



PUB Hearing - Maple Leaf Foods

May 16, 2023

Morgan Curran-Blaney - VP Manufacturing, Fresh Pork



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)
- The largest bacon manufacturing facility in Canada
- The largest primary processing plant in Canada
- A regional office



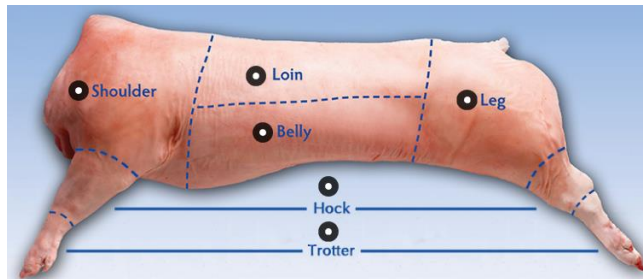
Employees approximately 4,000 people – representing almost 1/3 of the company's workforce.



Approximately \$753M in direct economic benefits (sales, salaries, and taxes) and \$1.25B in indirect economic benefits.

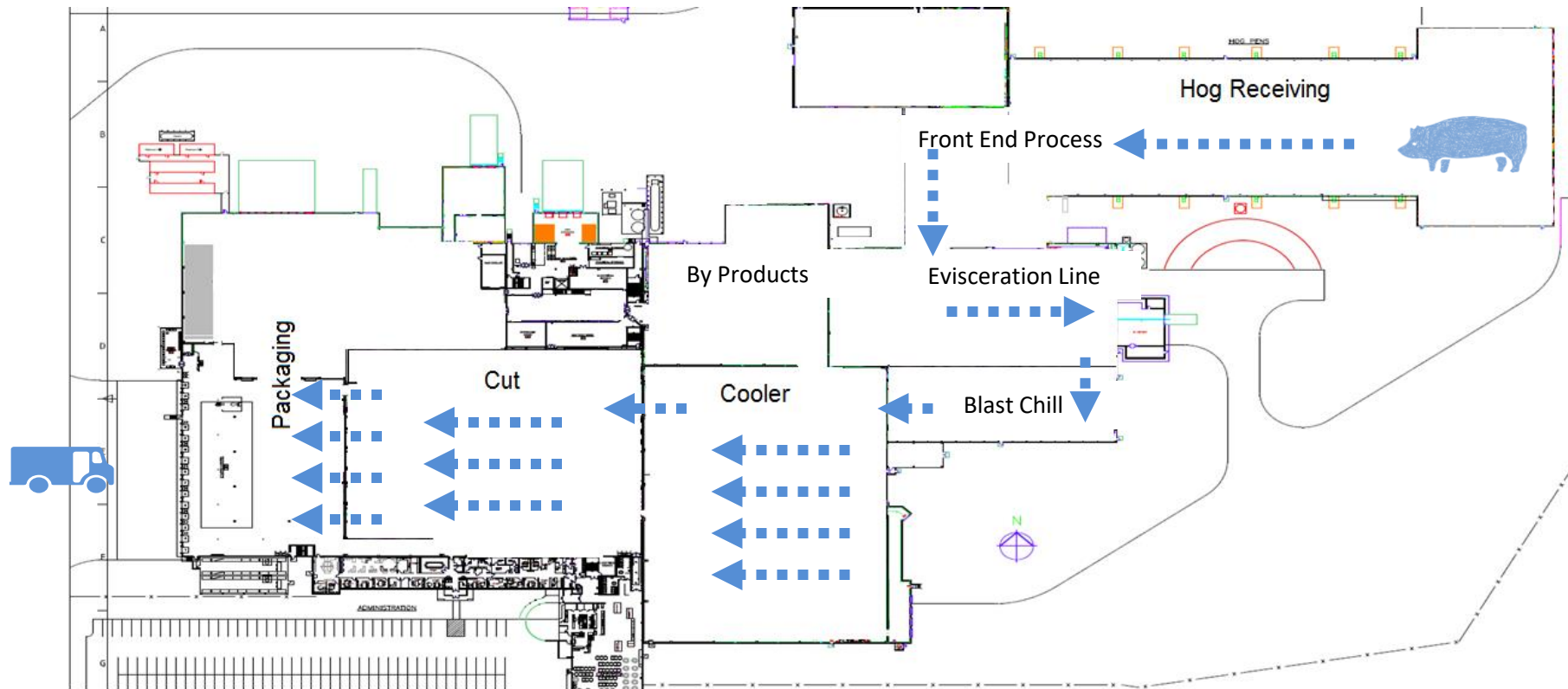
Our Business

- 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 Facility





Industry Challenges

- The global pork industry is facing unprecedented headwinds that are changing the industry.

