PUB Hearing

Maple Leaf Foods

February 1, 2018

DPI 1 DPI 1 DPI 1 DPI 5

DPI 1 DPI 1 DPI 1 DPI 5 DPI 1 DPI 4

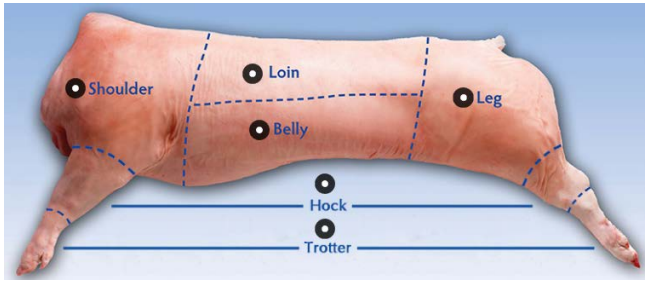
Company Overview

- Maple Leaf Foods is Canada's leading consumer packaged meats company. We have operations across Canada and export our products to 20 global markets including the US, Mexico, and Asia.
- In the province of Manitoba Maple Leaf has:
  - 5 feed mills (and over 100 barns)
  - A prepared meats facility
  - The largest primary processing plant in Canada
  - A regional office
- Employees approximately 4,000 people – representing almost 1/3 of our workforce.
- Represent approximately $753M in direct economic benefits (sales, salaries, and taxes) and $1.25B in indirect economic benefits.

