



## ***Extraordinary Times Extraordinary Team***

### **Antifragility**

Chaotic, unprecedented, challenging and unrelenting are just a few of the words that can be used to describe the past year. Many of the norms to which we have grown accustomed to have been turned upside down in 2020 with every day seeming to bring a new challenge. In many cases, we have had to abandon our normal patterns of behavior and find new ways of getting things done. We have seen fundamental changes in our society that, I suspect, will forever change the way we live and work. These include everything from leveraging new technologies, to better understanding the interconnectivity of the world's supply chains and our impact on the environment.

In my previous letter to shareholders, I discussed our unique culture and how we have built our company based on the fundamental principles of decentralized decision making, independent thought and respect for the entrepreneurial spirit, with one of our ultimate objectives being to make our business "antifragile" as defined by Nassim Nicholas Taleb in his book *Antifragile: Things That Gain From Disorder*. Correspondingly, we are comfortable with uncertainty and, as we have shown many times, Premium Brands is strengthened by adversity and challenge. On this basis I was confident in my prediction that the pandemic would not negatively impact the long-term outlook for our company. Now, a year later, I am pleased to announce that 2020 is our 17<sup>th</sup> consecutive year of record financial performance with our sales increasing by 11.5% to a record \$4.1 billion and our adjusted EBITDA up slightly to a record \$312.6 million.

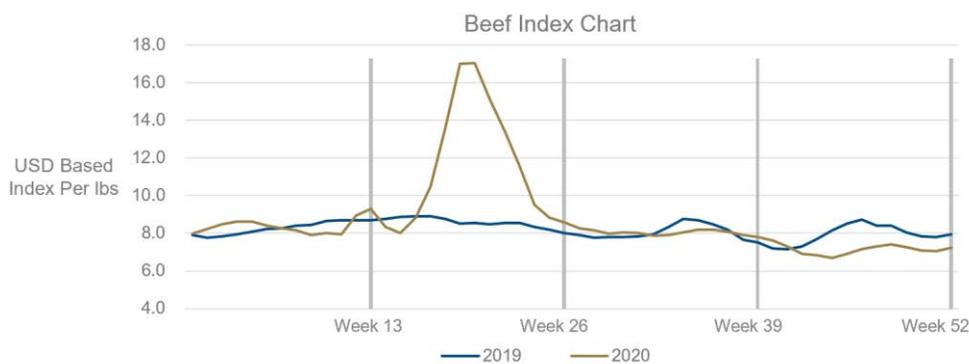
Our performance in 2020 is directly attributable to our culture and the incredible entrepreneurs who oversee our businesses, all of whom I consider to be my business partners. Their passion, resourcefulness and ingenuity enabled our businesses to act and react quickly and decisively in addressing the many challenges we faced, including *demand destruction* in numerous sales channels, *protection of our employees*, *supply chain disruptions* and unprecedented *volatility in commodity costs*. Our culture and people are what make us antifragile and, as I have said many times before, are our most important competitive advantages.

The following are a few examples of how we have emerged from the chaos of the past year a stronger company or, like Hydra of Greek-legend fame, grew several more heads.

**Demand Destruction.** Pandemic related demand destruction impacted every one of our sales channels at some point in 2020. Those most impacted were our foodservice-focused businesses as restaurants had to operate at limited capacity or, in many cases, shutdown completely. We estimate that our foodservice businesses lost \$92.5 million in sales in 2020 as a result of pandemic-related factors representing 19% of their 2019 sales. Yet their 2020 sales, after excluding the impacts of any acquisitions, were down only 4%. They were able to mitigate the impact of the lockdowns by quickly developing new opportunities in other sales channels including retail, ecommerce, and meal kits. Their ability to pivot rapidly was the direct result of our decentralized entrepreneurial structure combined with their access, through our PB Ecosystem, to the knowledge and insights of sister companies already operating in these other channels. Looking forward, we expect many of our foodservice group’s new sales initiatives to be sustainable post-pandemic so that, when normalcy returns to their core foodservice business, they will be even larger and stronger than they were before the pandemic. This is the very essence of antifragility.

