

*The transformation
of Maple Leaf Foods
under energetic
innovative leadership*

BY DOUG BURN

CANADIAN POWERHOUSE

Maple Leaf Foods Inc. has been transformed in the last decade from being one of the oldest and biggest Canadian meat packers into one of the newest and most dynamic global processors of baked goods and animal proteins. Since it was acquired in April 1995 by McCain Capital (controlled by the Wallace F. McCain family) and the Ontario Teachers' Pension Plan (OTPP), Maple Leaf

has sold off flour mills, seafood canners, coffee shops and other non-core businesses to concentrate on pork, poultry, packaged meats and breads. As its product focus narrowed the market focus expanded so that today Maple Leaf is a small player in the global market.

Only the company's propensity for acquisitions remains unchanged. In the last nine years, Maple Leaf has invested over \$500 million to acquire 25 businesses and in September purchased Schneider Corporation from Virginia-based

Smithfield Foods for an additional \$515 million. Should the Competition Bureau approve the deal, Maple Leaf will add 25 per cent to its \$5.1 billion in annual sales and tie with McCain Foods as Canada's largest food processor.

A ROUGH START

Rick Young, a 25-year veteran of Maple Leaf via Canada Packers, recalls the early years under new ownership as a time when morale was so bad that "headhunters wouldn't take



From left to right: Michael McCain, president and chief executive officer, Maple Leaf Foods Inc.; Richard Lan, president and chief operating officer, Bakery Products Group; Scott McCain, president and chief operating officer, Agribusiness Group

our business.” Maple Leaf’s public image was hard hit by strikes and its thwarted ambition to acquire Schneider. Its initial offer in November 1997 was raised twice and extended 17 times over the next 12 months to no avail. A strike that began in the fourth quarter of 1997 and spread to four plants was eventually settled 12 months later but only after Maple Leaf incurred \$32 million in charges to operating income. The Maple Leaf brand name became a liability and the company lost market share in processed meats that it only fully recovered in fiscal 1999.

Young, now president of Maple Leaf Consumer Foods, says the company emerged with the building blocks in place for long-term growth. “We established the seven strategic principles, the six core values of our Leadership Edge and the five disciplines of Six Sigma and set out to create an energizing environment in which exceptionally talented people could excel. We have come so far since 1995.” Young nods toward his desk and adds, “I get so many unsolicited resumes now and many of them, I’m

DID YOU KNOW?

Since the company was acquired in April 1995 by the G. Wallace F. McCain family and Ontario Teachers’ Pension Plan Board, Maple Leaf Foods Inc. has

- Completed 10 divestitures realizing aggregate net proceeds of over \$130 million;
- Acquired 25 businesses for an aggregate investment of over \$500 million;
- Completed the \$262 million amalgamation of Canada Bread and Maple Leaf Bakeries;
- Invested over \$900 million in capital assets, including six new plants; and
- Raised the proportion of its assets located outside Canada to 17% in 2002 from 4% in 1995.

MAJOR ACQUISITIONS 1995 TO 2003

- 1996** Fresh pork and prepared meats operations of Winnipeg-based Burns Meats (sales \$600 million)
- 1999** Winnipeg-based Landmark Feeds & Elite Swine (purchase price approximately \$150 million)
- 2001** Montreal-based Multi-Marques, a leading Quebec bakery via Canada Bread (sales \$300 million)
- 2001** Schneider Corporation’s two fresh pork plants in Winnipeg (sales \$300 million)
- 2002** Moncton-based Hub Meat Packers, including Larsen Packers (sales \$270 million)
- 2003** Schneider Corporation, purchase price approximately \$515 million (sales \$1.24 billion)

Photo: Jean Héguy

pleased to say, from Canada Packers people who would like to return.”

VERTICAL INTEGRATION

Maple Leaf Foods is organized into three groups: Agribusiness, Meat Products and Bakery Products. Only the latter two are involved in producing foods for human consumption and they, in turn, are organized into eight independent operating companies (IOCs).

The Meat Products Group includes Maple Leaf Pork, Maple Leaf Poultry, Maple Leaf Consumer Foods and Maple Leaf Foods International. With combined sales of \$3.0 billion, this group accounts for 58 per cent of Maple Leaf's sales. Maple Leaf does not, however, break out financial results for individual IOCs.

