compensation arrangements to encourage management teams to make decisions that are not about balance and long term sustainability, but rather about what drives a company's share price in the short term. Instead, we encourage our managers to own Premium Brands shares and even incentivize them to take their annual bonuses in shares. This ensures management's interests are fully aligned with those of our long term shareholders.

Another example of the balance we have built into our business, and which ties directly to our compensation strategies, is our culture of entrepreneurship with accountability. As demonstrated earlier with the Centennial case study, we work with talented and innovative entrepreneurial management teams to make good businesses great. The key to the success of this model, and what makes it more powerful than any single person or management group, is the autonomy we give these teams to run and innovate their businesses. The other side of the equation, or the balance to this entrepreneurial autonomy, is a culture of accountability that is core to Premium Brands and central to the structure of our management compensation arrangements. This balance between entrepreneurial spirit and accountability is what is translating into the somewhat unique situation, at least in our industry, of sustainable strong top and bottom line growth.

The next, and final area of diversification and balance built into our business that I want to discuss, relates to our focus on the very long term. In my Letter to Shareholders last year, I stated that in making investments and capital allocation decisions we not only need to consider the impact of our decisions on our business but also on the world around us. With this holistic approach in mind, my wife and I recently purchased a small organic farm on Vancouver Island as a way of learning more about the entire farm to table food chain. This includes learning about traditional farming methods consistent with the sustainability of the environment and ensuring the long term health of the land. This experience has more than ever reinforced to me the soundness of the strategies being pursued by virtually all of our businesses to develop high quality products made with simple and pure ingredients, and to follow environmentally sustainable business practices.

Our Centennial business is, once again, a great example of how this is not only the right thing to do for our planet but also the right thing to do for our business. The recent launch of its ***Black Apron*** branded line of antibiotic free, hormone free beef raised humanely by partner farms has been an immediate success and is not only setting new sales records but is creating sales opportunities for other products as new customers come to Centennial for the program. Similarly our Grimm's, Hempler's and Freybe lines of organic, natural, antibiotic free and/or no added hormones products have been so successful that our challenges are not about developing sales opportunities but rather about sourcing adequate raw materials to keep up with customer demand.

We have had a great run since we launched Premium Brands just over 15 years ago but, as I believe I have illustrated above, this was not an accident and in no way are we done. We have grown substantially during this time but most importantly we have done this in a balanced way through diversification across product lines, brands, distribution channels, markets and geographical regions. This has resulted not only in the multiple cash flow streams that make us more resilient to whatever challenges come our way, but also positions us for continued strong growth. This is why we are so confident that we will be able to continue to reward our shareholders with superior rates of return over the long-term.

As a final note, I would like to once again thank our shareholders for their support and our employees for their hard work and dedication. Premium Brands now has over 5,500 employees and our success is due to them.

George Paleologou
President and CEO
Premium Brands Holdings Corporation