**Employee safety.** As an essential business, employee safety became one of our biggest challenges and highest priorities in 2020. It is also the challenge that best illustrates the value of our PB Ecosystem. In the early days of the pandemic there was significant uncertainty around proper protocols for keeping our employees safe. Because the behavior of the virus was not fully understood, expert guidance was changing regularly and at times was even conflicting. Using our PB Ecosystem, we set up weekly calls among all of our business leaders to discuss issues around the pandemic and to share information. Best practices were quickly and effectively shared across our businesses and helped to position us as a leader in developing many new employee safety protocols, making our work environments as safe as possible. In the end, this challenge and our response to it greatly strengthened the relationships and cooperation among our companies and, in turn, has made Premium Brands stronger as a whole.

**Supply Chain Disruptions.** Throughout 2020, food industry supply chains were in chaos as COVID outbreaks forced plants to close and reduced the capacity of logistical networks. This created significant challenges not only from a cost of raw materials perspective but also in terms of raw material shortages. The graph below, which shows the trend in the cost of a basket of beef commodities used by a number of our businesses, illustrates the extent of the challenge.



Our businesses addressed these issues by helping each other identify new global supply sources and by developing new internal production opportunities for certain value-added raw materials traditionally sourced from outside suppliers. As a result, many of our businesses now have more robust supply networks and are sourcing more products internally, capturing additional margin and reducing supplier uncertainty.

## Resilience

While making our business antifragile has been a core component of our risk mitigation strategies, so too has been building resilience. Unlike antifragility, which is the ability to grow stronger from challenges, resilience is the ability to withstand and adapt to the impacts of those same challenges. Two key resilience strategies we have used are *decentralization* and *diversification*, both of which proved to be invaluable over the last year:

- ***A decentralized, smaller plant network.*** Since the start of the pandemic, larger, and by nature, generally more rigid, manufacturing facilities around the world have struggled to adapt their workflow processes, thereby resulting in community COVID outbreaks, shutdowns and significant capacity disruptions. Conversely, our smaller, nimbler plants were able to quickly adjust and adapt their operational protocols to the changing environment, thereby reducing the risk of community spread. Furthermore, when a plant's operations were disrupted by an outbreak, the impact was significantly mitigated by the capacity redundancy that naturally comes from operating a number of smaller plants versus a single large plant. This comparative advantage enabled us to avoid any catastrophic losses in production capacity and to achieve much higher customer service levels. This strategy is also turning out to have an element of antifragility in it as we are gaining new sales opportunities as customers realize the benefits and importance of plant redundancy in their supply chains.
- ***Sales diversification across products, channels, customers and geographical areas.*** Since the inception of Premium Brands, we have focused on building resilience into our business through sales diversification. We acquired Centennial Foodservice to increase our business in the foodservice channel. Similarly, we invested in Direct Plus Food Group to develop our access to independent retailers and convenience stores. Over the last 17 years, we have been purposefully investing in sales diversification and today have broad exposure across product categories, sales channels, customers and geographical regions. Our product categories include artisan sandwiches, meat snacks, charcuterie, cooked protein, premium processed meats, seafood and artisan breads. Our sales channels include retail, foodservice, convenience store, airline, cruise line and online. We service markets across Canada and the U.S. and, through our recent acquisitions of Global Gourmet and Clearwater Seafoods, now have meaningful sales in Europe and Asia. Over the past year, this diversification has allowed us to mitigate the impact of swift and dramatic shifts in consumer buying patterns as they adjusted to living with lockdowns and other pandemic-related restrictions.

## Clearwater Seafoods

Despite the challenges of the pandemic, during this past year, we completed the largest capital allocation in our history by acquiring, in partnership with seven First Nations communities, Nova Scotia-based Clearwater Seafoods. I have admired Clearwater for many years and consider it an honor and privilege to bring it into the PB Ecosystem. The acquisition of Clearwater is a transformational transaction that significantly strengthens our Seafood Platform and establishes it as a key player on the global stage. Clearwater ticks all the boxes. It is an industry-leading company with best-in-class assets, highly sought-after products and an experienced, passionate and extremely capable management team. Its harvesting and processing-at-sea technology, which is second to none, produces some of the best quality seafood products in the world, products that are highly coveted by chefs and diners everywhere. Furthermore, Clearwater is in a market segment that will continue to grow for many years as consumers look for great-tasting, healthy and sustainable wild seafood to satisfy their daily protein needs. And finally, the entrepreneurial spirit of Clearwater's founders, who started the company by selling lobsters from the back of a truck, continues to energize and drive the organization today.

