

# FIRST QUARTER RESULTS 2014

May 1, 2014

**MICHAEL H. McCAIN**

President and Chief Executive Officer

**MICHAEL VELS**

Chief Financial Officer



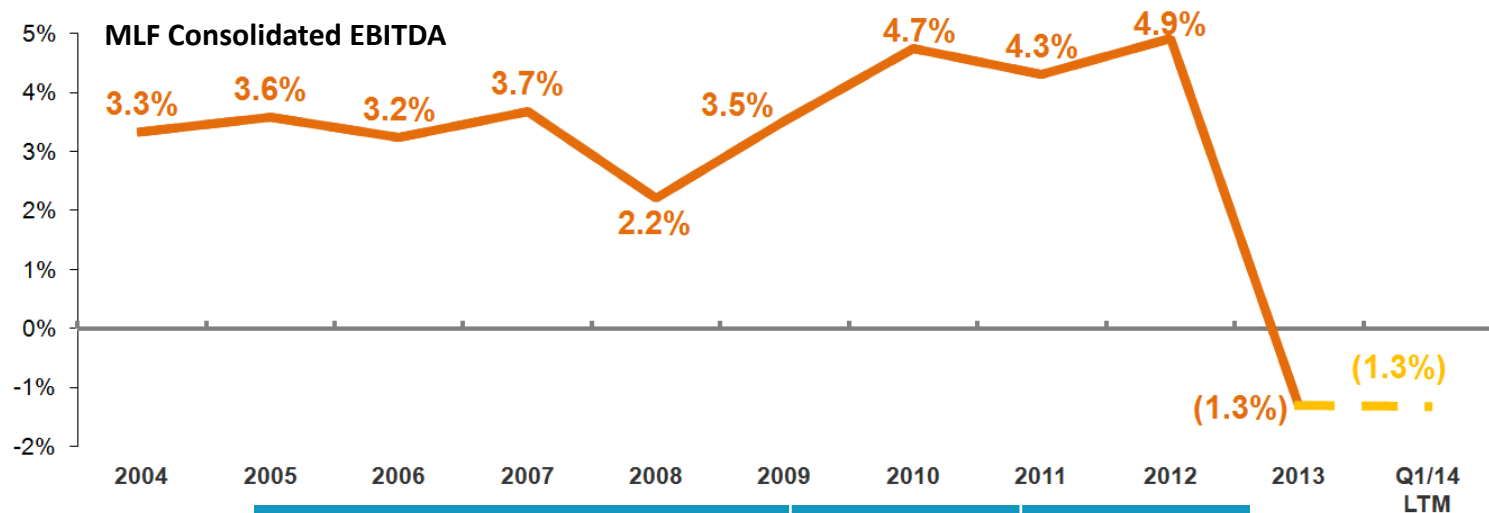
# First Quarter Headlines

- Continued margin compression in prepared meats
  - Rapid increase in raw material prices due to PEDv and weaker currency
  - Pricing in May to restore margins, risk of short term volume impact
- Network transition continues
  - Start-up of new Heritage facility underway
  - Transferred volume and closed Hamilton plant – 1<sup>st</sup> 2014 milestone
  - Other operations progressing towards targets
  - Significant transition costs
- Commodity markets improved year over year
  - But neutral to 5 year average
  - High volatility due to PEDv
- Sale of Canada Bread to Grupo Bimbo on track to close in second quarter



