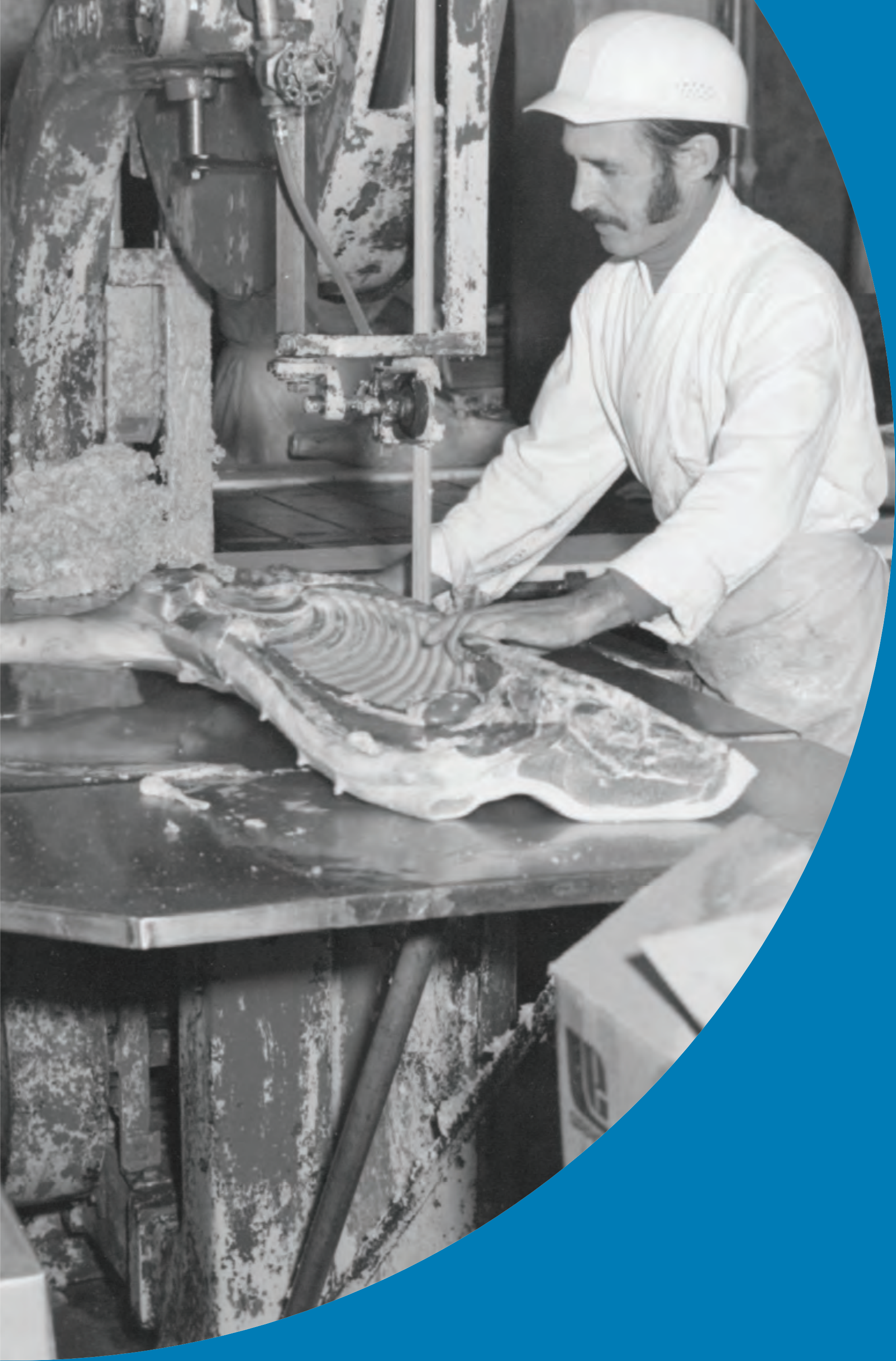

Sollio Food

Feeding the world

100 years of feeding communities.

Yanick Gervais, M. Fisc. CPA, CA
President and Chief Executive Office

Fiscal 2021 shows declining results compared with the previous year. However, Olymel reported $4.2 billion in sales, up $80 million from the previous year.