I am also proud of our partnership with seven First Nations communities, in general, and with Chief Terry Paul and the Membertou Mi'kmaq First Nation, in particular. In them, I am certain that we have found the right partner. Unlike many other acquirers of food assets, our investment decisions are based on creating sustainable value over the long-term. With this in mind, it was music to my ears when Chief Paul said he thinks not in terms of years, but rather generations, when considering an investment or making a critical decision. He is truly a great visionary who cares deeply about the good of his people and the world around us and I am proud to have him as a partner in this exciting venture.

Looking forward, I am very excited about the many potential synergies that can be realized by bringing together Premium Brands, our First Nations partners and Clearwater. We have respective strengths that are very complementary and, when brought together, create a formidable business model.

## ESG

Pandemic notwithstanding, progress on ESG initiatives continued to be a priority for Premium Brands in 2020. The principles that drive ESG reporting are core to our company's values and we continue to make significant and meaningful advancements in this area.

In our second Annual ESG Report, which we will be releasing in June, we will be providing a comprehensive analysis of our objectives, initiatives and targets on a wide range of issues. Ultimately, we are committed to becoming an industry leader in managing, promoting and reporting on ESG matters.

Some key areas on which our report will focus include:

- **Reducing carbon emissions.** Nineteen percent of global carbon emissions come from agriculture and half of that from livestock production. Given that many of our businesses use various animal proteins in their products, we are actively engaged in supporting initiatives to reduce the agriculture industry's carbon footprint. To this end, we are encouraged by the progress being made on many fronts, from simpler initiatives such as adding seaweed to cows' feed which can reduce their methane emissions by up to 91%; to more complex projects like restoring previously unhealthy farmland and grasslands and capturing carbon through the introduction of roaming ruminant animals.
- **Reducing food waste.** Forty percent of the food produced in the world is wasted as it passes through the farm-to-consumer food chain. The benefits associated with addressing this issue include: decreasing our industry's carbon footprint, better utilization of scarce resources such as agricultural land and water, and reducing food insecurity for millions of people. We have made significant progress on reducing waste across our company through capital investments, continuous improvement projects, and the sharing of best practices.
- **Reducing chronic diseases like obesity, diabetes and heart disease.** There is a growing body of science showing diets rich in high-quality nutrient dense foods made using time-tested traditional methods can significantly improve gut health and help reduce the risk of developing many of the chronic diseases plaguing our society today. For this reason, among others, we are passionate supporters and producers of these types of products.

- **Social responsibility and accountability.** While we made significant progress on many ESG issues, I am particularly pleased with what we have achieved in making our organization more diverse, progressive and inclusive. This includes our historic partnership with seven First Nations communities through the Clearwater acquisition. I believe this unique transaction creates a template that will be replicated by many organizations as our society develops new ways of reconciling with our First Nations peoples. Over the past year, we also promoted three female executives to top leadership roles at three of our businesses and appointed a second female director to our Board of Directors. I fully support and recognize the wisdom and value creation that comes from being a more diverse, progressive and inclusive company.

## The Long-Term

Over the last 17 years, we have grown from a small regional company to one of the leading specialty food companies in North America while generating a 23% compounded annual return for our shareholders through dividends and capital appreciation. Looking forward, the core strategies that have driven our success to-date position us to continue creating significant value for many years to come. These include:

1. **Acquisitions.** Our acquisition pipeline has never been more robust. We have a reputation for being an acquirer with integrity, that truly appreciates the spirit of entrepreneurialism and does not destroy value through integration. As this reputation spreads across the North American food industry, an increasing number of talented food entrepreneurs are approaching us about bringing their businesses into our ecosystem. Correspondingly, our M&A group, which has grown from just me and Will Kalutycz, our CFO, to ten professionals, has never been busier.
2. **Disciplined capital allocation.** With only the rare exception, all of our capital allocation decisions are based on an expected internal rate of return of 15% or more (after tax and excluding the use of debt) using business models with 10-year-plus time horizons. That is, we invest for the long term. In the case of acquisitions, it can take three to five years to transform an acquired company from good to great and this can negatively impact our short-term results. But our record shows that, over the long-term, we have consistently delivered on our 15%-plus return objective.
3. **Not being a roll up play.** At the Premium Brands level, we do not acquire businesses to rationalize them, restructure them or integrate them in the pursuit of short-term cost savings. We are allocators of capital in the specialty food space and focus on creating value over the long-term – our business plans generally span ten years or more. We only invest in areas of the food space about which we are passionate and of which we have a deep understanding, then further narrow our investments to those businesses with best-in-class management teams who will fit into our culture. Sometimes this means walking away from a transaction that may be considered a bargain based purely on financial metrics.
4. **Organic growth.** While acquisitions have been a key driver of our growth, organic growth has also been a major contributor. Over the last ten years our organic growth rate has averaged 7.6%, which far exceeds most other large companies in our industry. And this rate is understated because it does not include organic growth generated from acquisitions in their first year of operations, which can be significant due to the realization of low-hanging synergies. On a more micro level, many of the companies in our portfolio have grown their sales several times over while being under our umbrella. These include our artisan sandwich business, SK Food Group; our two premium processed meats / meat snack businesses, Harvest Meats and Hempler Fine Foods; and our artisan bread business, Stuyver's. We are as excited about the organic growth initiatives of our businesses, which we continue to support with capacity investments, as we are of our acquisition opportunities.