Brandon Plant

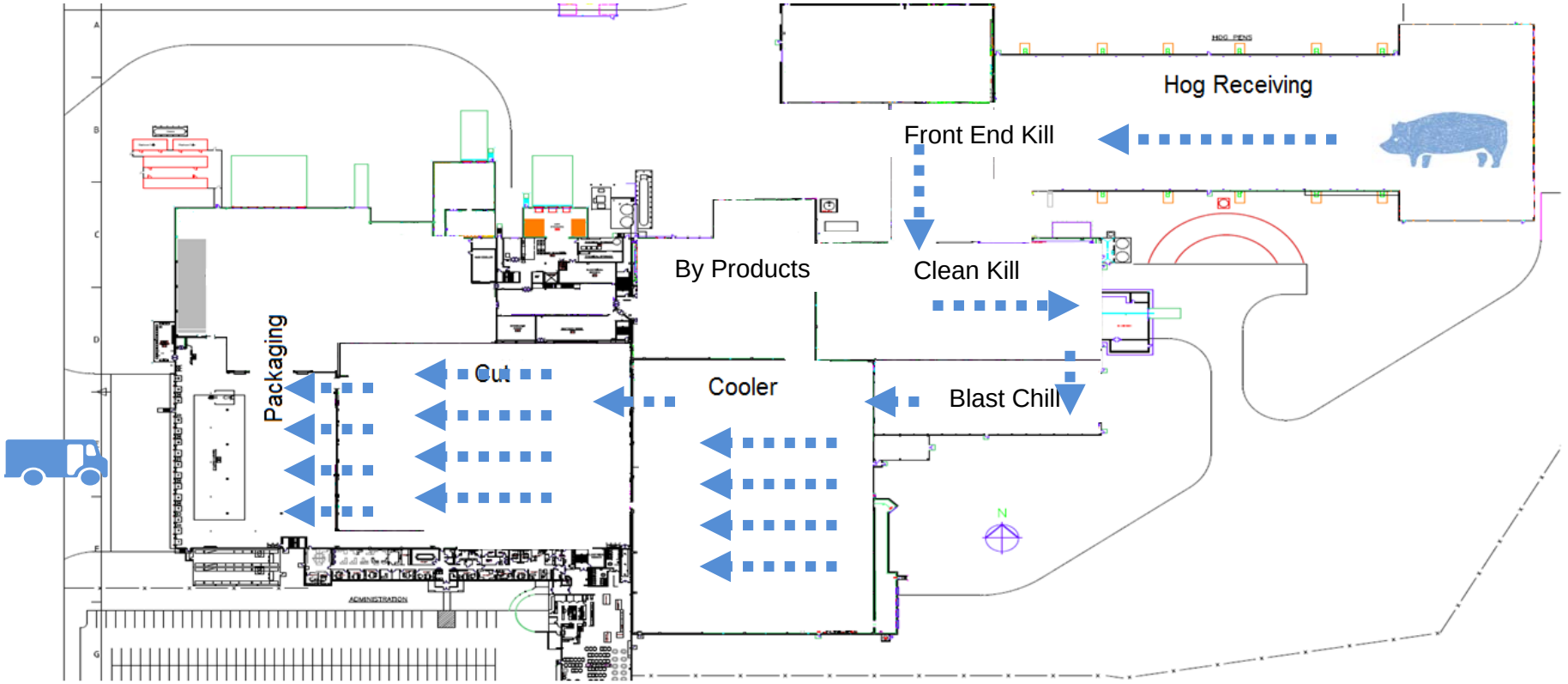
Our Business

- The pork industry is a global, commodity driven, free-market industry. Our pricing is based off the USDA market index, used to derive the base price of the meat.
- Our opportunity to increase our margins is to move cuts from their primal (bone-in) states into further converted/value added (usually boneless) products.



- One of our biggest advantages is our ability to produce chilled pork for the Japanese market. This is a labour and energy intensive product requiring a very controlled cooling program.

