



Feeding the world

A division of Sollio Cooperative Group

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President and Chief Executive Officer

While several operating sectors performed well, overall results for the fiscal year were down sharply from last year.

In fiscal 2019, Olymel's sales grew \$298 million from \$3.439 billion to \$3.737 billion.

Several major events beyond our control significantly impacted some of our operations, particularly in the fresh pork sector, causing a sharp decline in results for the fiscal year. One such event was China's ban on Canadian meat imports that lasted for over four months and the ongoing suspension of the Red Deer plant's export licence.

Despite these lower-than-expected results, 2019 was a year of consolidation. The integration of the operations of Pinty's (poultry) in Ontario and of Aliments Triomphe (specialty pork products) in Québec, the sustained growth in exports of refrigerated fresh pork products and the July 2019 announcement of the agreement to acquire the assets of F. Ménard, in the pork sector, represent progress that strengthens Olymel's leadership in its markets.

Hog production

The Eastern hog production sector reported a loss, although lower than in the previous fiscal year. Our subsidiary AlphaGene, which specializes in the development and performance of swine genetics, continued its insemination activities in the West, significantly increasing its sales volume in the Ontario market. Fiscal 2019 also saw the start up of a fourth breeding facility as part of the Fermes boréales project in Témiscamingue. When this project is completed next year, the five breeding facilities will have a total of 11,800 sows with a capacity of producing approximately 360,000 piglets annually.

The Western hog production sector recorded a loss in 2019 almost equal to that of the previous year despite the favourable impact of a weaker Canadian dollar. The loss stemmed primarily from lower livestock prices and higher grain costs.

Olymel has long demonstrated its ability to meet challenges and adapt to change, and fiscal 2019 is yet another example.

With a herd of 55,000 sows, this sector's production increased slightly with more than 1.1 million hogs delivered to the Red Deer plant, meeting 61.8% of its procurement needs. We also continued to install open gestation stalls in our hog breeding facilities in the Western sector.

Fresh pork

The Eastern fresh pork sector reported positive results for the fourth consecutive year in 2019, although down sharply from the last fiscal year. The main factors underlying the significant decline were the suspension of exports to China, and the launch of the new facilities at the Yamachiche plant which proved to be more complex than expected, leading to a significant decrease in our slaughtering capacity. The plunge in the meat margin, the increase in supply costs resulting from the application of the new pork marketing agreement and lower sales volumes also impacted results. However, 2019 saw a significant growth in refrigerated fresh pork volumes for export, particularly to Japan and South Korea, produced at the Vallée-Jonction and St-Esprit plants.

As regards to the dispute between Les Éleveurs de porcs du Québec and buyers with respect to the hog purchasing prices and the related provisions in the marketing agreement, Olymel is awaiting a decision of the Régie des marchés agricoles et alimentaires du Québec.

La Coop fédérée and its Olymel and Sollio Agriculture divisions announced in July 2019 the acquisition of F. Ménard, a hog business in Ange-Gardien. Sollio Agriculture acquired the assets of the animal feed unit while Olymel took over all the assets of the hog operations. This transaction, green-lighted by the Competition Bureau in November 2019, mainly covers a slaughtering and butchering plant, two processing plants and production facilities accounting for 15% of total hog production in Québec. In 2020, Olymel will be proud to welcome the 1,200 employees of this reputed family business.

In 2019, the Western fresh pork sector recorded improved results for the fifth successive year despite the suspension of the Red Deer plant's export licence for China. This solid performance was driven primarily by a higher meat margin stemming from the increase in slaughtering volume and a greater share of value-added products.

In 2020, China's pork needs are expected to greatly influence world demand owing to a significant drop in Chinese production capacity following the ravages of the African swine fever in that country. This situation could create volatility and upward pressure on prices. The market should continue to account for the lion's share of Olymel's exports.

Processed pork

The processed pork sector generated better-than-expected positive results. The lower volume was offset by the higher meat margin driven by a favourable client mix and an increase in the selling price that outweighed the higher raw material costs. Given the scarcity of labour, the sector had to overcome a significant challenge in workforce management to maintain facilities at maximum production capacity.