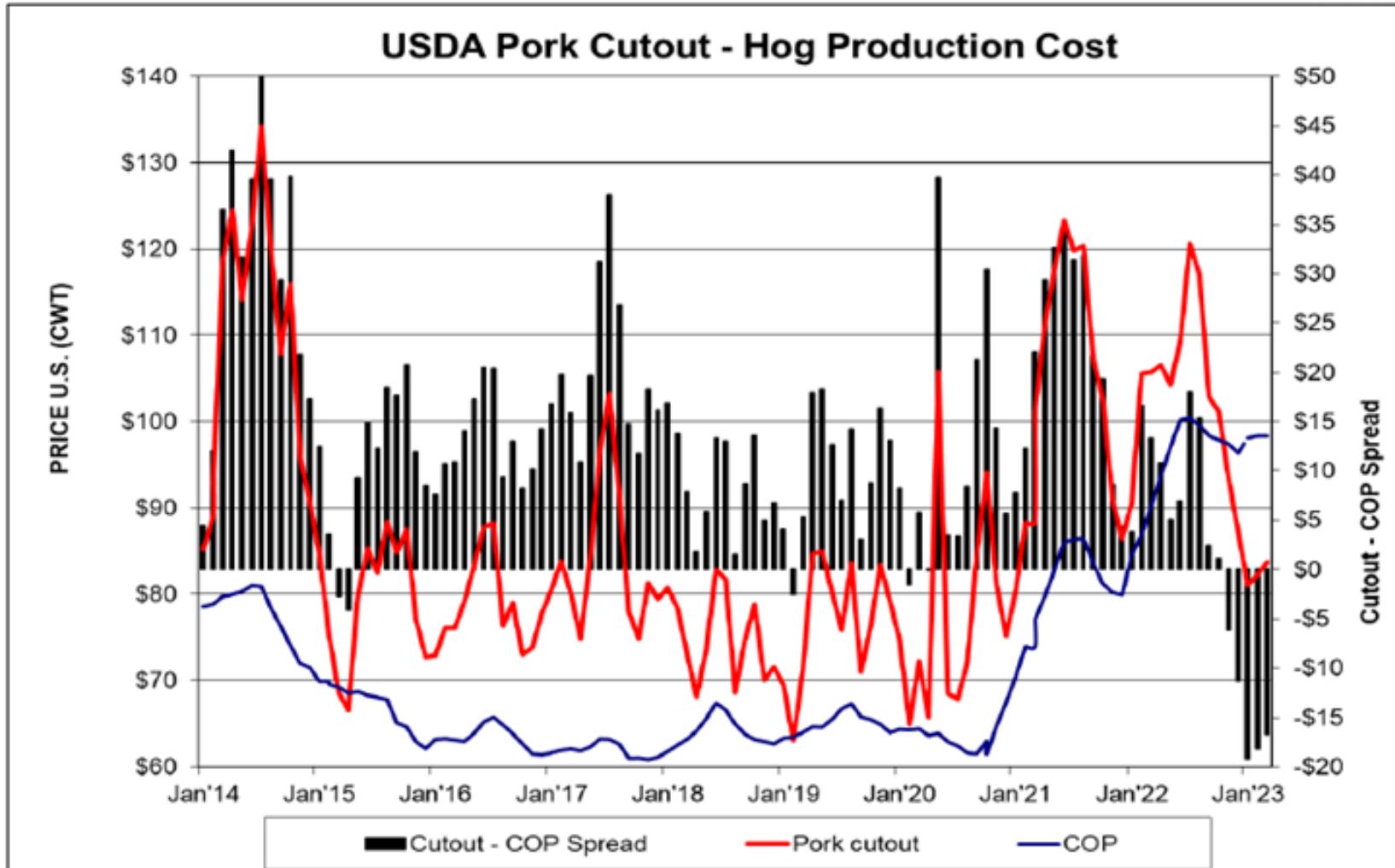
Plant Closures

- Hylife Foods' US subsidiaries file for bankruptcy and closes their Minnesota plant.
- Olymel announces closure of its Vallee-Jonction plant due to challenges in the industry.
- Danish Crown is closing two primary processing facilities due to hog supply challenges.

Financial Pressure

- WH group anticipates a 56% drop in year over year profits and prepares shareholders for a massive Q1 loss.
- Seaboard's Pork segment had a \$212M loss in operating income for Q1, referencing lower selling prices and higher hog costs.
- Tyson Foods had a loss of \$33M in operating income for their Q2 results for the period ended on April 1, 2023.
- JBS USA's pork segment had a 5.6% decline in net revenue year over year, citing lower prices in the US domestic market and higher grain and labour costs.

Industry Challenges – Markets





Challenges

- Hydro represents our highest utility cost in Brandon – approximately \$5.2M 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.
- With the pressures we are collectively facing as an industry, rate increases need to be managed to avoid creating an unnecessary penalty to the ratepayer.



Impact of a Rate Increase

- We operate in a commodity-based market where cost increases are not able to be fully passed on.
- Canadian pork is priced at a premium (due to quality) compared to other North American pork. Currently we are at the inflection point between pricing and quality – we are seeing trades-offs made that are impacting volume.
- Maple Leaf operates 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.



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.