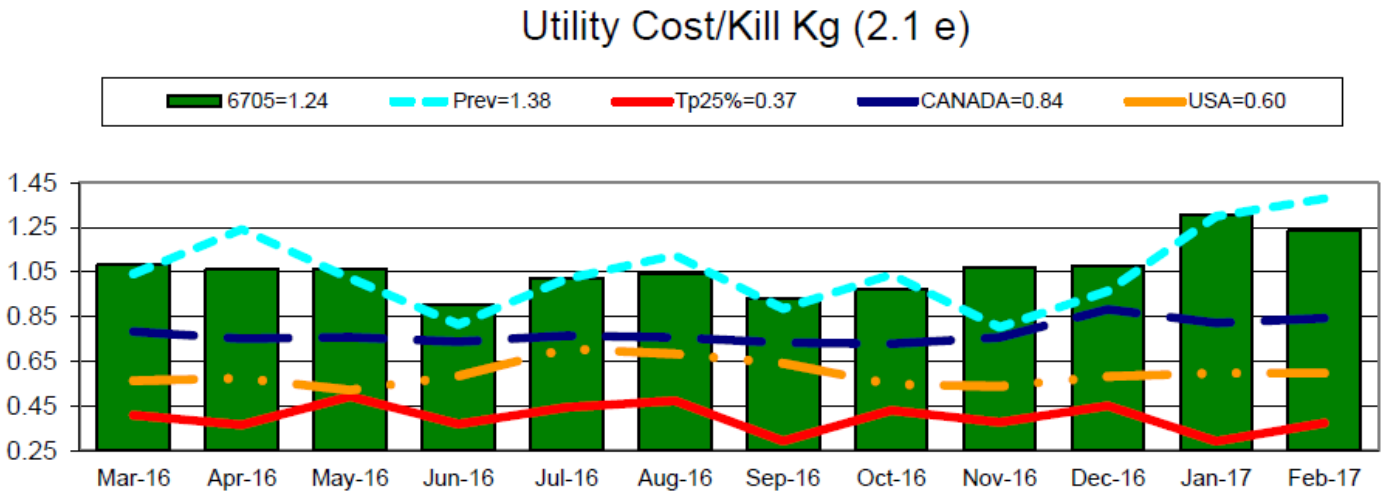
Our Process - Brandon

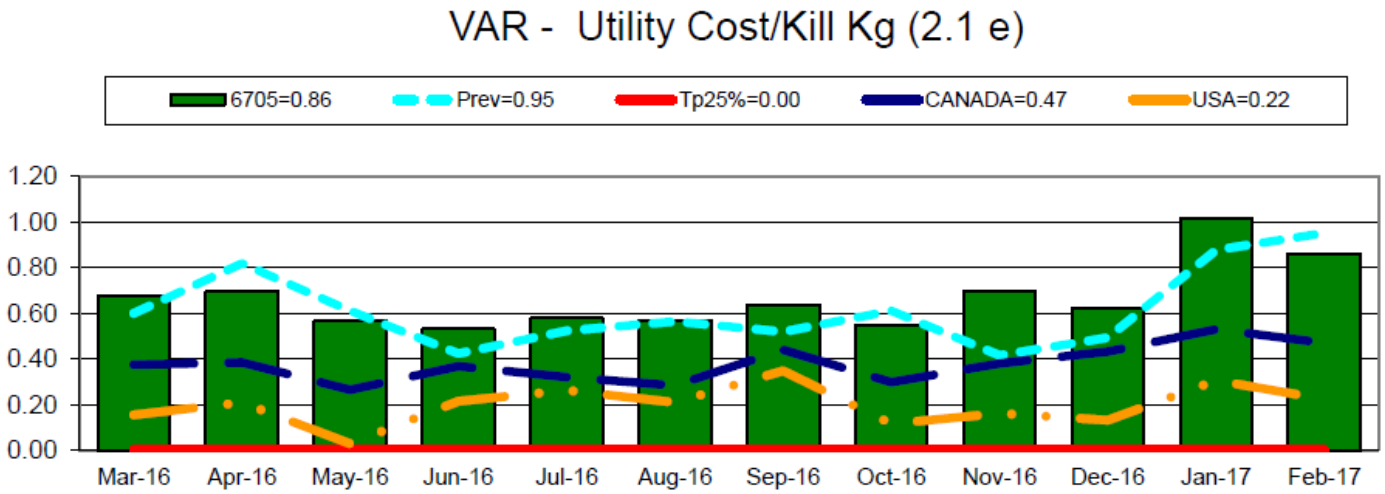


Challenges

- Hydro represents our highest utility cost in Brandon – approximately $4.6M annually.
- Hydro is primarily used in the powering of equipment and refrigeration in the plant. Our snap chill process represents approximately 1/3 of our hydro costs.
- Global competition in the pork markets has many disadvantages to Canadian companies, one of the few advantages of being located in Manitoba is the electricity rate.
- Even with this favourable rate we still have one of the highest utility costs amongst North American packers.

Agri-Stats – 26 NA Primary Processors





Operating Challenges

- Access to labour for our facilities is one of the largest challenges facing Maple Leaf today.
- We are looking towards automation to fill the gap.
- With the power requirements for these types of robotics the proposed rate increases would negatively affect these projects creating additional ongoing costs to our products.

Impact of Rate Increase

- We operate in a commodity based market where cost increases can not be passed on.
- Canadian pork is priced at a premium (due to quality) compared to US pork. Market feedback we are at the inflection point between pricing and quality – many importers are switching to US product.
- Impact of the rate increase to Maple Leaf's Manitoba operations will be $4M over the five years. The Brandon plant alone will experience an increase of $2M.
- We operate under a zero based budgeting scheme – any additional cost to the system must be found within the system.
  - Short term; the impact will likely be felt in discretionary spend, employee headcount, reduced capital spending, and community donations.
  - Long term; look at pulling back the work done in Brandon and/or look at alternate sources of power generation to fill the gap (MLF is looking at this in ON).

Easing the Impact

- We have experienced similar rate hikes in our Ontario operations.
- Ontario has offered offsetting incentives to ease the burden of the increased rates:
  - User reclassification to favour the larger consumers with a new rate structure.
  - Demand Response Programs.
  - Exploration of Virtual Net Metering – the ability to produce renewable electricity for the grid anywhere in the province, and receive a credit against our consumption.

Partnership

- Maple Leaf has always had a positive working relationship with MB Hydro.
- Have worked closely with reps from Hydro to work through power issues and emergency upsets.
- We understand the need for a reasonable increase; however, this needs to be done in conjunction with industry – not in a vacuum.
- We appreciate the opportunity to present our concerns with the proposed rate structure.