



PREMIUM BRANDS HOLDINGS CORPORATION **Management's Discussion and Analysis**

For the 13 and 39 Weeks Ended September 26, 2020

The following Management's Discussion and Analysis (MD&A) is a review of the financial performance and position of Premium Brands Holdings Corporation (the Company or Premium Brands) and is current to November 4, 2020. It should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the period ended September 26, 2020, and its fiscal 2019 audited consolidated financial statements and the notes thereto, both of which are prepared in accordance with International Financial Reporting Standards (IFRS). These documents, as well as additional information on the Company, are filed electronically through the System for Electronic Document Analysis and Retrieval (SEDAR) and are available online at www.sedar.com.

All amounts are expressed in Canadian dollars except as noted otherwise.

BUSINESS OVERVIEW

Premium Brands is an investment platform focused on acquiring and building food businesses in partnership with talented entrepreneurial management teams. Its current holdings consist primarily of:

- **Manufacturers of specialty food products ("specialty food businesses") with strong proprietary brands and/or leading niche market positions.**

The Company considers the key characteristics of a specialty food business to be: (i) a consumer's decision to purchase its products is based primarily on factors other than price, such as quality, convenience, health and lifestyle; and/or (ii) it caters to niche oriented markets. As a result of these characteristics, specialty food businesses generally earn higher and more consistent selling margins, relative to other types of food manufacturing companies, and avoid directly competing with large national and international food companies. Furthermore, due to a variety of consumer related trends impacting the food industry, these businesses also tend to generate higher sales growth rates as compared to large national and international food companies.

- **Differentiated food distribution and wholesale businesses (“premium food distribution businesses”).**

The Company considers the key characteristic of a premium food distribution business to be that it offers its customers specialized and/or unique products and services in addition to logistical solutions. This enables it to generate higher and more consistent selling margins relative to the large national and international food distributors that are primarily focused on logistics.

The Company’s premium food distribution businesses also enable it to generate and sustain additional margin by using these businesses to provide its specialty food businesses with proprietary access to a broad and diversified customer base that includes regional and specialty grocery retailers, restaurants, hotels and institutions.

RESULTS OF OPERATIONS

The Company reports on two reportable segments, Specialty Foods and Premium Food Distribution, as well as corporate costs (Corporate). The Specialty Foods segment consists of the Company’s specialty food manufacturing businesses while the Premium Food Distribution segment consists of the Company’s differentiated distribution and wholesale businesses.

Revenue

<i>(in millions of dollars except percentages)</i>								
	13 weeks ended Sep 26, 2020	% (1)	13 weeks ended Sep 28, 2019	% (1)	39 weeks ended Sep 26, 2020	% (1)	39 weeks ended Sep 28, 2019	% (1)
Revenue by segment:								
Specialty Foods	710.3	64.5%	632.0	65.3%	1,989.1	66.0%	1,822.6	67.7%
Premium Food Distribution	390.8	35.5%	336.3	34.7%	1,023.6	34.0%	867.7	32.3%
Consolidated	1,101.1	100.0%	968.3	100.0%	3,012.7	100.0%	2,690.3	100.0%

(1) Expressed as a percentage of consolidated revenue

Specialty Foods’ (SF) revenue for the third quarter of 2020 as compared to the third quarter of 2019 increased by \$78.3 million or 12.4% primarily due to:

- Organic volume growth of \$60.5 million representing a growth rate of 9.6%. After adjusting for the impact of COVID-19 related factors (see *Risks and Uncertainties – Public Health Threat*) (estimated to be \$9.9 million), SF’s normalized organic volume growth rate is 11.1%. In general terms, COVID-19 related factors had a positive impact on its retail channel sales and a negative impact on its sales to the airline and foodservice channels;
- Net selling price inflation of \$8.5 million, which was driven primarily by increases implemented by SF’s protein businesses in reaction to higher pork and beef input commodity costs;
- Business acquisitions, which accounted for \$6.5 million of SF’s growth; and
- A currency translation related increase of \$2.8 million resulting from a weaker Canadian dollar relative to the U.S. dollar – approximately 46.0% of SF’s revenue for the quarter was in the U.S.

SF’s normalized organic volume growth rate, which was well above its long-term targeted range of 4% to 6%, was primarily in the sandwich, meat snacks, premium dry cured meats and cooked meats product categories and was driven by a variety of factors including new product launches, new customer initiatives and more favorable weather conditions in central Canada relative to the third quarter of 2019.

SF's revenue for the first three quarters of 2020 as compared to the first three quarters of 2019 increased by \$166.5 million or 9.1% primarily due to: (i) organic volume growth of 6.0% or approximately 10.4% after normalizing for the impacts of COVID-19 related factors; (ii) net selling price inflation of \$29.0 million; (iii) a currency translation effect of \$19.7 million; and (iv) business acquisitions, which accounted for \$8.2 million of the increase.

Premium Food Distribution's (PFD) revenue for the third quarter of 2020 as compared to the third quarter of 2019 increased by \$54.5 million or 16.2% primarily due to:

- (i) Organic volume growth of \$27.5 million representing a growth rate of 8.2%. After adjusting for the impact of COVID-19 related factors (estimated to be \$23.7 million), PFD's normalized organic volume growth rate is 15.2%. PFD's sales to fine dining, cruise line and export customers were severely impacted by COVID-19 related factors, however, it was able to partially mitigate this by: (i) leveraging existing and developing new retail customer relationships; and (ii) broadening the product portfolios of some of its businesses;
- (ii) Business acquisitions, which accounted for \$26.5 million of PFD's growth; and
- (iii) A currency translation effect of \$1.4 million – approximately 28.1% of PFD's revenue for the quarter was in the U.S.

The above factors were partially offset by net selling price deflation of \$0.9m, which was relatively low as price deflation on lobster products was mostly offset by price inflation on beef and pork based products.

PFD's normalized organic volume growth rate, which was also well above its long-term target of 4% to 6%, was driven by recent capacity investments, namely a new lobster processing facility in Saco, Maine, a recently expanded protein and seafood distribution facility in Montreal, and a new distribution and custom cutting operation in the Greater Toronto Area. These have enabled PFD to pursue a range of new sales initiatives including developing new customer relationships and expanding its product offerings.

PFD's revenue for the first three quarters of 2020 as compared to the first three quarters of 2019 increased by \$155.9 million or 18.0% primarily due to: (i) business acquisitions, which accounted for \$88.5 million of the increase; (ii) organic volume growth of 6.1% or approximately 15.2% after normalizing for the impacts of COVID-19 related factors; (iii) net selling price inflation of \$10.3 million; and (iv) a currency translation effect of \$4.4 million.

Gross Profit

<i>(in millions of dollars except percentages)</i>								
	13 weeks ended Sep 26, 2020	% (1)	13 weeks ended Sep 28, 2019	% (1)	39 weeks ended Sep 26, 2020	% (1)	39 weeks ended Sep 28, 2019	% (1)
Gross profit by segment:								
Specialty Foods	155.8	21.9%	142.8	22.6%	423.5	21.3%	418.3	23.0%
Premium Food Distribution	57.9	14.8%	47.8	14.2%	154.6	15.1%	127.8	14.7%
Consolidated	213.7	19.4%	190.6	19.7%	578.1	19.2%	546.1	20.3%

(1) Expressed as a percentage of the corresponding segment's revenue

SF's gross profit as a percentage of its revenue (gross margin) for the third quarter of 2020 as compared to the third quarter of 2019 decreased by 70 basis points primarily due to \$4.6 million in COVID-19 related costs consisting mainly of labor related production inefficiencies, employee thank-you bonuses and investments in additional employee safety measures; partially offset by government wage subsidies. Normalizing for these items, SF's gross margin is 22.6%. The sales deleveraging benefits of higher

production volumes were largely offset by: (i) sales mix changes as COVID-19 related lost sales of higher margin specialized sandwich and meal solutions for the airline industry were offset by lower margin sandwich sales in alternative channels; and (ii) labor wage inflation.