MAPLE LEAF PORK

Maple Leaf is the largest player in Canada's \$5 billion pork processing sector but a niche player on the global scene and that requires it to be innovative as well as cost competitive. While it processed 6.3 million of the 22 million hogs slaughtered in Canada in 2002 (7.2 million in 2004 if the Schneider deal is approved), Maple Leaf's output is five per cent of North American production and less than two per cent of the (USDA) estimated 560 million hogs that China processes each year.

Maple Leaf would need to triple its output to overtake Smithfield Foods as the world's largest pork processor and it has no intention of doing so. “Competing as a pure commodity player is a net sum game that is less than zero,” says Randy Powell, president of Maple Leaf Pork. Maple Leaf, however, must be cost competitive with global competitors and to that end has invested heavily in building and modernizing plants.

Now, Maple Leaf Pork is focused on adding value to every product and customer relationship, a process the company calls “To The Right”. Early last year it launched Maple Leaf Medallion Naturally™ – pork products

LEADERSHIP A COMPETITIVE EDGE FOR MAPLE LEAF FOODS

In 1998, after an intensive period of acquisitions, Michael McCain and his Maple Leaf colleagues reviewed their situation and agreed they would need to develop the breadth and depth of their leadership team to compete in global markets. “World class leadership,” they concluded, “is the competitive advantage that is the most difficult to replicate.”

McCain acknowledges that Maple Leaf Foods was hardly the first organization to promote leadership development and to post leadership values on office walls. “The difference is that we're that one in a thousand that passionately believes that leadership's the common glue that binds us together,” he explains.

“Now,” says McCain, “everything we do is driven by this very deep commitment to attracting, retaining, developing, growing, motivating and rewarding outstanding people, broadly and deeply in the organization. When we acquire organizations we are very convincing that this can be an outstanding and energizing home for them to grow in as well.”

The skills most valued are speed, agility and adaptability because “innovation in the food business is essentially taking outstanding ideas from around the world and making them work in your local market. But because whatever you do today won't be good enough for the long term you have to also be outstandingly prolific.”

fed a proprietary all-vegetable grain diet containing no animal by-products. The rollout in Ontario and Western Canada was so successful that it overwhelmed the supply of Medallion Naturally™ pork. Powell plans to further expand distribution and promotion once the pork supply is back in balance with demand but he has no desire to take over the entire fresh meat case. “All I want is the premium side of the case,” he explains, “the 40 per cent of volume that people will pay extra for because they want a better cut of meat.”

The same thinking applies to

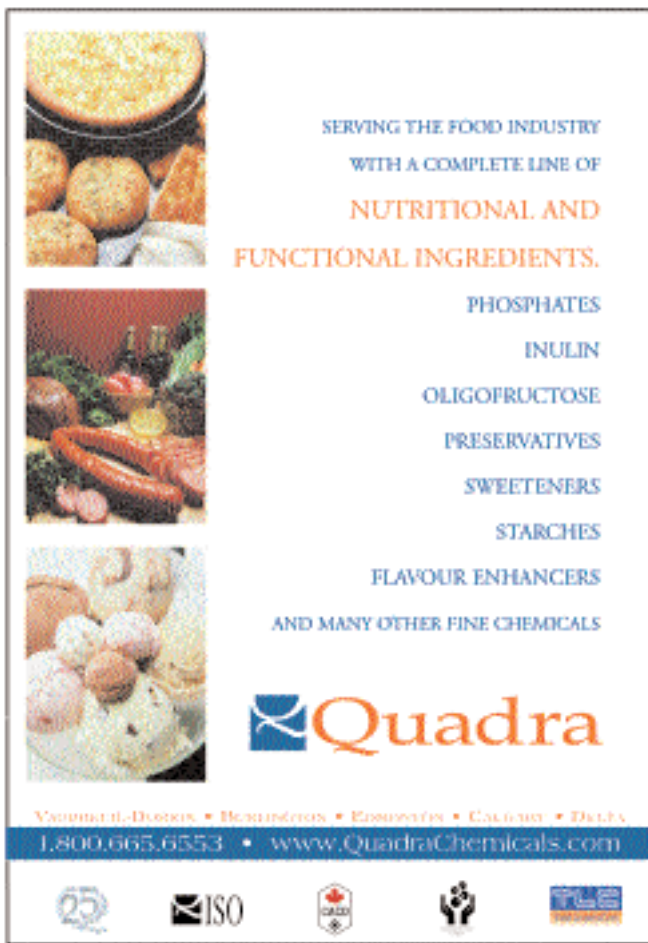
Powell's strategy for foreign markets, which account for just over half of his sales.