For 2019, the bacon sector reported positive results but lower than in the prior fiscal year despite higher volumes. The underperformance was attributable to a lower meat margin stemming from an unfavourable client mix and higher labour costs. The fresh sausage sector also generated positive results, up from last fiscal year. The restructuring of Aliments Triomphe's operations required the closure of the Vanier plant in Québec City in February 2019 and the transfer of the manufacturing of Bilopage products to the Blainville plant in the Montréal region.





Olymel listens to its customers and consumers, and is committed to continuously improve its processes and performance.



Labour scarcity remains a central challenge for Olymel and requires priority actions in 2020 including simplifying recruitment lead times, promoting employment in regions and reviewing our models for recruiting and retaining personnel.

Fresh and processed poultry

The primary poultry processing sector generated positive results, although down sharply from fiscal 2019 performance, despite higher volumes. This underperformance was attributable to a lower meat margin resulting from higher supply costs. Following sustained annual growth in Canadian poultry production over the past five years, fiscal 2019 saw a downturn in the market, causing an imbalance between supply and demand which put downward pressure on prices.

In 2019, the processed poultry sector showed a loss higher than in the prior fiscal year. The lower meat margin owing to higher raw material costs was compounded by a significant writedown of the DSI trimmings. The integration of Pinty's Delicious Foods operations also contributed to this loss following the measures taken to manage a *listeria* episode in the summer of 2018. The sector will need to focus on improving meat performance, supporting selling prices, developing national and private brands and continuing with Pinty's integration.

Despite an improved meat margin, the turkey sector posted a loss slightly higher than in the previous fiscal year. Declining sales volumes recorded in previous fiscal years persisted in 2019 as consumption trends for entire turkeys plunged again. On the upside, demand for further processed turkeys, boned cuts and boneless cuts for the retail market is growing, but processors' profitability is declining. Significant reductions in turkey production are expected in Canada in 2020.

Growth and consolidation

Olymel has long demonstrated its ability to meet challenges and adapt to change, and fiscal 2019 is yet another example. In 2020, Olymel will continue to operate in an unpredictable global environment with frequent volatile market conditions, the presence of threats such as African swine fever, and intense competition, particularly from the United States. However, the partnerships, investments, acquisitions and the restructuring of the past few years allow us to look to the future with confidence and focus on our strategic targets. If Canada remains free of swine fever, the resumption of pork exports to China bodes well for 2020.

Accelerating our pace of growth and managing the various challenges posed by the markets is mobilizing the energy of all our employees, those with greater seniority as well as our more recent hires. I cannot thank them enough for their commitment, without which our success would be compromised.

Olymel listens to its customers and consumers, and is committed to continuously improve its processes and performance. In 2019, we carried out more R&D to reduce the list of ingredients and offer products without artificial preservatives. Our products can then be integrated into a healthy and balanced diet. Our efforts to remain a leader in our field also apply to environmental protection, and consists in investing significant sums to reduce greenhouse gas emissions from our plants. Olymel's leadership is also working on improving the effectiveness of quality control in our facilities by implementing

Our Brands







Brands have further committed to Olymel's mission to feed the world by supporting organizations that help alleviate hunger across the country.

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a state-of-the-art, paperless sanitation control system. We also demonstrated our leadership in the area of animal welfare by installing CO₂ stunning systems in all of our slaughtering plants and fitting open stalls in our swine breeding facilities.

In the past fiscal year, Olymel received the Prix Mercure Employeur de l'année 2019 Manuvie at the Mercuriades awards gala and won the Grand Prix Créateur d'emplois et de prospérité du Québec award, for the second consecutive year. These recognitions remind us of the current challenge of labour scarcity creating labour market competition. This challenge remains a central issue for our rapidly growing business. Simplifying recruitment lead times, promoting employment in regions and completing the review that began this year, of our models for attracting, recruiting, training and retaining personnel will remain priority actions for 2020.

In conclusion, I would like to extend my thanks to all of my colleagues, members of Olymel's Corporate Governance Committee for their dedication and commitment to our success. I'm also grateful to our President Ghislain Gervais and all the members of the Board of Directors for their support and advice so invaluable to our development.

Réjean Nadeau
President and Chief Executive Officer