SF's gross margin for the first three quarters of 2020 as compared to the first three quarters of 2019 decreased by 170 basis points primarily due to: (i) the reasons outlined above; (ii) the loss of critical mass in several production facilities during the second quarter of 2020 as a result of COVID-19 related sales impacts; and (iii) additional outside storage costs in the first two quarters of 2020 that were mainly due to long inventory positions taken to help hedge against unusually volatile global pork and beef commodity costs and to mitigate the risk of supply chain disruptions.

PFD's gross margins for the third quarter of 2020 as compared to the third quarter of 2019 increased by 60 basis points primarily due to: (i) sales deleveraging benefits associated with PFD's higher sales volumes; (ii) commodity cost benefits resulting from new supply relationships and favorable inventory positions relative to inflationary beef and pork commodity costs; and (iii) some normalization in lobster margins as they were below normal levels in the third quarter of 2019 due to a variety of transitory challenges. These factors were partially offset by additional overhead associated with recent capacity investments.

PFD's gross margins for the first three quarters of 2020 as compared to the first three quarters of 2019 increased by 40 basis points to 15.1% primarily due to the reasons outlined above plus an additional offsetting factor of sales mix changes in the second quarter of 2020 associated with COVID-19 related issues.

Selling, General and Administrative Expenses (SG&A)

<i>(in millions of dollars except percentages)</i>								
	13 weeks ended Sep 26, 2020	% (1)	13 weeks ended Sep 28, 2019	% (1)	39 weeks ended Sep 26, 2020	% (1)	39 weeks ended Sep 28, 2019	% (1)
SG&A by segment:								
Specialty Foods	83.6	11.8%	73.5	11.6%	242.9	12.2%	222.2	12.2%
Premium Food Distribution	32.7	8.4%	28.7	8.5%	97.4	9.5%	79.1	9.1%
Corporate	3.9		4.3		12.9		12.2	
Consolidated	120.2	10.9%	106.5	11.0%	353.2	11.7%	313.5	11.7%

(1) Expressed as a percentage of the corresponding segment's revenue

SF's SG&A for the third quarter of 2020 as compared to the third quarter of 2019 increased by \$10.1 million primarily due to: (i) higher discretionary marketing costs, a portion of which were deferred from the second quarter as a result of COVID-19 related factors; (ii) additional variable selling and infrastructure costs associated with supporting SF's growth initiatives; (iii) increased variable compensation; and (iv) business acquisitions.

SF's SG&A for the first three quarters of 2020 as compared to the first three quarters of 2019 increased by \$20.7 million primarily due to the reasons outlined above partially offset by lower discretionary marketing costs in the second quarter of 2020 as a result of a number of retail promotions being cancelled or delayed due to COVID-19 related factors.

PFD's SG&A for the third quarter of 2020 as compared to the third quarter of 2019 increased by \$4.0 million primarily due to: (i) business acquisitions; and (ii) additional variable compensation.

PFD's SG&A for the first three quarters of 2020 as compared to the first three quarters of 2019 increased by \$18.3 million primarily due to the factors outlined above as well as additional variable selling and infrastructure costs in the first quarter of 2020 associated with supporting its growth.

Adjusted EBITDA

Adjusted EBITDA is not defined under IFRS and, as a result, may not be comparable to similarly titled measures presented by other publicly traded entities, nor should it be construed as an alternative to other earnings measures determined in accordance with IFRS.

The Company believes that adjusted EBITDA is a useful indicator of the amount of normalized income generated by operating businesses controlled by the Company before taking into account its financing strategies, consumption of capital and intangible assets, taxable position and the ownership structure of non-wholly owned businesses. This measure is widely used by investors in the valuation and comparison of companies. In addition, it is used in the calculation of certain financial debt covenants associated with the Company's senior credit facilities (see *Liquidity and Capital Resources – Debt Financing Activities*).

The following table provides a reconciliation of adjusted EBITDA to earnings before income taxes:

(in millions of dollars)	13 weeks ended Sep 26, 2020	13 weeks ended Sep 28, 2019	39 weeks ended Sep 26, 2020	39 weeks ended Sep 28, 2019
Earnings before income taxes	43.4	34.1	76.5	85.9
Plant start-up and restructuring costs ⁽¹⁾	0.7	3.7	6.2	7.0
Depreciation of capital assets ⁽²⁾	16.8	15.0	49.3	43.8
Amortization of intangible assets ⁽²⁾	6.5	5.1	19.3	15.2
Amortization of right of use assets ⁽²⁾	7.9	7.0	23.5	20.5
Accretion of lease obligations ⁽³⁾	3.7	3.4	11.1	9.8
Interest and other financing costs ⁽³⁾	9.9	12.5	32.4	42.1
Acquisition transaction costs ⁽¹⁾	1.4	1.3	4.3	2.5
Change in value of puttable interest in subsidiaries ⁽⁴⁾	0.5	-	(3.8)	0.5
Accretion of provisions ⁽³⁾	2.4	1.6	6.0	4.0
Provisions not earned ⁽³⁾	-	-	(2.0)	-
Equity loss in investments in associates ⁽⁵⁾	0.3	0.4	2.1	1.3
Adjusted EBITDA	93.5	84.1	224.9	232.6

(1) Amount is not part of the Company's normal operating costs.

(2) Amount relates to the consumption of the Company's capital assets, intangible assets or other assets.

(3) Amount relates to the Company's financing strategies.

(4) Amount relates to the valuation of minority shareholders' interest in certain subsidiaries of the Company.

(5) Amount relates to businesses that the Company does not consolidate as it does not own a controlling interest.

(in millions of dollars except percentages)								
	13 weeks ended Sep 26, 2020	% (1)	13 weeks ended Sep 28, 2019	% (1)	39 weeks ended Sep 26, 2020	% (1)	39 weeks ended Sep 28, 2019	% (1)
Adjusted EBITDA by segment:								
Specialty Foods	72.2	10.2%	69.3	11.0%	180.6	9.1%	196.1	10.8%
Premium Food Distribution	25.2	6.4%	19.1	5.7%	57.2	5.6%	48.7	5.6%
Corporate	(3.9)		(4.3)		(12.9)		(12.2)	
Consolidated	93.5	8.5%	84.1	8.7%	224.9	7.5%	232.6	8.6%

(1) Expressed as a percentage of the corresponding segment's revenue

Adjusted EBITDA for the third quarter of 2020 as compared to the third quarter of 2019 increased by \$9.4 million or 11.2% to \$93.5 million primarily due to the Company's growth initiatives partially offset by the impacts of COVID-19 related factors. Normalizing for the COVID-19 related factors, which are estimated to be approximately \$33.6 million in lost sales and \$3.6 million in net additional costs, the Company's adjusted EBITDA and adjusted EBITDA margin are approximately \$105.1 million and 9.3%, respectively.

Plant Start-up and Restructuring Costs

Plant start-up and restructuring costs consist of expenses associated with: (i) the start-up of new production capacity; (ii) the reconfiguration of existing capacity to gain efficiencies and/or additional capacity; and/or (iii) the restructuring of a business to improve its profitability. The Company expects (see *Forward Looking Statements*) these projects to result in improvements in its future earnings and cash flows.

During the quarter and for the first three quarters of 2020, the Company incurred \$0.7 million and \$6.2 million, respectively, in plant start-up and restructuring costs for a variety of projects including: (i) the startup of a new 50,000 square foot lobster processing facility in Saco, ME; (ii) the startup of a new 45,000 square foot distribution and seafood processing facility in Montreal; (iii) the startup of a 25,000 square foot expansion of the Company's cooked protein plant in Montreal; (iv) staffing changes in certain businesses which resulted in unusually high severance costs; and (v) the shutdown of an unprofitable retail outlet in the Company's PFD segment.

Depreciation and Amortization (D&A)

(in millions of dollars)				
	13 weeks ended Sep 26, 2020	13 weeks ended Sep 28, 2019	39 weeks ended Sep 26, 2020	39 weeks ended Sep 28, 2019
Depreciation and amortization of intangible assets (D&A) by segment:				
Specialty Foods	18.4	15.8	53.5	46.8
Premium Food Distribution	4.7	3.9	14.2	11.2
Corporate	0.2	0.4	0.9	1.0
Consolidated	23.3	20.1	68.6	59.0

The Company's D&A expense for the third quarter of 2020 as compared to the third quarter of 2019 and for the first three quarters of 2020 as compared to the first three quarters of 2019 increased by \$3.2 million and \$9.6 million, respectively, primarily due to: (i) business acquisitions; and (ii) the completion of a variety of capital projects over the past year.