Maple Leaf Pork is earning premium prices for its ability to meet the exacting specifications of the world's most demanding customers, such as Japanese retail chains and American processors of high-end deli meats. Sarasota, Fla.-based Boar's Head Provisions, for example, deals with Maple Leaf because it will custom sort and grade pork for hams on the basis of colour, weight, fat ratio and water retention and cut the ham muscles to its specs. “Our customers have to pay a little extra for that but that's our point of difference,” explains Powell. “I'm not going to out-Smithfield Smithfield or duke it out with IBP Tyson on the same platform. We have to be different.”

MAPLE LEAF POULTRY

Maple Leaf Poultry is one of the top four companies in Canada's \$4.2 billion poultry processing sector and the leader in branded value-added chicken since the launch of its air-chilled and aged Prime chicken shortly after the McCain/OTPP takeover. Its early success attracted air-chilled imitators and while that guaranteed branded poultry a place in the fresh meat counter, Maple Leaf Poultry needed a further innovation that could not be as easily replicated. In July 2001, it launched Maple Leaf Prime Naturally™, the first national brand of chicken in Canada fed an exclusive diet of vegetable-grain, vitamins and minerals with no animal by-products or animal fats.

Prime Naturally™ won widespread acceptance from customers and consumers alike. Today, branded poultry accounts for 22 per cent of retail fresh poultry sales and Maple Leaf Poultry accounts for almost half of the branded sales. Brock Furlong notes that branded chicken now accounts for as much as 60 per cent of fresh poultry sales in some grocery chains. Furlong, president of Maple Leaf Poultry, suggests that branded poultry could grow to up to 60 per cent of all fresh chicken and turkey retail sales. He also notes that the




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Maple Leaf Foods Limited: Fiscal 1995 v. Fiscal 2002

	2002	1995	Change 2002 v. 1995
	\$ Millions	\$ Millions	Per Cent
Sales	\$5,076.9	\$3,067.6	+ 66%
EBITDA*	\$305.1	\$72.3	+ 322%
Net Earnings (Loss)	\$84.7	\$(43.7)	N/A
Capital Expenditures & Acquisitions	\$159.2	\$78.2	+104%
Net Debt	\$579.4	\$511.9	+13%
Debt:EBITA ratio	1.9	7.1	N/A

* EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)

foodservice channel, which accounts for a third of poultry consumption, is a growth market for Prime Naturally™.

Furlong is now coping with the challenges of exceeding expectations. Grocers have been underestimating demand and not ordering enough Prime Naturally™. The most common consumer complaint to Maple Leaf Poultry concerns out-of-stock product.

MAPLE LEAF CONSUMER FOODS

Rick Young faces a different challenge in the packaged-meats cases where control labels account for a quarter of the \$700 million Canadians spend annually on bacon, wieners and sliced meats. Consumers can be drawn from the control and value brands if a new product justifies a premium price. Young, president of Maple Leaf Consumer Foods had two notable successes in 2002: TopDogs MegaBites in the wiener category and Medallion Naturally in the bacon category. Maple Leaf spiral sliced Ezee Carve Ham continues to enjoy strong sales in the \$1 billion deli meat category three years after its 2001 introduction.

In the past 12 months, Consumer Foods has launched two new product lines outside the packaged-meats case, one a major hit, the other not. Sales of the new Nature's Gourmet line of frozen soy-based entrees underperformed the business plan despite a well-funded, full-scale launch. Young says he isn't giving up, though, because his customers (the grocers) "are telling us that the category is just emerging and we should hold on."

The August launch of Maple Leaf Fully Cooked Roasts™, on the other hand, has been a major success. The line of five roasts won listings in the fresh meat cases of all the major national and discount chains. Trial purchases, stimulated by Young's heaviest ever media wave and in-store infomercials, exceeded expectations and attracted a demographic beyond the targeted two-income married-with-children households. Young expected orders to drop off as they typically do after a launch but five months later he has yet to see a drop in demand. Now Young is gearing up for more new product launches in 2004 because, as he says, "in this business you can't take your foot off the gas."