# Summary of First Quarter Results

*LTM EBITDA margin of -1.3% versus 2015 target of 10.0%*

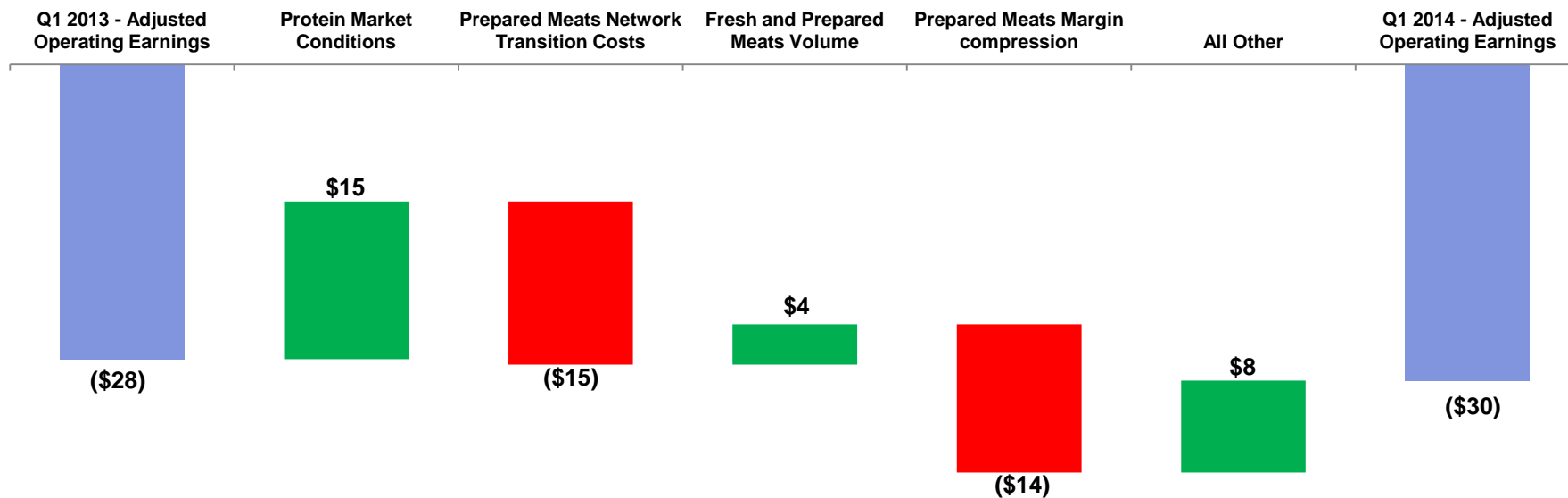


	Q1/14	Q1/13
Adjusted Operating Earnings	(\$29.9M)	(\$27.9M)
Adjusted Earnings per Share	(\$0.24)	(\$0.24)
Adjusted EBITDA	(1.1%)	(1.4%)

Figures exclude the results of Rothsay and the Bakery Products Group.

# Transition costs and short-term margin compression offset gains

*Impacted earnings by \$29 million in the quarter*



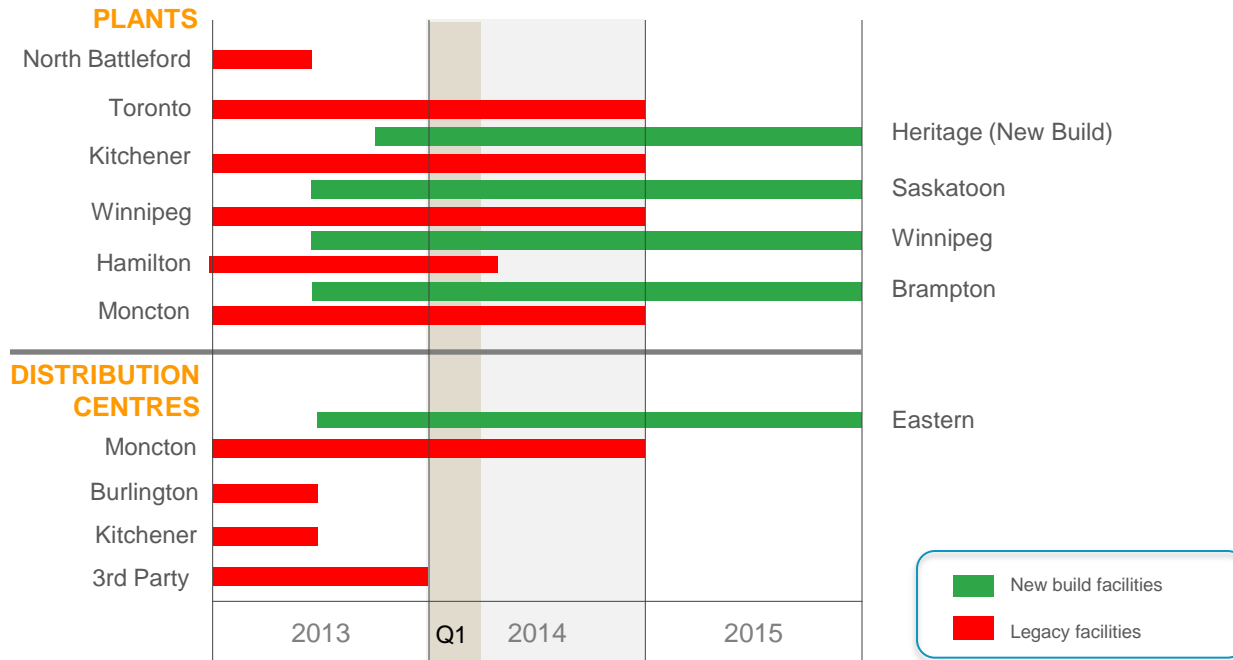
# Protein Market Overview

- Protein markets improved \$15M year over year
- Primary pork processing margins above 5 year average
- Margins in Japan improving, but still below target