Interest and Other Financing Costs

The Company's interest and other financing costs for the third quarter of 2020 as compared to the third quarter of 2019 and for the first three quarters of 2020 as compared to the first three quarters of 2019 decreased by \$2.6 million and \$9.7 million, respectively, primarily due to lower average interest rates resulting from: (i) general market rate decreases; and (ii) the renegotiation of its credit terms in the middle of the third quarter of 2019.

Change in Value of Puttable Interest in Subsidiaries

Change in value of puttable interest in subsidiaries (put expense) represents an estimate of the change in the value of options (the put options) held by non-controlling shareholders of certain subsidiaries of the Company that entitle such shareholders to require the Company to purchase their interest in the applicable subsidiary (see *Liquidity and Capital Resources – Corporate Investments – Puttable Interest in Subsidiaries*).

Income Taxes

Based on the Company's original outlook for its earnings in 2020, its expected range (see *Forward Looking Statements*) for its provision for income taxes as a percentage of earnings before income taxes (income tax rate) for the year was 24% to 27%. This was based on: (i) an effective income tax rate range within the main tax jurisdictions that it operates in (the Tax Jurisdictions) of 21% to 29%; (ii) the expected allocation of its taxable income among the Tax Jurisdictions; and (iii) the deductibility of certain costs for income tax purposes.

For the first three quarters of 2020, the Company's income tax rate of 21.0% is below its originally expected range due to: (i) a non-taxable \$4.3 million recovery on its puttable interest in subsidiaries that was recognized in the second quarter (see *Results of Operations – Change in Value of Puttable Interest in Subsidiaries*); and (ii) recent changes in tax loss carry-back rules in certain Tax Jurisdictions that enabled the Company to offset carried-forward tax losses with taxable income generated in years with a higher income tax rate relative to the current income tax rate.

Sales and Adjusted EBITDA Outlook

See *Forward Looking Statements* for a discussion of the risks and assumptions associated with forward looking statements.

2020

The Company withdrew its annual sales and adjusted EBITDA guidance in May 2020 based on not being able to forecast its results with reasonable accuracy due to uncertainties surrounding the impact COVID-19 related factors would have on it. While the Company has seen steady and consistent improvement in its business since that time, there is still considerable uncertainty about what impacts these factors will have on it in the coming quarters, particularly in light of recent increases in infection rates across North America. Assuming a relatively stable situation for the balance of 2020, the Company is expecting to continue generating year over year improvement in its sales and adjusted EBITDA through the fourth quarter, however, due to the seasonality of many of its businesses, the degree of this improvement will likely not be to the same extent as achieved in the third quarter.

5 Year Plan

Despite the near-term uncertainty on what the impacts of COVID-19 will be, the Company remains confident in its ability to achieve the five-year targets set in 2018 of \$6 billion in sales and \$600 million in adjusted EBITDA. While COVID-19 related factors have impacted many areas of the Company's business, substantially all of these are expected to be temporary. Furthermore, the COVID-19 crisis has enabled many of its businesses to develop new sustainable sales opportunities as well as strengthen customer and supply chain relationships, all of which will enhance its ability to achieve its five-year targets.

SUMMARY OF QUARTERLY RESULTS

The following is a summary of selected quarterly consolidated financial information. All amounts, except adjusted EBITDA (see *Results of Operations – Adjusted EBITDA*), are derived from the Company's unaudited interim condensed consolidated financial statements for each of the eight most recently completed quarters and are prepared in accordance with IFRS.

<i>(in millions of dollars except per share amounts)</i>								
	Q4-18	Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20
Revenue	843.9	776.6	945.4	968.3	959.1	935.0	976.6	1,101.1
Adjusted EBITDA	62.7	60.3	88.3	84.1	75.1	64.3	67.1	93.5
Earnings	18.1	10.0	31.2	26.9	16.2	12.2	13.5	34.7
Earnings per share – basic	0.54	0.30	0.89	0.72	0.43	0.33	0.36	0.88
Earnings per share – diluted	0.54	0.30	0.89	0.71	0.43	0.33	0.36	0.88

The financial performance of many of the Company's businesses is subject to fluctuations associated with the impact on consumer demand from seasonal changes in weather. As a result, the Company's performance varies with the seasons.

In general terms, its results are weakest in the first quarter of the year due to winter weather conditions which result in: (i) less consumer travelling and outdoor activities and, in turn, reduced consumer traffic through many of the Company's convenience oriented customers' stores such as restaurants, convenience stores, gas stations and concessionary venues; and (ii) reduced consumer demand for its outdoor oriented products such as barbeque and on-the-go convenience foods. The Company's results then generally peak in the spring and summer months due to favorable weather conditions and decline in the fourth quarter due to a return to poorer weather conditions.

In addition to seasonal factors, over the last eight quarters, the trend in the Company's sales and adjusted EBITDA has been impacted by: (i) business acquisitions and a variety of organic growth initiatives that have generally resulted in year over year increases; (ii) the adoption of the IFRS-16 accounting standard in 2019 on a prospective basis; (iii) temporary margin pressures in the second quarter of 2019 resulting from a major outbreak of African Swine Fever in China; and (iv) the impacts of COVID-19 related factors in the second and third quarters of 2020.

In addition to the factors impacting its sales and adjusted EBITDA, the trends in the Company's earnings and earnings per share were also impacted by: (i) plant start-up costs associated with certain long term investment initiatives; (ii) business acquisition costs which are expensed as incurred; (iii) the reversal of \$2.0 million in contingent consideration in the first quarter of 2020; (iv) a \$4.3 million recovery recognized in the second quarter of 2020 on its puttable interest in subsidiaries; and (v) an unusual tax recovery in the third quarter of 2020 relating to changes in the Company's ability to utilize certain tax loss carry-forwards. The trend in the Company's earnings per share was also impacted by: (i) a private placement of common shares in the second quarter of 2019; and (ii) a common share issuance in the third quarter of 2020.

LIQUIDITY AND CAPITAL RESOURCES

Net Working Capital Requirements

Net Working Capital

Net working capital is not defined under IFRS, and as a result, may not be comparable to similarly titled measures presented by other publicly traded entities. The Company believes that net working capital is a useful indicator of the cash needed to fund the Company's working capital requirements.

The following table provides the calculation of net working capital:

<i>(in millions of dollars)</i>	As at Sep 26, 2020	As at Sep 28, 2019
Accounts receivable	358.6	334.2
Inventories	417.0	358.6
Prepaid expenses	16.9	16.9
Accounts payable and accrued liabilities	(370.1)	(285.4)
Net working capital	422.4	424.3

The Company's net working capital needs are seasonal in nature and generally peak in the spring and summer months and around festive holiday seasons (e.g. Easter, Thanksgiving and Christmas) as inventories are built up in anticipation of, and accounts receivable grow as a result of, increased consumer demand (see *Summary of Quarterly Results*). The cash requirements resulting from seasonal fluctuations in the Company's net working capital are managed primarily through draws and repayments on its revolving senior credit facility. The cash requirements for increases in the Company's net working capital resulting from its growth initiatives are, over the longer term, financed from the associated growth in the Company's free cash flow.

Net working capital at the end of the third quarter of 2020 as compared to the end of the third quarter of 2019 decreased by \$1.9 million primarily due to higher accounts payable balances resulting from general fluctuations in the timing of payments and the purchase of goods and services. This was partially offset by: (i) higher inventory levels resulting from hedging against rising pork and beef commodity costs and mitigating the risk of COVID-19 and/or African Swine Fever related supply chain disruptions; and (ii) higher accounts receivable and inventory levels associated with the Company's growth.

The following table shows certain ratios relating to the Company's accounts receivable and inventory balances:

(in days)	As at Sep 26, 2020	As at Sep 28, 2019
Days sales in accounts receivable ⁽¹⁾	29.6	31.4
Days cost of sales in inventory ⁽²⁾	42.8	42.0

(1) Calculated as accounts receivable divided by sales for the applicable quarter multiplied by the number of days in the quarter.

