2014 Message to Shareholders

Premium Brands

The Right Growth

2014 was another good year for our shareholders with our shares, including dividends, generating a return of almost 17%. This was below the 40% achieved last year, but above our long term objective of 15% per year. I am even more pleased that since we began implementing our current business plan 11 years ago, our long term shareholders have earned a compounded annual return of over 18%.

From a top line perspective, 2014 was also another successful year with our sales growing by $169 million or 15.7% to $1.24 billion. To put this into perspective, our 2014 sales growth almost equals what our total annual sales were eleven years ago and is roughly the same as the annual sales of a top twenty value-added protein food company in Canada. More important, however, is that our growth has been the *Right Growth*, namely it is being generated by a diversity of sources and is sustainable over the long term.

We also made good progress in 2014 in growing our adjusted EBITDA, which increased by 9% to $76.1 million. While we are generally pleased with this result, we see significant room for improvement. Not only was our 2014 adjusted EBITDA impacted by several temporary factors, it also does not reflect the cash flows that we expect to generate from several major long term investments completed over the last three years. Many of these investments, some of which I will address further on, were only starting to contribute to our adjusted EBITDA by the end of the year.

Looking back over the last 11 years, all of our capital allocation decisions, whether for major capital projects, business restructurings or acquisitions, have adhered to the following four core principles:

- To invest in food companies whose products exemplify excellence and reflect the attributes of differentiation and best in quality;
- To promote entrepreneurial values that place decision making and accountability in the hands of talented and successful partners who are passionate about their businesses;

- For branded product businesses, to remain regional in scope both from a manufacturing and a marketing perspective, i.e. to be the “local brand”; and
- To focus on a diverse range of growth opportunities that are sustainable over the long term, i.e. the *Right Growth.*

In past letters I have discussed many of these principles. This year, I will be examining our focus on generating the *Right Growth*.

The *Right Growth* has been a key driver of our success and is what is going to enable us to continue generating value for our shareholders well into the future. For us, the *Right Growth* is a broad concept that not only focuses on the next 5 years but also the next 50. It takes into account immediate concerns such as product innovation, customer development and new market penetration as well as broader considerations such as the sustainability of our environment and even the overall well-being of our planet. The *Right Growth* is truly about the long term future. Correspondingly, our dedication to pursuing the *Right Growth* means we will not sacrifice the future for short term gains.

Too often we see businesses, in our industry as well as others, pursue growth for the sole purpose of increasing sales or, even worse, for short term profits that sacrifice the future. Undermining markets, abusing consumer trust and capitalizing on the environment in unsustainable ways are just a few examples of what some companies do in order to sell themselves as high growth vehicles. These strategies often generate short term perceived success but are not sustainable and ultimately unravels any business relying on them.

Before pursuing a growth opportunity we ensure it will result in the *Right Growth* by asking questions such as:

- What is the fundamental nature of the sales opportunity, e.g. branded or private label? Value added or commodity?
- Are there competitive advantages associated with the initiative and if so, can we leverage these to defend and grow our business?
- What competitive barriers to entry are there and how defensible are they?
- Is the initiative based on sound sustainable practices both in terms of basic business practices as well as its impact on the environment in general?
- Do we have an adequate margin of safety built into our expectations?

When the current management team assumed responsibility for Premium Brands, one of our first priorities was to assess which businesses in our portfolio did not fit with our long term vision and our focus on generating the *Right Growth*. We assessed each business using our four core principles and by asking questions similar to those outlined above. As a result, over the subsequent three years we exited businesses with approximately $230 million in commodity and/or unsustainable sales. What remained was a diverse footprint of smaller businesses with

strong entrepreneurial management teams, leading regional brands, and annual sales and adjusted EBITDA of approximately $170 million and $14.0 million, respectively.

Since that time we have completed 30 acquisitions, launched several new specialty food growth platforms, completed a variety of major capital project and business restructuring initiatives and grown our sales and adjusted EBITDA to $1.24 billion and $76.1 million respectively. Most importantly, however, we have created a portfolio of businesses built on our four core principles, including our focus of generating the *Right Growth*. This is why we are very confident in our ability to continue to generate shareholder value not only for the next five years, but for the next fifty.

Over the next several paragraphs I will introduce you to three examples of our strategy of identifying and developing sales platforms capable of generating the *Right Growth*, and in doing so, I hope to share with you some insight as to why we are so enthusiastic about our future.

Seafood Platform

In 2009 our annual seafood sales were approximately $30 million and represented a small portion of our foodservice businesses' total sales. We had, however, identified segments within the seafood category where the products had a number of differentiating on-trend qualities, including strong health attributes, a fit with Canada's changing demographics, and sustainable and socially responsible harvesting practices. This led us to targeting seafood as a *Right Growth* product category and, correspondingly, we initiated a number of strategic initiatives to position us to capitalize on this opportunity. Some of these were:

- In 2010, the acquisition of Ontario based Maximum Seafood, one of Canada's largest specialty seafood distributors;
- Also in 2010, the acquisition of Hub City Fisheries, a western Canada based leading value-added processor of wild seafood;
- In 2013, the purchase of certain assets and business segments of Harbour Marine Products, including one of the largest fresh high grade sushi tuna operations in North America;
- Also in 2013, the construction of a new state-of-the-art seafood processing facility in Richmond, BC; and
- In 2014, the acquisition of Ontario based Ocean Miracle, a seafood distribution business that services independent restaurants and specialty retailers in the Greater Toronto Area.