\$ millions	Q1/14 vs. Q1/13	Variance to 2015 Target	2015 Assumptions
Hog Production	\$10	-	Break-even EBIT
Primary Pork Processing	\$11	(\$5)	5 year average
Japanese Margins	(\$6)	\$7	Assume 2012 margins
<b>Total</b>	<b>\$15</b>	<b>\$2</b>	

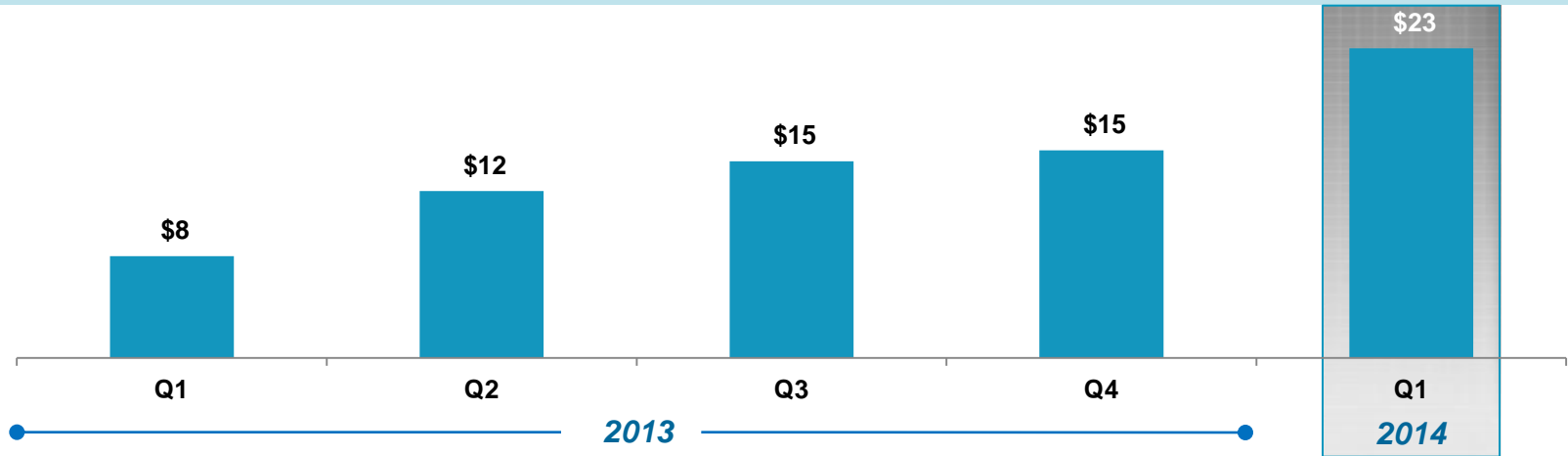
# 2 for 1 plant network continues

*Duplicative overhead and inefficiencies will end by 2015*



- Intense phase of network transition continues
- Towards an efficient scale, low cost network in 2015