(2) Calculated as inventory divided by cost of sales for the applicable quarter multiplied by the number of days in the quarter.

The Company's days sales in accounts receivable at the end of third quarter of 2020 as compared to the end of the third quarter of 2019 decreased by 1.8 days primarily due to: (i) general fluctuations in the timing of sales and accounts receivable collections; and (ii) temporary early payments made by certain customers as part of supporting their supply networks through the COVID-19 pandemic.

The Company's days cost of sales in inventory at the end of third quarter of 2020 as compared to the end of the third quarter of 2019 increased by 0.8 days primarily due to higher inventory levels associated with various hedging and risk mitigation strategies as outlined above partially offset by general fluctuations in the timing of sales and the purchasing of inventory.

Debt Financing Activities

Credit Facilities

As at September 26, 2020, the Company's credit facilities and the unutilized portion of those facilities were as follows:

(in millions of dollars)	Credit Facilities	Amount Drawn on Facility	Unutilized Credit Capacity
Revolving senior credit facility ⁽¹⁾	990.1	503.1	487.0
4.60% debentures ⁽²⁾	111.5	111.5	-
4.65% debentures (2018) ⁽³⁾	169.2	169.2	-
4.20% debentures ⁽⁴⁾	143.8	143.8	-
Industrial Development Revenue Bond ⁽⁵⁾	8.2	8.2	-
Vendor take-back notes	22.1	22.1	-
Other term loans	27.1	27.1	-
Other revolving credit facilities	40.3	2.9	37.4
Cheques outstanding	-	13.8	(13.8)
Cash and cash equivalents	-	(192.7)	192.7
	1,512.3	809.0	703.3

- (1) Represents the Company's main revolving senior credit facility, consisting of an \$800.0 million Canadian dollar denominated line of credit and a US\$150.0 million U.S. dollar denominated line of credit, less approximately \$10.8 million in outstanding letters of credit. The facility matures in September 2023, can be used to fund the Company's working capital and general operating needs, capital projects and acquisitions, and has no principal payments prior to its maturity date.
- (2) Represents the present value of the outstanding portion of the \$113.0 million in 4.60% convertible unsecured subordinated debentures issued by the Company in December 2016 plus the value attributed to the cash conversion option associated with the debentures. The outstanding face value of these debentures, which mature on December 31, 2023 and have no principal payments prior to that date, was \$113.0 million as at September 26, 2020. The 4.60% debentures trade on the Toronto Stock Exchange under the symbol PBH.DB.F.
- (3) Represents the present value of the outstanding portion of the \$172.5 million in 4.65% convertible unsecured subordinated debentures issued by the Company in April 2018 plus the value attributed to the cash conversion option associated with the debentures. The outstanding face value of these debentures, which mature on April 30, 2025 and have no principal payments prior to that date, was \$172.5 million as at September 26, 2020. The 4.65% debentures trade on the Toronto Stock Exchange under the symbol PBH.DB.G.
- (4) Represents the present value of the outstanding portion of the \$150.0 million in 4.20% convertible unsecured subordinated debentures issued by the Company in July 2020 plus the value attributed to the cash conversion option associated with the debentures. The outstanding face value of these debentures, which mature on September 30, 2027 and have no principal payments prior to that date, was \$150.0 million as at September 26, 2020. The 4.20% debentures trade on the Toronto Stock Exchange under the symbol PBH.DB.H.
- (5) The bond, which was issued by one of the Company's U.S. subsidiaries, is denominated in U.S. dollars (US\$6.1 million), matures in 2036 and has no principal payments due prior to its maturity date.

During the second quarter of 2020, the Company increased its revolving senior credit facility by \$100.0 million to approximately \$1.0 billion.

Funded Debt

Senior funded debt and total funded debt are not defined under IFRS and, as a result, may not be comparable to similarly titled measures presented by other publicly traded entities. The Company believes that senior funded debt and total funded debt, used in conjunction with its adjusted EBITDA, are useful indicators of its financial strength and ability to access additional debt financing. Senior funded debt is also used in the calculation of certain debt covenants associated with the Company's revolving senior credit facility (see *Liquidity and Capital Resources – Debt Financing Activities – Banking Covenants*).

The following table provides the calculation of senior funded debt and total funded debt:

<i>(in millions of dollars)</i>	As at Sep 26, 2020	As at Dec 28, 2019	As at Sep 28, 2019
Cheques outstanding	13.8	16.4	15.8
Bank indebtedness	2.9	24.9	27.4
Current portion of long-term debt	7.5	7.7	5.6
Long-term debt	549.9	603.0	539.4
Deferred financing costs ⁽¹⁾	3.1	3.4	3.6
	577.2	655.4	591.8
Less: cash and cash equivalents	(192.7)	(18.4)	(15.2)
Senior funded debt	384.5	637.0	576.6
4.65% Debentures (2016)	-	85.5	85.2
4.60% Debentures	111.5	110.7	110.5
4.65% Debentures (2018)	169.2	167.8	167.3
4.20% Debentures	143.8	-	-
Total funded debt	809.0	1,001.0	939.6

(1) Deferred financing costs are included as an offsetting amount in long-term debt in the Company's consolidated financial statements.

Debt Activities

During the first three quarters of 2020, the Company's significant debt activities consisted of the following:

<i>(in millions of dollars)</i>	39 weeks ended Sep 26, 2020
Opening total funded debt at December 28, 2019	1,001.0
Issuance of 4.20% Debentures – net of transaction costs to be accreted	143.5
Funding for capital expenditures	70.9
Funding for business acquisitions including issued promissory notes and assumed funded debt	57.9
Payment of dividends	63.1
Payment for the settlement of puttable interest of non-wholly owned subsidiaries	21.5
Payment of provisions	15.9
Foreign currency translation adjustment ⁽¹⁾	13.3
Funding for investments in and advances to associate companies – net of distributions	11.3
Accretion of debentures	3.2
Repayment of 4.65% Debentures (2016)	(5.4)
Scheduled principal payments	(5.6)
Application of net proceeds from asset sale and leaseback to revolving senior credit facility	(6.4)
Funding for changes in net working capital	(53.9)
Conversions of debentures to common shares	(80.8)
Net cash flow applied to revolving senior credit facility and other term loans	(131.8)
Application of net proceeds from 4.20% Debenture issuance to revolving senior credit facility	(143.5)
Application of net proceeds from common shares issued to revolving senior credit facility	(165.2)
	809.0

(1) Adjustment is the result of changes in the currency exchange rate used to translate the Company's U.S. dollar denominated debt into Canadian dollars.

During the third quarter of 2020, the Company completed the following financing activities:

- The issuance of \$150.0 million of convertible unsecured subordinated debentures (4.20% Debentures) resulting in net proceeds of \$143.5 million after underwriting fees of \$6.0 million and transaction costs of approximately \$0.5 million. The 4.20% Debentures bear interest at an annual rate of 4.20% payable semi-annually, have a maturity date of September 30, 2027 and are convertible into common shares of the Company at a price of \$142.40 per share.
- The issuance of \$138.1 million in common shares at a price of \$86.30 per common share. Net proceeds from the transaction were \$132.1 million after underwriting fees of \$5.5 million and transaction costs of \$0.5 million.
- The completion of a private placement of 0.4 million common shares at a price of \$86.30 per common share resulting in gross proceeds of \$34.5 million. Net proceeds from the transaction were \$33.1 million after fees and transaction costs of \$1.4 million.
- The issuance of a notice of intention to redeem its 4.65% convertible unsecured subordinated debentures originally issued in April 2016 (4.65% Debenture (2016)), which resulted in: (i) \$80.8 million of the 4.65% debentures being converted at the option of the debenture holders into common shares of the Company at a conversion price of \$85.90 per share; and (ii) \$5.4 million of the 4.65% debentures being redeemed through a cash payment.