Although the processed poultry and pork sectors reported positive results, the lower volumes and prices combined with an unprecedented chain of events beyond our control and challenging market conditions in the fresh pork sector greatly impacted Olymel's performance.

Exports to China supported the primal cuts sector for part of the fiscal year, but the pandemic, labour shortages, the month-long strike at the Vallée-Jonction plant, and the number of hogs awaiting slaughter all significantly affected operations and pork sector profitability. For most of the year, value-added activities had to be limited to the benefit of slaughtering and primal cuts, leading to a lower meat margin.

Just as in fiscal 2020, Olymel also had to weather the waves of the COVID-19 pandemic and the resulting absenteeism, and maintained measures aimed at protecting the health of its employees and controlling the spread of the virus in its establishments across Canada. Costs, like vaccination incentives, personal protective equipment and security costs totalled $7.4 million.

Hog production

The Eastern hog production sector reported a loss in fiscal 2021 compared with earnings in the previous year. Despite a rise in the selling price of commercial hogs, the loss resulted from higher supply costs, as well as the hedging operations on the price of pork. Construction of the fifth swine breeding facility at Fermes Boréales continued in 2021 and the first sows are expected to be delivered to the new Fugèreville facilities beginning in March 2022.

The Western hog production sector posted positive results in fiscal 2021 following two consecutive years of losses. The sector contributes up to 60.3% of the total supply of the hog slaughtering and cutting plant in Red Deer, Alberta. We also continued to install open stalls for sows in our Western hog breeding facilities, which represented significant costs.

Finally, as in fiscal 2020, Olymel maintained heightened levels of vigilance in its facilities across the country to prevent the emergence of the African swine fever. Its outbreak in the Dominican Republic in 2021 raised the level of alert in North America considerably.

Eastern fresh pork

Particularly unfavourable conditions caused sharply negative results for the Eastern fresh pork sector in fiscal 2021, putting an end to five consecutive years of positive results. Slowdowns attributable to the COVID-19 pandemic, suspended exports to China for the Vallée-Jonction, Princeville and St-Esprit plants, a four month-long strike at the Vallée-Jonction plant, and extreme labour shortages are all factors that prevented the Eastern fresh pork sector from meeting its budget targets.

The strike at the Vallée-Jonction plant caused a significant decrease in the volume of chilled pork exported to Japan, which also had a negative impact on the results.

The number of hogs awaiting slaughter reached a historical high during the fiscal year, leading Olymel to make arrangements to send hogs to slaughterhouses outside Québec, representing an unexpected cost of nearly $25 million.

The expected reduction of our hog purchases in Québec and Ontario, and the transformation of the Princeville slaughterhouse into a deboning facility, are two plans being considered to ensure the sector's viability.

After being acquired in January 2020 and during its first year within Olymel, F. Ménard made a positive contribution to the year's results, although below expectations. Last September, the Ange-Gardien plant also launched a second night shift, allowing its weekly slaughtering capacity to grow from 25,000 to 35,000 hogs.

Negotiations with Les Éleveurs de porcs du Québec to renew the pork marketing agreement are ongoing.

Western fresh pork

As in the East, the Western fresh pork sector reported negative results for fiscal 2021. Despite a rise in slaughtering, the decline in the meat margin can be mainly attributed to the increased cost of raw materials and currency fluctuations. Performance was also hampered by the closure of the Red Deer plant during 11 business days due to a COVID-19 outbreak in February 2021.

The Red Deer plant's licence to export to China has been suspended for nearly three years, since April 28, 2019, a situation that Olymel management is still hard pressed to explain.

Given the results for fiscal 2021 and those we are recording for the current year, Olymel must act quickly to adjust its business strategies in the fresh pork sector.

Further processed pork

Despite a decline in sales volume, the processed pork sector reported slightly improved results for 2021 compared to the previous year. The increase in selling prices also contributed to the higher meat margin. However, the general decline in deboning activities caused upward pressure on raw material costs while labour management was a sector-wide challenge amid the COVID-19 pandemic. Looking to the future, automation and robotization will support the sector's new and intensive employee recruiting and retention initiatives.

Bacon sector

The bacon sector reported positive results for fiscal 2021. The decline in sales volume was offset by higher prices amid a volatile market for flanks and unfavourable changes in exchange rates. Sliced and pre-cooked bacon reported declines in volume attributable to market upheaval caused by the COVID-19 pandemic, especially in the hotel, restaurant and institutional (HRI) sector.