# Higher Transition Costs in Q1 2014

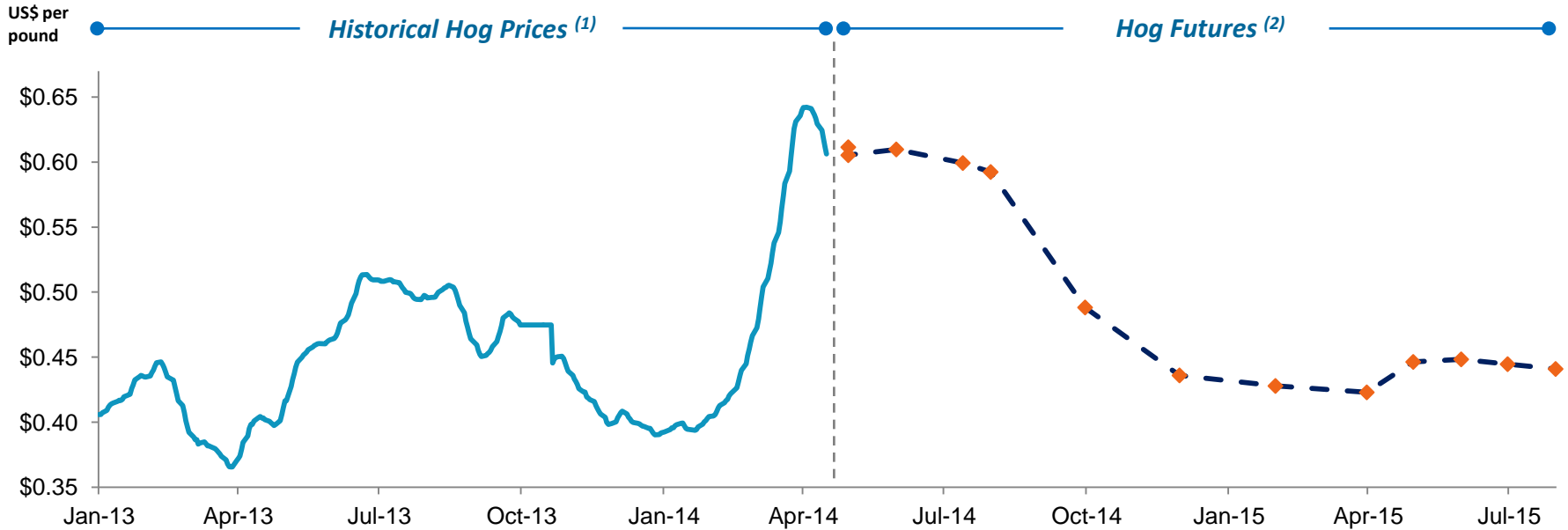


## Drivers of transition costs

Commissioning costs	Will continue throughout 2014, primarily related to the new Hamilton plant
Duplicative Overhead	Will be eliminated as four legacy plants close in Q4 2014
Incremental resources to support transition	Will ramp down in Q4 2014

# Hog costs spike by 60% in Q1; drove increase in pork prices

*Comprehensive pricing action across Prepared Meats in Q2 to restore margins*



(1) - CME lean Hogs cash settlement price

(2) - CME lean hogs futures contracts



# Accelerating innovation in first half of 2014

*Create excitement in categories, support volumes*

## New categories for Maple Leaf Prime



## Maple Leaf brand campaign



- Goal is to migrate Maple Leaf Brand from being liked to being LOVED!