Banking Covenants

The financial covenants associated with the Company's revolving senior credit facility are as follows:

	Covenant Requirement	Sep 26, 2020 Ratio
Senior funded debt to adjusted EBITDA ratio ^{(1) (3)}	=< 4.0 : 1.0	1.4 : 1.0
Interest coverage ratio ^{(2) (3)}	>= 4.0 : 1.0	12.3 : 1.0

(1) Adjusted EBITDA includes a full year's adjusted EBITDA for new acquisitions and senior funded debt excludes cheques outstanding.

(2) Ratio is calculated based on the combined statements of operations of certain subsidiaries of the Company and therefore will not necessarily equal to the ratio calculated based on the Company's consolidated statement of operations.

(3) Ratio excludes the impact of adopting the new IFRS-16 accounting standard, which is the basis on which its banking covenants are calculated.

Financial Leverage

Two of the key indicators that the Company uses to assess the appropriateness of its financial leverage are its senior funded debt to adjusted EBITDA and total funded debt to adjusted EBITDA ratios. The Company has set 2.5 : 1 to 3.0 : 1 as the long-term targeted range for its senior funded debt to adjusted EBITDA ratio and 4.0 : 1 to 4.5 : 1 as the long-term targeted range for its total funded debt to adjusted EBITDA ratio. These ranges are based on a number of considerations including:

- The risks associated with the consistency and sustainability of the Company's cash flows;
- The financial covenants associated with the Company's senior credit facilities;
- The Company's dividend policy;
- The tax benefits associated with financing the Company's operations with debt; and
- The terms and risk characteristics of the convertible debentures issued by the Company.

At the end of the third quarter of 2020, the Company's senior funded debt to adjusted EBITDA ratio of 1.4 : 1 and its total funded debt to adjusted EBITDA ratio of 3.0 : 1 were both below the Company's long-term targeted ranges for these ratios.

Liquidity Outlook

The Company's balance sheet and liquidity is very strong with its financial leverage ratios being well below its long-term targets and its unutilized credit capacity being at record levels. Looking forward (see *Forward Looking Statements*) the Company expects that cash flows from its operations combined with its available credit capacity will be more than sufficient to fund its existing capital needs and dividend policy and intends to use its excess financing capacity to fund business acquisitions.

Dividends

Free Cash Flow

Free cash flow is not defined under IFRS and, as a result, may not be comparable to similarly titled measures presented by other publicly traded entities, nor should it be construed as an alternative to other cash flow measures determined in accordance with IFRS.

The Company believes that free cash flow is a useful indicator of the amount of cash it generates that is available for the payment of dividends to shareholders, debt repayment, project capital expenditures (see *Liquidity and Capital Resources – Capital Expenditures*), plant start-up and business restructuring initiatives and business acquisitions.

The following table provides a reconciliation of free cash flow to cash flow from operating activities:

<i>(in millions of dollars)</i>	52 weeks ended Dec 28, 2019	39 weeks ended Sep 26, 2020	39 weeks ended Sep 28, 2019	Rolling Four Quarters
Cash flow from operating activities	164.2	225.8	156.3	233.7
Changes in non-cash working capital ⁽¹⁾	63.0	(53.9)	11.3	(2.2)
Lease obligation payments ⁽²⁾	(35.8)	(30.3)	(26.1)	(40.0)
Business acquisition transaction costs ⁽³⁾	3.3	4.3	2.5	5.1
Plant start-up and restructuring costs ⁽⁴⁾	9.6	6.2	7.0	8.8
Maintenance capital expenditures ⁽⁵⁾	(26.5)	(18.9)	(17.0)	(28.4)
Free cash flow	177.8	133.2	134.0	177.0

- (1) Cash used for increases in the Company's non-cash working capital is funded primarily through draws on its revolving credit facilities, while cash resulting from decreases in its non-cash working capital is used primarily to pay down these facilities.
- (2) Amount normalizes for the Company's adoption of the new IFRS-16 accounting standard.
- (3) Amount relates to the Company's business acquisition activities.
- (4) Amount relates to the Company's plant start-up and restructuring initiatives.
- (5) Amount represents the portion of the Company's capital expenditures necessary for maintaining its existing capital asset base (see *Liquidity and Capital Resources – Capital Expenditures*).

Dividend Policy

The Company considers a variety of factors in setting its dividend policy including the following:

- The ratio of its dividends to its free cash flow on a rolling four quarter basis;
- Debt principal repayment and senior lender loan covenant obligations;
- Financing requirements for project capital expenditures (see *Liquidity and Capital Resources – Capital Expenditures*), plant start-up and business restructuring initiatives and business acquisitions;
- Ability to access reasonably priced debt and equity financing;
- The ratio of its annual dividend per share to the trading price of its shares on the Toronto Stock Exchange, i.e. dividend yield;
- Maintaining a stable quarterly dividend per share, despite the seasonal nature of many of the Company's businesses;
- Maintaining regular annual increases in its dividend per share; and
- Significant changes, if any, in the status of one or more of the risk factors facing the Company.

In the first quarter of 2020 the Company increased its quarterly dividend by 10.0% to \$0.5775 per share, or \$2.31 per share on an annual basis.

The Company is continually assessing its dividend policy based on the considerations outlined above as well as other possible factors that may become relevant in the future. Looking forward (see *Forward Looking Statements*), it expects to continue increasing its dividend, however, due to the general risks and uncertainties inherent in its business (see *Risks and Uncertainties*), there can be no assurance that it will be able to do so or that its current quarterly dividend will be maintained.

Dividend History

The Company declared its first distribution to equity holders in August 2005. The following table outlines the Company's distribution / dividend payment history since 2006, which was its first full year of declared distributions.

(in millions of dollars except per share amounts and ratios)

	Declared Shareholder Dividends / Distributions	Nature of Distribution	Free Cash Flow	Ratio ⁽¹⁾	Average Dividend / Distribution Per Share / Unit
Trailing four quarters ended:					
September 26, 2020	86.5	Dividend	177.0	48.9%	\$2.2575
December 28, 2019	76.7	Dividend	177.8	43.1%	\$2.1000
December 29, 2018	62.7	Dividend	164.6	38.1%	\$1.9000
December 30, 2017	50.6	Dividend	131.3	38.5%	\$1.6800
December 31, 2016	44.5	Dividend	121.5	36.6%	\$1.5200
December 26, 2015	35.0	Dividend	81.1	43.2%	\$1.3800
December 27, 2014	27.8	Dividend	57.4	48.4%	\$1.2500
December 28, 2013	26.5	Dividend	49.2	53.9%	\$1.2315
December 29, 2012	24.4	Dividend	46.0	53.0%	\$1.1760
December 31, 2011	22.7	Dividend	38.2	59.4%	\$1.1760
December 25, 2010	21.0	Dividend	32.2	65.2%	\$1.1760
December 26, 2009	20.7	(2)	29.3	70.6%	\$1.1760
December 31, 2008	20.6	Trust distribution	29.6	69.6%	\$1.1760
December 31, 2007	20.5	Trust distribution	26.4	77.7%	\$1.1760
December 31, 2006	18.4	Trust distribution	17.3	106.4%	\$1.1760

(1) Ratio of dividends / distributions declared to free cash flow for the corresponding trailing four quarter period.

(2) Consisted of trust distributions for the first two quarters of the period and dividends for the last two quarters of the period.

Capital Expenditures

Expenditure Classification

The Company categorizes its capital expenditures into project capital expenditures and maintenance capital expenditures. Project capital expenditures are capital expenditures that are expected to generate a minimum internal rate of return of 15% on an after tax, unlevered basis. Maintenance capital expenditures include all capital expenditures that do not qualify as a project capital expenditure, and consist mainly of expenditures necessary for maintaining the Company's existing level of production capacity and operating efficiency.

Maintenance capital expenditures are financed primarily through free cash flow (see *Liquidity and Capital Resources – Dividends*) while project capital expenditures are generally funded through the Company's credit facilities; however, larger expenditures, such as the building of a new plant or a major expansion of an existing plant, may also be funded through the issuance of new debt and/or equity.