Today, through a combination of the above investments and the ingenuity of talented entrepreneurs such as Max D'Elia at Maximum Seafood and Roger Paquette at Hub City Fisheries, our annual seafood sales have grown to almost $160 million. Furthermore, seafood now represents 34% of our foodservice segment's total sales and is a cornerstone of its growth strategies. I have no doubt that seafood will continue to be a key driver of our growth for many years to come.

Sandwich Platform

Our initial investment in this sales growth platform dates back to 1999 with the acquisition of Edmonton based Quality Fast Foods which, at that time, had sales of approximately $12 million. Since then we have made a number of investments in this unique niche category based on a variety of favourable trends including rapidly growing consumer demand for healthy and convenient on-the-go food and the growing challenge of quick serve restaurants (QSRs) to expand and differentiate their menus while managing rising labour costs.

The combination of strong organic growth and the investments we have made has resulted in sandwiches becoming our single largest product category. In 2014 our sandwich sales were $254 million representing over 20% of our total sales. Furthermore, growth in this category is accelerating. In 2014 alone our sandwich sales grew organically by 55 million or 27%.

Our most recent investment in this platform was the construction of an 180,000 square foot state-of-the-art sandwich assembly plant in Columbus, Ohio, which was greatly needed to support our continued double digit sales growth in this product category. With its completion in August of last year, we now have four state-of-the-art sandwich plants located across Canada and the US that can service a wide range of customers including QSRs, grocery retailers and convenience stores. Furthermore, with the rebalancing of capacity among these facilities our sandwich platform now has well over $200 million in incremental sales potential, albeit subject to the installation of additional production lines.

The most exciting part of our sandwich platform initiative is not how far it has come but rather the opportunity that lies ahead. With the new Columbus plant's start-up issues resolved (these were a significant challenge in 2014), Steve Sposari, who leads our sandwich group, and his management team now expect to be fully utilizing its new production capacity by early 2016, which is almost two years ahead of our original plan. This may sound aggressive, however, based on how they have performed in the past I would not bet against them. Looking further out, given the favourable trends driving this business, I fully expect this platform to be generating annual revenues in excess of $600 million within the next five years.

Premium Processed Meats Platform

Our Premium Processed Meats platform, which is led by industry veterans Kenn Propp and Stephen Bates, operates under the Harvest Meats brand in Canada and the Hempler's brand in the US. Both of these brands have undergone tremendous growth over the past several years as consumers have fallen in love with their best in class artisan products. To say that these brands have cult followings is not an overstatement. Their high quality bacon, sausages and meat snacks are not only category leading but are what we call category defining; in other words, many consumers shop specifically for these brands instead of the general product category.

Our premium processed meats annual sales have grown from about $11 million back in 1998 when we acquired Harvest Meats to $168 million in 2014. With the exception of the acquisition of Hempler's in 2006, which at that time was generating annual sales of approximately $5 million, primarily all of this growth has been organic. To keep up with these sales increases we have,

over the last several years, invested in a number of plant expansions and, in fact, both of its production facilities (one in Yorkton, SK and the other in Ferndale, WA) are currently in the midst of building new production capacity.

One particular product segment that this platform (as well as our Deli Meats sales platform) has been very successful in is meat snacks. Our management teams identified this as a sustainable growth category a number of years ago and it has not disappointed. More recently, its growth has been accelerating as consumers switch from sugary / simple carbohydrate type snack foods to protein based items such as meat snacks. We have no doubt that this change in eating patterns is a sustainable trend and not just a fad as it is being driven by long term considerations such as increased awareness of the health risks associated with excessive consumption of sugar and growing evidence of the benefits of a higher protein diet. Furthermore, much of the growth is coming from new consumers trying our products for the first time and greatly enjoying the food experience, thereby becoming repeat customers.

Summary

In today's food universe many large national and multinational food companies are struggling to remain relevant to consumers. The last several years have seen unprecedented shifts in consumer eating patterns as people become more aware of food and its impact on their health. This awareness is being fuelled by a variety of factors including the alarming increase in obesity, heart disease and diabetes, all of which have been linked to the over consumption of refined sugars found in many highly processed foods and beverages. Correspondingly, consumers are shifting to foods with simpler and more wholesome ingredients free from artificial preservatives, growth hormones and antibiotics.

At the same time, and probably for the first time in history, large numbers of consumers are not just looking at food from the perspective of diet but are also taking an interest in how and where it is produced. They want their food purchases to be supporting companies that are not only part of their community, but also demonstrate a deep concern for the environment and the world at large.

At Premium Brands, our four core principles have ideally positioned us to meet the needs of not only today's consumer but tomorrow's as well. Our sales platforms are built to identify and act on both small changes as well as large paradigm shifts in consumers' needs to ensure we are positioned to deliver the *Right Growth*. Ultimately it is our dedication to these principles, and not any single product or business, that will enable us to continue creating value for our shareholders for many years to come.

Conclusion

I would like to thank our shareholders for their continued support. We are very fortunate to have a shareholder base that thinks like we do, i.e. about the long term and not just about what's happening today. We have particularly appreciated this in recent years as a number of long term focused initiatives have negatively impacted our short term results.

Looking forward, much of the heavy lifting has been completed and we are very excited about what lies ahead both in the short and long terms. I am convinced more than ever that we are on the right track to continue to be a leader in our industry and to deliver significant value to our shareholders. Our strong performance over the past eleven years is no accident and even though we are now a significantly larger company, our values have not changed and we continue to see substantial opportunities for generating the *Right Growth*.

As a final note, I would like to thank all of our employees for their hard work and dedication. Our team has now expanded to over 4,000 people located across Canada and the U.S. and, in the end, our success is entirely due to them.

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