## Mina exceeding expectations in its second full year



## Take the lead in Protein snacking



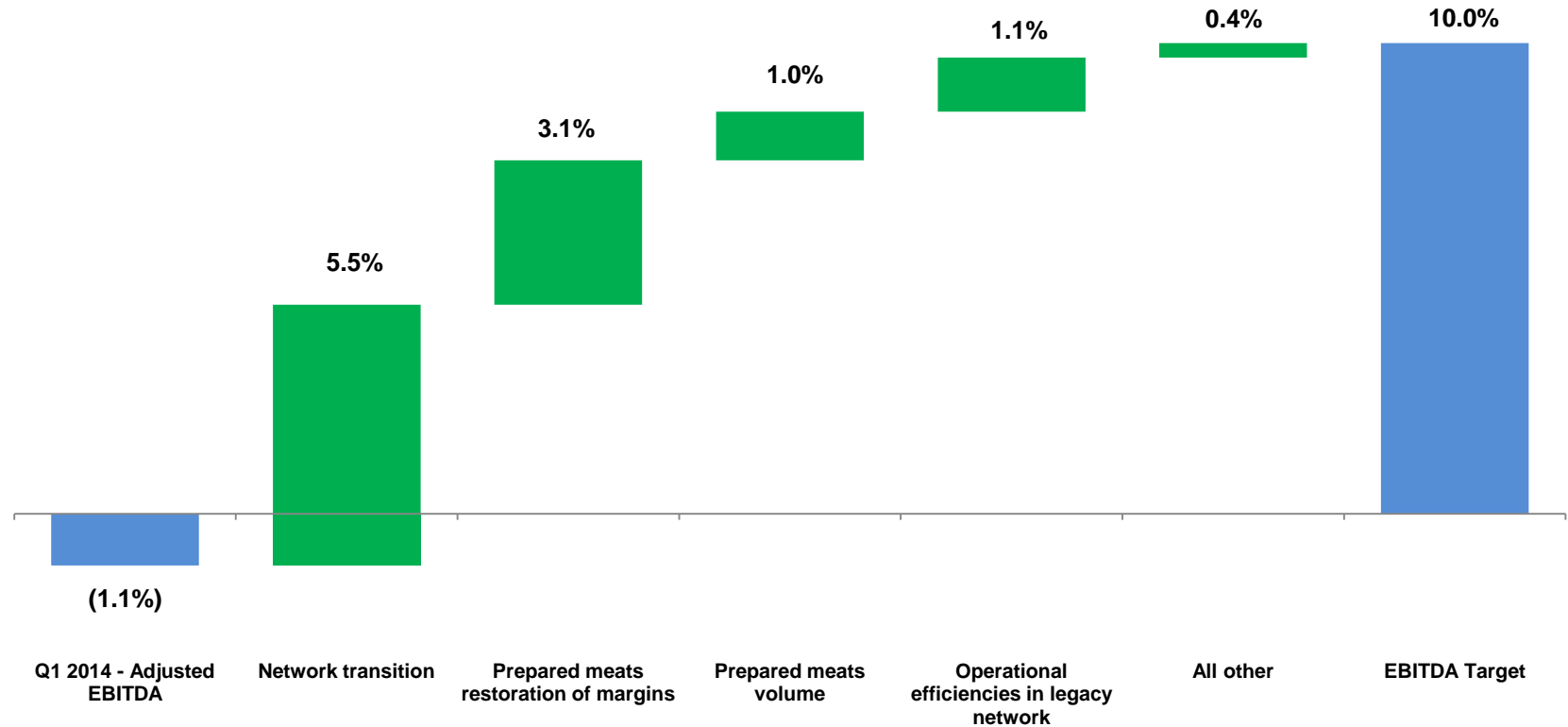
## Plans to expand Raised Without Antibiotics line



# Prepared meats transition

Facility	Progress Update
<b>Brampton - Fresh Sausage</b>	<ul style="list-style-type: none"> <li>▪ Product transition completed in Q1/2014</li> <li>▪ Progressing to planned efficiency through 2014</li> </ul>
<b>Winnipeg - Bacon &amp; Ham</b>	<ul style="list-style-type: none"> <li>▪ All ham volume transfers completed in Q4/13</li> <li>▪ All bacon volume transfers completed in Q1/14</li> <li>▪ Significant improvement in bacon and ham productivity and yields</li> </ul>
<b>Saskatoon - Cooked Sausage</b>	<ul style="list-style-type: none"> <li>▪ Complex technology start-up; production volumes slow to ramp up</li> <li>▪ Optimizing efficiency and yield through 2014</li> </ul>
<b>Heritage (Hamilton) - Wieners/Meats</b>	<ul style="list-style-type: none"> <li>▪ Transferred wiener production from older Hamilton plant in Q1/14; closed in April 2014</li> <li>▪ Start sliced meats commissioning in Q2/14</li> <li>▪ Volume transfer from plants slated for closure to be completed in Q4/14</li> </ul>
<b>Eastern Distribution Centre</b>	<ul style="list-style-type: none"> <li>▪ All planned third party warehouses exited in 2013</li> <li>▪ All volume to be transferred out of legacy DCs in Q1/14</li> <li>▪ Cost optimization to be complete by Q3/14</li> </ul>