Changes in Capital Assets

The following table shows the changes in the Company's capital assets during the first three quarters of 2020:

(in millions of dollars)	39 weeks ended Sep 26, 2020
Opening capital assets at December 28, 2019	502.1
Depreciation	(49.3)
Foreign currency translation adjustment ⁽¹⁾	4.5
Disposals	(8.0)
Change in preliminary purchase price allocation from prior year acquisition	3.3
Acquisitions	6.5
Capital expenditures:	
Project	52.0
Maintenance	18.9
Closing capital assets	530.0

(1) Adjustment is the result of changes in the currency exchange rate used to translate the Company's U.S. based operations, which are denominated in U.S. dollars, into Canadian dollars.

During the second quarter of 2020, the Company completed a sale and leaseback transaction with PB Real Estate Limited Partnership (see *Liquidity and Capital Resources – Corporate Investments – Investments in Associates*) involving a protein distribution and custom portioning facility in Quebec City, QC that was acquired as part of the purchase of Viandex Inc. in the third quarter of 2019. The sale was completed at fair market value and resulted in total proceeds of \$6.4 million with no gain or loss recorded in the Company's earnings.

Project Capital Expenditures

During the first three quarters of 2020, the Company invested \$52.0 million in project capital expenditures consisting of: (i) \$24.8 million for larger projects as outlined below; and (ii) \$27.2 million for a variety of smaller projects.

(in millions of dollars)			
Project	2020 Year-to-Date Expenditures	Future Expenditures	Expected Completion Date
A 41,000 square foot capacity expansion of a 66,000 square foot leased artisan bakery in Langley, BC	13.1	17.9	Q4-2021
Equipment purchases to increase the capacity of a meat snack production facility in Brantford, ON	0.9	-	Complete
Equipment purchases and a 15,000 square foot expansion to increase the meat snack capacity of a production facility in Yorkton, SK	2.4	2.0	Q4-2020
A 26,000 square foot expansion of an 80,000 square foot meat snack production facility in Brantford, ON	0.5	19.5	Q4-2021
Equipment purchases and building modifications to gain processing efficiencies and increase the capacity of its 170,000 square foot meat snack production facility in Kent, WA	0.4	19.6	Q4-2022
Equipment purchases to increase the sandwich production capacity of a facility in Phoenix, AZ including investments in automation	1.9	0.9	Complete
Equipment and leasehold improvements to expand the deli meats / charcuterie tray pack capacity of facilities in Reno, NV and Columbus, OH	5.6	11.9	Q2-2021

Looking forward (see *Forward Looking Statements*) the Company is in the process of assessing two major capital projects with a combined preliminary estimated cost of \$35.0 million. Subject to each of these projects on an individual basis meeting the Company's minimum internal rate of return threshold of 15% on an after tax, unlevered basis, it expects them to commence in the first half of 2021 with completion dates ranging out to the fourth quarter of 2022.

Maintenance Capital Expenditures

The following table outlines the Company's recent annual maintenance capital expenditures:

(in millions of dollars)	
Trailing four quarters ended:	
September 26, 2020	28.4
December 28, 2019	26.5
December 29, 2018	19.8
December 30, 2017	12.0
December 31, 2016	8.6

Looking forward, for 2020 the Company expects its maintenance capital expenditures to be between \$30.0 million and \$35.0 million (see *Forward Looking Statements*).

Corporate Investments

Corporate investments consist primarily of three activities: business acquisitions, equity investments in non-controlled businesses and loans to non-controlled businesses. Corporate investments, in general, and business acquisitions, in particular, are a core part of the Company's growth strategy.

The financing for corporate investments depends primarily on the size of the transaction. Smaller transactions are generally financed through the Company's credit facilities (see *Liquidity and Capital Resources – Debt Financing Activities*), while larger transactions can be financed through a variety of sources including existing credit facilities and the issuance of new debt and/or equity.

Business Acquisitions

During the first three quarters of 2020, the Company invested \$83.6 million, consisting of \$56.4 million in cash, \$15.2 million in shares, \$7.0 million in notes payable and \$5.0 million in contingent consideration, in the following business acquisitions:

<i>(millions of dollars except percentages)</i>					
Business	Primary Business Activity	Annual Sales	Investment Interest	Segment	Purchase Date
Inform Brokerage Inc.	Specialty food brokerage and distribution	27.3	100%	PFD	Dec 31, 2019
Bavarian Meats	Protein production	US1.1	100%	SF	Mar 3, 2020
Global Gourmet Foods Inc.	Culinary foods manufacturer	50.0	100%	SF	Aug 28, 2020

During the third quarter the Company also announced that it had signed an agreement to acquire Allseas Fisheries Inc., a leading distributor of fresh and frozen seafood to retail, foodservice and wholesale customers in Ontario. The closing of the transaction was subject to approval by the Canadian Competition Bureau, which was received in October 2020, and accordingly the acquisition was completed shortly thereafter on November 3, 2020.

Investments in Associates

Investment in associates consists of the Company's investments in businesses which it does not control, including a 35% interest in PB Real Estate Limited Partnership (PBRE), a Vancouver, B.C. based real estate investment fund which owns and leases to the Company four industrial real estate properties. Other than PBRE, all of the businesses included in investment in associates are specialty food companies, many of which are in the early stages of their business plan.

The following table shows the changes in investment in associates during the first three quarters of 2020:

<i>(in millions of dollars)</i>	39 weeks ended Sep 26, 2020
Opening investment in associates at December 28, 2019	64.6
Investments in associates	8.4
Advances to associates	2.9
Foreign currency translation adjustment ⁽¹⁾	1.3
Equity loss in associates	(2.1)
Closing investment in associates	75.1

(1) Adjustment is the result of changes in the currency exchange rate used to translate the Company's investments in U.S. based associates, which are denominated in U.S. dollars, into Canadian dollars.

During the first three quarters of 2020, the Company invested \$8.4 million in associated businesses consisting of: (i) the purchase of a 16.67% interest in La Felinese, an Italy based producer of premium Italian dry cured meats and supplier to several of the Company's businesses; and (ii) a pro-rata equity contribution of \$0.5 million to PBRE as part of a sale and leaseback transaction (see *Liquidity and Capital Resources – Capital Expenditures – Changes in Capital Assets*).

Goodwill and Intangible Assets

Primarily all of the Company's goodwill and intangible assets (consisting of brand names and customer relationships) are the result of business and asset acquisitions.

The following table shows the changes in the combined total of the Company's goodwill and intangible assets during first three quarters of 2020:

<i>(in millions of dollars)</i>	39 weeks ended Sep 26, 2020
Opening goodwill and intangible assets at December 28, 2019	1,270.4
Amortization of intangible assets	(19.3)
Business acquisitions	68.1
Foreign currency translation adjustment ⁽¹⁾	13.6
Change in preliminary purchase price allocation of prior year acquisitions	1.7
Closing goodwill and intangible assets	1,334.5

(1) Adjustment is the result of changes in the currency exchange rate used to translate the Company's U.S. based operations, which are denominated in U.S. dollars, into Canadian dollars.

Puttable Interest in Subsidiaries

Puttable interest in subsidiaries (puttable interest) represents the fair value estimate of put options held by non-controlling shareholders of certain subsidiaries of the Company that entitle such shareholders to require the Company to purchase their remaining interest in the applicable subsidiary at a formula based price, which is generally a multiple of the applicable subsidiary's average adjusted EBITDA for a defined period.

The following table shows the changes in puttable interest during the first three quarters of 2020:

<i>(in millions of dollars)</i>	39 weeks ended Sep 26, 2020
Opening puttable interest at December 28, 2019	58.2
Change in value	(3.8)
Cash distributions to non-controlling shareholders with puttable interests	(1.0)
Purchase of remaining interest in non-wholly owned subsidiaries pursuant to put options	(25.8)
Closing puttable interest	27.6

During the third quarter of 2020, the Company paid \$21.5 million in cash and issued \$4.3 million in common shares to certain minority shareholders pursuant to the exercise of puttable interest options. As a result of these options being exercised, the Company: (i) increased its ownership interest in Yorkshire Valley Farms Ltd. from 62.6% to 100% and Interprovincial Meat Sales Limited from 80.0% to 94.0%; and (ii) recorded a change in value on its puttable interest in subsidiaries of \$4.3 million.