Fresh poultry

The primary poultry processing sector posted an exceptional performance for fiscal 2021, with positive results that doubled since the previous year. Despite an increase in livestock prices, the sector benefited from higher sales, volumes and meat margin as well an adjustment in consumer needs, despite restaurants being closed for most of the year. Negotiations between farmers and buyers were launched to renew the chicken marketing agreement that expired in December 2021.

After a year of work and an investment of more than $30 million, the poultry slaughtering and cutting plant in Saint-Damase inaugurated its new prepacking facilities last September. Thanks to additional cutting, deboning and tray packing lines, the Saint-Damase plant now has the capacity to serve clients requiring high volumes of prepacked poultry products – operations that were previously outsourced.

Olymel's interests in Sunnymel in New Brunswick and in Volaille Giannone in Québec generated significant contributions to fiscal 2021 results, just as they did last year.

Further processed poultry

A sharply rising meat margin driven by higher selling prices allowed the processed poultry sector to report positive results significantly higher than in fiscal 2021. This performance is even more remarkable given the impact the COVID-19 pandemic had on operations, extreme labour shortages, and the decrease in food services sales. The leveraging of synergies for seamlessly integrating Pinty's operations into Olymel continued during the fiscal year, with the goal of optimizing operations in the Ontarian plants. The sector will continue to develop national and private brands in 2022, while emphasizing strict efficiency and cost management.

For fiscal 2021, the turkey sector reported positive results for the first time since 2016. Despite a rise in the cost of raw materials and a decline in volumes, the sector reported an increase in the meat margin, mainly due to higher selling prices. Dealing with labour availability in the sector will remain a priority in 2022.

Other highlights

Fiscal 2021 was also highlighted by a $150 million investment in Olymel's capital by the Government of Québec and Investissement Québec — a significant act of confidence in Olymel's growth and development.

Fiscal 2021 also saw the forging of a business partnership between Sanimax, a leader in the rendering, recovery and valorization of agri-food by-products, and Olymel, its main supplier. The two companies exchanged shares for the purchase of minority interests in their respective share capital.

In fiscal 2021, we also continued projects to improve our corporate social responsibility and operational efficiency. Despite the effects of the pandemic, we continued projects such as the implementation of CO_2 stunning systems in our slaughtering plants and the transition from gestation stalls to open breeding stalls, and projects relating to GHG reduction, heat recovery and water recycling in our plants.

Meeting the labour challenge

Olymel employees across Canada richly deserve our recognition. For the past two years, 14,000 men and women employed in our many facilities endured the stress brought on by the pandemic. At the plant, at home, and in their communities, our employees faced unprecedented circumstances. Thanks to their dedication and initiative, our operations have gone largely uninterrupted, and Olymel was able to provide its essential services and continue to feed the world. I want our employees to know that we will do all we can to create motivating work environments in our facilities, where they can blossom and build their careers.

Given that the extreme labour shortage not only puts us in competition with our processing industry competitors but with other sectors as well, Olymel has to develop strategies and means to retain employees and to attract and retain new recruits. We've already taken the initiative to update collective agreements and enhance compensation and bonus provisions in employment contracts as well as other benefits likely to make us more attractive as an employer. This approach has already elicited interest among our employees. We must make even greater efforts by offering more initiation, training and skill development programs.

We will explore all avenues, like resorting to temporary foreign workers, which has proved to be a success in the past.

Réjean Nadeau: a great builder

I would be remiss if I concluded this review of fiscal 2021 without mentioning the passing of Réjean Nadeau due to a sudden and aggressive cancer on October 14. Our business's resilience during the pandemic is undoubtedly due, in large part, to the strong legacy and organization that my predecessor left behind. Réjean Nadeau was the President and Chief Executive Officer for 25 years, and played a part in all of Olymel's success. Following in such a builder's footsteps is a huge challenge that I will meet with the help of my colleagues on the Corporate Governance Committee. I'd like to take this opportunity to express my gratitude for their continued work and dedication.

To conclude, I would like to thank Pascal Houle, Chief Executive Officer of Sollio Cooperative Group, for his collaboration. I would also like to express my deep gratitude for Ghislain Gervais, President of our Board of Directors, as well as to all its members for their constant and valuable support.

Yanick Gervais
President and Chief Executive Officer

Our Brands