# EBITDA bridge – Q1/14 to 2015 run-rate

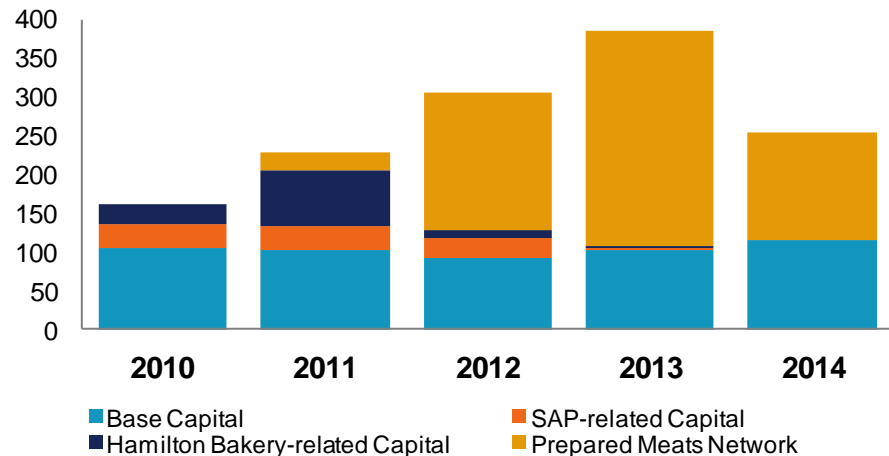


# Balance sheet update

- Net Debt of \$729 million at the end of Q1/14 (\$451.7 million at Q4/13)
- Cash used in operating activities was \$68 million (Q1/13: \$2 million)
- On March 14, provided notice of redemption on \$706.0 million of senior notes
  - Subsequently re-paid in April
- Pending sale of 90% ownership in Canada Bread to Grupo Bimbo expected to close in Q2/14
  - Net proceeds \$1.65 billion
  - All debt will be repaid on closing

# Capital expenditures update

(\$ millions)



- Q1 2014 capital spend from continuing operations was \$69M vs. \$67M in 2013
  - Q1 2014 strategic capital was \$58M
- 2014 capital expenditure forecast at \$255M<sup>(1)</sup> (\$140M strategic capital)
- 2015 capital expenditures in Protein business estimated to be \$80M excluding new strategic projects

(1) Includes \$40M of spend associated with the Bakery Products Group

Net Strategic Capital (\$ millions)	2010 – 2012 Actual	2013 Actual	2014 Forecast	2010 – 2014 Total
Prepared Meats Network	\$202	\$278	\$140	\$620
Hamilton Bakery	\$109	\$1	-	\$110
SAP	\$87	\$3	-	\$90
<b>Total</b>	<b>\$398</b>	<b>\$282</b>	<b>\$140</b>	<b>\$820</b>

# Restructuring Charges - Q1 2014

*Accounting view – charges on income statement*

<b>(\$ millions)</b>	<b>Q1/14</b>
<b>Prepared Meats Network Transformation</b>	<b>\$11.1</b>
<b>Cost Reductions in SG&amp;A</b>	<b><u>10.6</u></b>
<b>Total</b>	<b><u>\$21.7</u></b>

# Summary

- Unprecedented market conditions from PEDv Virus
- Aggressive price action to respond to rising raw material costs
- Network transition proceeding; start-up risk continues to exist
- Building blocks to 10% EBITDA margin target are in place
- Expecting positive trend lines in second half of 2014

# Non-IFRS measures

**Adjusted Operating Earnings:** Adjusted Operating Earnings, a non-IFRS measure, is used by Management to evaluate financial operating results. It is defined as earnings before income taxes from continuing operations adjusted for items that are not considered representative of on-going operational activities of the business, and items where the economic impact of the transactions will be reflected in earnings in future periods when the underlying asset is sold or transferred.

**Adjusted Earnings per Share:** Adjusted Earnings per Share, a non-IFRS measure, is used by Management to evaluate on-going financial operating results. It is defined as basic earnings per share from continuing operations attributable to common shareholders, and is adjusted for all items that are not considered representative of on-going operational activities of the business, and items where the economic impact of the transactions will be reflected in earnings in future periods when the underlying asset is sold or transferred.

**Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization:** Adjusted EBITDA is calculated as earnings before interest and income taxes from continuing operations plus depreciation and intangible asset amortization, adjusted for items that are not considered representative of on-going operational activities of the business, and items where the economic impact of the transactions will be reflected in earnings in future periods when the underlying asset is sold or transferred. Adjusted EBITDA for 2010 and thereafter is calculated based on results reported in accordance with IFRS. Adjusted EBITDA for periods before 2010 is calculated based on results previously reported under Canadian GAAP.

**Net Debt:** The Company calculates Net Debt as long-term debt and bank indebtedness, less cash and cash equivalents. Management believes this measure is useful in assessing the amount of financial leverage employed.

Unless otherwise stated, all figures in this presentation have been restated for the presentation of the Rothsay business and the Bakery Products Group as discontinued operations. Please refer to Note 20 of the Company's 2014 first quarter unaudited condensed consolidated interim financial statements for more information.



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