Provisions

Provisions consist of the following amounts:

<i>(in millions of dollars)</i>	As at Sep 26, 2020
Contingent consideration – Ready Seafood Co. acquisition ⁽¹⁾	40.4
Contingent consideration – acquisition of assets related to certain product sales ⁽²⁾	17.8
Contingent consideration – Viandex Inc. acquisition ⁽³⁾	4.7
Contingent consideration – Inform Brokerage acquisition ⁽⁴⁾	0.7
Contingent consideration – Global Gourmet Foods Inc. acquisition ⁽⁵⁾	4.6
Lease restoration costs ⁽⁶⁾	1.1
Provisions ⁽⁷⁾	69.3

- (1) This represents the discounted present value of the contingent consideration payable to the previous owners of Ready Seafood (acquired in 2018) based on the performance of Ready Seafood for the two-year period ending December 30, 2023.
- (2) This represents the discounted present value of the contingent consideration payable to the entity from which the Company acquired certain product sales (acquired in 2019) if the acquired sales achieve defined performance targets over the three-year period ending January 17, 2022.
- (3) This represents the discounted present value of the contingent consideration payable to the previous owners of Viandex (acquired in 2019) if the business achieves defined performance targets over any two-year fiscal period ending between December 25, 2021 and February 29, 2024.
- (4) This represents the discounted present value of the contingent consideration payable to a previous owner of Inform Brokerage (acquired in 2020) if the business achieves defined performance targets over any one-year fiscal period ending between December 31, 2022 and March 28, 2025.
- (5) This represents the discounted present value of the contingent consideration payable to a previous owner of Global Gourmet (acquired in 2020) if the business achieves defined performance targets over the three-year period ending December 31, 2025.
- (6) This represents the discounted present value of estimated (see *Forward Looking Statements*) future site restoration costs associated with certain leased facilities. The final liabilities will be payable upon the expiry of the associated leases.
- (7) Includes both the current and long-term portions.

The following table shows the changes in provisions during the first three quarters of 2020:

<i>(in millions of dollars)</i>	39 weeks ended Sep 26, 2020
Opening provisions at December 28, 2019 ⁽¹⁾	70.9
Business and asset acquisition	5.0
Accretion of provisions	6.0
Change in preliminary purchase price allocation of a prior year acquisition	3.6
Contingent consideration not earned ⁽²⁾	(2.0)
Cash payments	(15.9)
Foreign currency translation adjustment ⁽³⁾	1.7
Closing provisions ⁽¹⁾	69.3

- (1) Includes both the current and long-term portions.
- (2) Amount relates to Country Prime Meats, which was acquired in 2018, not achieving certain performance targets.
- (3) Amount relates to changes in the currency exchange rate used to translate the Company's U.S dollars denominated provisions into Canadian dollars.

OUTLOOK

See *Forward Looking Statements* for a discussion of the risks and assumptions associated with forward looking statements.

See *Results of Operations* for details on the Company's revenue, adjusted EBITDA and income tax rate expectations for 2020.

See *Liquidity and Capital Resources – Debt Financing Activities – Liquidity Outlook* for details on the Company's liquidity outlook.

See *Liquidity and Capital Resources – Dividends – Dividend Policy* for details on the Company's dividend payment policy.

See *Liquidity and Capital Resources – Capital Expenditures* for details on the Company's project and maintenance capital expenditure expectations for 2020.

In terms of business acquisitions, the Company intends (see *Forward Looking Statements*) to continue to pursue opportunities and, correspondingly, is in the process of evaluating several potential transactions.

SUBSEQUENT EVENTS

There were no material events subsequent to the quarter.

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off balance sheet arrangements.

CONTRACTUAL OBLIGATIONS

The payments due on the Company's significant contractual obligations as at September 26, 2020 are as follows:

(in millions of dollars)	Total	1 year out	2 years out	3 years out	4 years out	5 years out	There- after
Long-term debt	560.5	7.5	31.7	507.2	2.5	3.2	8.4
4.60% Debentures	113.0	-	-	-	113.0	-	-
4.65% Debentures (2018)	172.5	-	-	-	-	172.5	-
4.20% Debentures (2020)	150.0	-	-	-	-	-	150.0
Operating leases	277.3	43.5	38.0	34.8	29.1	24.0	107.9
Total	1,273.3	51.0	69.7	38.9	647.7	199.7	266.3

TRANSACTIONS WITH RELATED PARTIES

During the first three quarters of 2020, the Company had the following transactions with certain related parties:

Employee Loan Program (ELP)

In 2006 the Company put into place the ELP. Under the terms of the program the Company makes loans to certain employees, officers and directors of the Company (the participants) for the sole purpose of enabling them to purchase the Company's issued and outstanding common shares. The primary reasons for the ELP are: (i) facilitating ownership in the Company by the participants and thereby further aligning their interests with those of the Company's shareholders; and (ii) supporting employee retention.

The terms of a loan made under the ELP are as follows:

- Security: A first charge on the shares (the ELP shares) purchased with the proceeds of the loan and a personal guarantee from the participant
- Interest: None unless an event of default occurs
- Principal payments: Quarterly payments equal to 55% of the dividends paid on the ELP shares
- Maturity: Loan is immediately due and payable upon the termination of the participant's employment with the Company, otherwise, no fixed maturity date

As at the end of the third quarter of 2020, \$17.4 million of ELP loans, which are included as part of *Other Assets* on the Company's consolidated balance sheet, were outstanding to 136 employees, officers and directors of the Company.

Principal payments on the ELP loans in the third quarter of 2020 totaled \$0.3 million from employees, officers and directors of the Company.

FORWARD LOOKING STATEMENTS

This discussion and analysis contains forward looking statements with respect to the Company, including, without limitation, statements regarding its business operations, strategy and financial performance and condition, cash distributions, proposed acquisitions, budgets, projected costs and plans and objectives of or involving the Company. While management believes that the expectations reflected in such forward looking statements are reasonable and represent the Company's internal expectations and belief as of November 4, 2020, there can be no assurance that such expectations will prove to be correct as such forward looking statements involve unknown risks and uncertainties beyond the Company's control which may cause its actual performance and results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward looking statements.

Forward looking statements generally can be identified by the use of the words "may", "could", "should", "would", "will", "expect", "intend", "plan", "estimate", "project", "anticipate", "believe" or "continue", or the negative thereof or similar variations. Forward looking statements in this discussion and analysis include statements with respect to the Company's expectations and/or projections on its: (i) revenue; (ii) adjusted EBITDA; (iii) plant start-up and restructuring costs; (iv) income tax rates; (v) dividend policy; (vi) capital expenditures and business acquisitions; (vii) senior debt capacity utilization; (viii) convertible debentures; (ix) impacts of the COVID-19 pandemic; and (x) liquidity outlook.

Some of the factors that could cause actual results to differ materially from the Company's expectations are outlined below under *Risks and Uncertainties*.

Assumptions used by the Company to develop forward looking statements contained or incorporated by reference in this discussion and analysis are based on information currently available to it and include those outlined below as well as those outlined elsewhere in this document. Readers are cautioned that this information is not exhaustive.