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**Segmented Financial Information – Year to Date Sep. 30, 2003
(v. YTD Sep. 30, 2002)**

	Sales \$ Millions	v. YTD '02 Per Cent	Earnings* \$ Millions	v. YTD '02 Per Cent
Agribusiness Group	\$684.1	- 2%	\$57.1	+ 12%
Meat Products Group	\$2,141.3	- 3%	\$(11.9)	N/A
Bakery Products Group	\$943.1	+ 9%	\$43.6	-16%
Total	\$3,768.4	+/- 0%	\$88.8	-37%

* Earnings (loss) from Operations, before unusual items

MAPLE LEAF FOODS INTERNATIONAL

Maple Leaf Foods International (MLFI) is the global marketing and distribution arm of Maple Leaf Foods. It buys, sells and trades soybeans, seafood, grains and other foods produced outside the Maple Leaf organization as well as those of Maple Leaf. MLFI's role will grow because Maple Leaf plans to expand its asset base and trade beyond Canada.

MLFI traditionally enters developing markets before there is much demand for pork or packaged foods. Initially it supplies basic commodities, such as soybeans, flour and edible oils, and as the economy develops adds higher value goods. Ted Bilyea, president of MLFI, says, "the demand for proteins rises with incomes and you reach a transition point where meat consumption takes off. When that happens we are already well established."

MLFI captures the growth in demand for meats while at the same time transitioning segments of the market to further processed products, such as hams and frozen entrees. The next step would be to develop co-packers and finally, as it has in the U.K., set up its own plants.

Sales of goods to customers outside Canada, whether produced or purchased by Maple Leaf in Canada or abroad, accounted for \$1.8 billion of Maple Leaf's \$5.1 billion in sales in 2002. Slightly less than half of them (\$898 million) were to customers in the U.S. and the remainder to customers in Mexico and overseas markets. Further production outside Canada seems likely to grow in the European Union for consumer-ready foods, in China for value-added pork and in the U.S. for specialty par-baked breads.

BAKERY PRODUCTS GROUP

The Bakery Products Group is now simply Canada Bread. In 2002, the U.S. and U.K. bakery operations of Maple Leaf Foods were sold to Canada Bread (then 73 per cent owned by Maple Leaf) and at the same time Canada Bread acquired Olafson's Baking Company of Delta, B.C., and brought its partial ownerships in Quebec-based Multi-Marques and Atlantic Canada's Ben's Bakery up to 100 per cent. As a result, the sales of Canada Bread (now 84 per cent owned by Maple Leaf) increased 50 per cent over 2001 to \$1.2 billion in 2002.

Canada Bread's leading product line is Dempster's, the best selling branded bread in the Canadian \$1.3 billion pre-packaged retail bread category with a 28 per cent market share (up from six per cent in 1995). Canada Bread also has leading regional brands in Atlantic Canada, Quebec and B.C. Early last year it launched Dempster's "Stays Fresh to the Last Slice," an extended shelf life line in bright Cello Foil wrapping. The product gained instant acceptance in Ontario and distribution was soon rolled out to Western Canada.

In the U.K., where Maple Leaf Bakery bought its first bakery in 1998,

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Canada Bread added a second in 2001 with the acquisition of the Cumbria-based New York Bagel Co. Canada Bread now has 90 per cent of the retail bagel market in the U.K.. The company will use these plants to produce other specialty and value-added products for the U.K. and European markets.

In the last seven years Canada Bread has emerged as North America's leader in par-baked breads (loaves partially baked,

averages 18 to 20 per cent per year. In October 2002, Lan acquired San Francisco-based Grace Baking Co., a leading producer of fresh and frozen artisan breads for national and regional grocers and restaurants. Lan expanded the production of Grace's frozen par-baked bread to other plants in eastern North America and is marketing them in Canada.

Lan plans to build sales in the super-premium segment by

“the demand for proteins rises with incomes and you reach a transition point where meat consumption takes off. When that happens we are already well established.”

then frozen and distributed for finish baking to the in-store bakeries of supermarkets and foodservice outlets). The company has won a better than 50 per cent market share in the American market, in part by being the only national player with major par-bake capacity in Toronto, Calgary, Langley, B.C., Roanoke, Va., and Sunny Oxnard, Calif. Canada Bread president Richard Lan estimates that par-baked bread has captured less than a quarter of its potential market.

Lan notes that the greatest opportunity lies in the \$200 million market for high-end artisan breads where sales growth

providing what he calls a “bread ladder” for consumers, that is, specialty and artisan breads at various price points from \$1.29 to \$3.99. “We are now at what I would call the second rung of the bread ladder,” he says, “which means we’re getting people to try things like Italian or French bread.” He wants to draw consumers up the ladder to Grace’s famous pugliese and, at the high end, focaccia, calamata olive, ciabatta and brioche.

Doug Burn is a Toronto-based freelance writer and regular contributor to Food in Canada.

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