5. ***Focus on meat protein.*** Global meat consumption has been growing at a rate in the mid to high single digits for the past 50 years. This is being driven by a range of factors including rising incomes in China and other countries. In North America, where household penetration is over 98%, meat consumption has also been growing as consumers realize the dietary benefits of replacing refined carbohydrates and highly processed seed oils with clean and simple animal proteins. The popularity of Ketogenic and Keto type diets is just one clear indicator of this trend. One of our favorite sayings at Premium Brands is: “The future of food is in the past”. This sentiment has driven much of our innovation and many of our capital allocation decisions over the past twenty years and has been a key factor in driving our strong organic growth.

There is much news and excitement today about new plant protein technologies, and in general terms, we support these developments. However, we prefer to focus mainly on what nature produces as many of the plant protein products capturing today’s headlines are highly refined and consist of complex ingredients inconsistent with the general trend of consumers looking for healthier simpler foods. This is why we continue to prioritize categories such as sustainable, wild-caught seafood, organic chicken and grass-fed beef as well as Italian and German dry-cured products and artisan breads that are made using ingredients and techniques that date back hundreds of years.

6. ***Maintaining a conservative balance sheet.*** We view the most important metric for assessing our financial leverage to be our senior debt to EBITDA ratio. Our long-term targeted range for this ratio, which is conservative given our history of consistent free cash flow growth, is 2.5:1 to 3.0:1. This compares to our current ratio of approximately 2.1:1. Sometimes our senior debt leverage is mistakenly thought to be higher. This is generally due to: (i) not including EBITDA from recent acquisitions in the calculation (i.e. the debt associated with the acquisition is on our balance sheet but the corresponding cash flow is not yet reflected in our EBITDA); and/or (ii) including our convertible debentures in the calculation. We call this our total debt to EBITDA ratio for which our long-term targeted range is 4:0:1 to 4.5:1. This compares to our current ratio of 3.3:1.

We exclude convertible debentures from our senior debt to EBITDA ratio because: (i) we view these debentures as an equity strategy with our objective being to force their conversion to equity as soon as possible (i.e. no cash is needed for their repayment). We have completed nine convertible debenture issuances with six being converted and the one nearest to maturity (December 2023) already having a conversion price that is below where our shares are trading today; and (ii) the terms of the debentures are very flexible including no principal payments, no financial covenants and an option for us to repay them through the issuance of shares if needed.

## Conclusion

2020 is a year we won’t soon forget. It was a year of chaos and challenges that have changed forever the way we live and work. For Premium Brands, it was a true test of our business model and I am incredibly pleased with how our company performed. We are emerging from the pandemic stronger and with even more potential – this is the essence of being antifragile. Our decentralized model that promotes independent thought and the entrepreneurial spirit is alive and well. We are ready to face head-on the next challenge and to capitalize on the next opportunity.

I have never been more excited about our future. Many of our investments over the last few years are now gaining significant traction as their ten-year-plus business plans unfold, and we are already seeing great progress from our recent acquisitions of Clearwater, Global Gourmet, Allseas and Starboard. 2021 is going to be another very exciting year, albeit, we hope, for much more positive reasons.

On a final note, I once again want to thank all of our amazing people for their dedication and hard work, particularly those who have come to work every day in our production facilities. Their passion, bravery and commitment to producing great food for all of us throughout the pandemic has been inspiring and heroic. It is truly a privilege to lead such a remarkable team. I would also like to thank our shareholders for their continued support. Companies usually get the shareholders they deserve, and I am pleased to have many wise and supportive long-term shareholders who have taken the time to understand what makes Premium Brands such a unique and special company.

Thank you again for your support and I wish you all good health as we move to the other side of the pandemic.

Sincerely,  
George Paleologou  
President and CEO