- The general economic conditions in Canada and the United States will return to pre COVID-19 levels in the medium term and there will not be any major shutdowns of the Canadian or U.S. economies in the near term.
- The Company's businesses impacted by the COVID-19 pandemic will recover from the resulting disruptions in the medium term and, to the extent there are ongoing changes in their operating costs resulting from the crisis, will be able to recover these through increased selling prices.
- The Company's organic growth initiatives will progress in line with previous expectations post the COVID-19 pandemic.
- The average cost of the basket of food commodities purchased by the Company will be relatively stable over the medium term.
- The Company's major capital projects, plant start-up and business acquisition initiatives will progress in line with its expectations.
- The Company will be able to continue to access sufficient skilled and unskilled labor at reasonable wage levels.
- The Company will be able to continue to access sufficient goods and services for its manufacturing and distribution operations.
- The value of the Canadian dollar relative to the U.S. dollar will continue to fluctuate in line with recent levels.
- The Company will be able to achieve its projected operating efficiency improvements.
- There will not be any material changes in the competitive environment of the markets in which the Company's various businesses compete.
- There will not be any material changes in the long-term food trends that have been driving growth in many of the Company's businesses. These include: (i) growing demand for higher quality foods made with simpler more wholesome ingredients and/or with differentiating attributes such as antibiotic free, no added hormones or use of organic ingredients; (ii) increased reliance on convenience oriented foods both for on-the-go snacking as well as easy home meal preparation; (iii) healthier eating including reduced sugar consumption and increased emphasis on protein; (iv) increased snacking in between and in place of meals; (v) increased interest in understanding the background and stories behind food products being consumed; and (vi) increased social awareness on issues such as sustainability, sourcing products locally, animal welfare and food waste.
- Weather conditions in the Company's core markets will not have a significant impact on any of its businesses.
- There will not be any material changes in the Company's relationships with its larger customers including the loss of a major product listing and/or being forced to give significant product pricing concessions.
- There will not be any material changes in the trade relationship between Canada and the U.S., particularly with respect to certain protein commodities such as beef, pork and chicken products.
- The Company will be able to negotiate new collective agreements with no labor disruptions.
- The Company will be able to continue to access reasonably priced debt and equity capital.
- The Company's average interest cost on floating rate debt will remain relatively stable in the near to medium future.
- Contractual counterparties will continue to fulfill their obligations to the Company.

- There will be no material changes to the tax and other regulatory requirements governing the Company.

Management has set out the above summary of assumptions related to forward looking statements included in this discussion and analysis in order to provide a more complete perspective on the Company's future operations. Readers are cautioned that these statements may not be appropriate for other purposes.

Unless otherwise indicated, the forward looking statements in this discussion and analysis are made as of November 4, 2020 and, except as required by applicable law, will not be publicly updated or revised. This cautionary statement expressly qualifies the forward looking statements in this discussion and analysis.

RISKS AND UNCERTAINTIES

The Company is subject to a number of risks and uncertainties related to its businesses that may have adverse effects on its results of operations and financial position. Details on some of these can be found in its MD&A for the fiscal year ended December 28, 2019 under the heading *Risks and Uncertainties*, which is incorporated by reference herein and which is updated as outlined below with respect to public health threat risks. The Company's MD&A has been filed electronically through SEDAR and is available online at www.sedar.com. Prospective investors should carefully review and evaluate these risk factors together with all of the other information contained in this discussion and analysis. Furthermore, it should be noted that the risk factors described in the fiscal 2019 MD&A and as updated below are not the only risk factors facing the Company and it may be subject to risks and uncertainties not described therein or that it is not presently aware of or that it may currently deem insignificant (see *Forward Looking Statements*).

Public Health Threat

In March 2020, the World Health Organization declared a global pandemic related to a novel strain of coronavirus (COVID-19). As at November 4, 2020, the extent and continuing impacts of the COVID-19 pandemic on the Company remains highly uncertain and will depend on future developments, including the duration and spread of the outbreak and how quickly the global economy, in general, and Canada's and the U.S.'s economies, in particular, are able to recover from the related impacts.

An outbreak of disease, epidemic or pandemic, or similar public threat, or fear of such an event, could materially impact the Company in a variety of ways including: (i) reduced consumer demand for certain products, particularly those associated with out-of-home dining, air travel, cruise ship travel or those that require extra in-store handling by staff; (ii) general decreased consumer spending resulting from lower confidence levels; (iii) supply chain disruptions; (iv) internal production disruptions and/or inefficiencies resulting from a range of factors including employee absenteeism and new operating processes; and (v) extra costs associated with mitigating the risk of employees contracting the disease and maintaining their safety and well-being. In addition, further outbreaks of disease could impact the Company's ability to raise capital as a result of disruptions in capital and financial markets as well as potentially increase the effects of other risks and uncertainties described in its MD&A for the fiscal year ended December 28, 2019 (see *Forward Looking Statements*).

The Company has taken significant actions to mitigate the effects of COVID-19 to date and it continues to monitor the evolving situation very closely. As the situation evolves, the Company will take further actions that are in the best interests of the Company, its customers and suppliers, and other stakeholders, as is necessary.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's consolidated financial statements requires management to make certain estimates and assumptions, which are based on the Company's experience and management's understanding of current facts and circumstances. These estimates affect the reported amounts of assets, liabilities, contingencies, revenues and expenses included in the Company's consolidated financial statements and may differ materially from actual results.

Significant areas requiring the use of management estimates include: inventories, goodwill and intangible assets, capital assets, income tax provisions, puttable interest in subsidiaries, convertible unsecured subordinated debentures, business acquisitions and contingent consideration, provisions and plant start-up and restructuring costs. Details on these items can be found in the Company's 2019 consolidated financial statements, which are incorporated by reference herein, have been filed electronically through SEDAR and are available online at www.sedar.com.

NEW ACCOUNTING POLICIES

The International Accounting Standards Board (IASB) periodically issues new standards and amendments or interpretations to existing standards. Details on the impact (see *Forward Looking Statements*) of any such changes can be found in the Company's Interim Condensed Consolidated Financial Statements for the thirteen and thirty-nine week periods ended September 26, 2020, which are incorporated by reference herein and have been filed electronically through SEDAR and are available online at www.sedar.com.

FINANCIAL INSTRUMENTS

Foreign Currency Contracts

To reduce the risk associated with purchases denominated in currencies other than Canadian dollars, the Company, from time to time, enters into foreign currency contracts. The Company does not hold foreign currency contracts for speculative purposes.

Details on the Company's outstanding foreign currency contracts can be found in its Interim Condensed Consolidated Financial Statements for the thirteen and thirty-nine week periods ended September 26, 2020, which are incorporated by reference herein.

Interest Rate Swap Contracts

To reduce its exposure to rising interest rates, the Company, from time to time, enters into interest rate swap contracts. The Company does not hold swaps for speculative purposes.

Details on the Company's outstanding interest rate swap contracts can be found in its Interim Condensed Consolidated Financial Statements for the thirteen and thirty-nine week periods ended September 26, 2020, which are incorporated by reference herein.

OTHER

Outstanding Shares

The shares outstanding in the Company as of November 4, 2020 were 40,645,718. Under IFRS, which requires that shares issued under employee share benefit plans that have not yet vested be deducted from shares outstanding, the shares outstanding in the Company as of November 4, 2020 were 40,502,728.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

Management has designed, or caused to be designed under their supervision, the Company's disclosure controls and procedures (DCP) and internal control over financial reporting (ICFR) as defined under National Instrument NI 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109).

Management has evaluated the Company's DCP as of September 26, 2020 and has concluded that such procedures are adequately designed for providing reasonable assurance that: (i) material information relating to the Company, including its consolidated subsidiaries, is made known to management on a timely basis to ensure adequate disclosure; and (ii) information required to be disclosed by the Company in its annual filings or other reports filed and submitted under applicable securities legislation is recorded, processed, summarized and reported within the prescribed time period.

Management has also evaluated the Company's ICFR as of September 26, 2020 and has concluded that the Company's ICFR is adequately designed for providing reasonable assurance that the reliability of financial reporting and the preparation of financial statements for external purposes are in accordance with IFRS.

Although the Company's assessment of DCP and ICFR are based on the integrated framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (2017 COSO), both DCP and ICFR, no matter how well designed, have inherent limitations. Therefore, DCP and ICFR can only provide reasonable assurance and thus may not prevent or detect all misstatements.

The Company's Management has also concluded that there have been no changes to the Company's ICFR during the interim period ending September 26, 2020 that have materially affected, or are reasonably likely to affect, its ICFR.

Responsibilities of Management and Board of Directors

Management is responsible for the reliability and timeliness of content disclosed in this management's discussion & analysis (MD&A), which is current as of November 4, 2020. It is the responsibility of the Company's Audit Committee to provide oversight in reviewing the MD&A and the Company's Board of Directors to approve the MD&A.

The Company's Board of Directors and its Audit Committee also review all material matters relating to the necessary systems, controls and procedures in place to ensure the appropriateness and timeliness of MD&A disclosures.

This MD&A, dated November 4, 2020, has been approved by the Company's Board of Directors.

Additional Information

Additional information, including the Company's Annual Information Form, has been filed electronically through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at www.sedar.com.