

PALOS

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Weekly Commentary

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By Charles Marleau, CIM

Premium Brands Holdings – Getting to the Meat of the Matter

Premium Brands Holdings Corp. (TSX: PBH) is a Canadian food processor that specializes in the manufacturing and distribution of processed meats, pre-packaged sandwiches, and frozen food products. The company supplies food service, retail and wholesale customers in Canada and the United States and Canadian operations account for approximately 75% of revenues. Premium’s long-term business plan is centered on the acquisition and integration of small, independent businesses with an entrepreneurial spirit, superior food products, and a community presence. PBH operates six different business groups which includes Seafood, Distribution, Protein, Sandwich, Bakery and Culinary.

On August 31, PBH added to its portfolio with the acquisition of Global Gourmet Foods Inc., a leader in ready to eat foods, sauces, and soup bases that services restaurant and retail customers around the globe. On the same day, PBH also announced that Allseas Fisheries Inc. would be added to the portfolio. The value of the transactions was \$139 million and the combined revenues of over \$200 million are immediately accretive. Acquisitions form the crux of Premium’s growth strategy and since 2005 the company has executed on 64 transactions, valued at its approximately \$2 billion.

Core values at PBH include respect for the environment, humility, community involvement, and sustainability. “The relationship between healthy food and the environment is reciprocal” according to CEO George Paleologou (PBH Sustainability report 2020). The company maintains a focus on using natural ingredients and minimizing the use of preservatives and artificial ingredients in their products. Furthering the PBH commitment to Environmental, Social and Governance (ESG) issues, Premium released its first **Sustainability Report** in 2020. The report enshrines a commitment to making ESG a core value and at the same time formalizes ESG reporting. With a commitment to quantifiable objectives and measurable results, investment interest from pension funds and endowments will build.

On the August 6, Q2/2020 earnings call, management reported that revenues grew by 3.3% to a record \$977 million(mm) despite the challenges presented by Covid. Outperformance was attributed to organic volume growth (+\$93mm), acquisitions (+\$30mm), price inflation (+\$25mm), and currency exchange gains (+\$15mm). However, these gains were partially offset by a -\$132 mm draw in the Food Service and Quick Sales Restaurants (QSR)

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businesses, attributable to the pandemic. Helping to mitigate the impact of Covid is an ecosystem that benefits from geographical decentralization, supply chain diversity, and a company-wide entrepreneurial spirit.

With a compound annual growth rate (CAGR) of 22% over the last 16 years, PBH continues to capitalize on its growth strategy. Organically, the growth is focused on product differentiation, a premium quality product line, and investment in infrastructure. On the acquisition front, PBH has capitalized on its growing reputation and infrastructure expertise. In Q2/20 PBH completed a combined equity/debt offering that added \$308mm onto the balance sheet. This allowed PBH to reduce senior debt and increase unused credit capacity to \$690mm, which can be used to pursue further acquisitions while maintaining a healthy balance sheet.

The Palos Income Fund made our initial purchase of PBH shares in March 2019 and the Total Return over this time span has been 43.7%. PBH has paid an uninterrupted quarterly dividend over the last decade and 5-year dividend growth is 10.9%. Given the company's impressive growth trajectory, management expertise and diversification attributes, we are maintaining our positive outlook on PBH.

Disclaimer: Palos Funds are shareholders of PBH.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$7.73	-3.34%
Palos Equity Income Fund - RRSP	PAL101	\$5.54	-1.97%
Palos Merchant Fund L.P. (Dec 31, 2019) ²	PAL500	\$1.71	20.15%
Palos WP Growth Fund - RRSP	PAL210	\$9.40	22.78%
Palos-Mitchell Alpha Fund ³	PAL300	\$8.95	-13.76%
S&P TSX Composite (Total Return with dividends reinvested)			-2.78%
S&P 500 (Total Return with dividends reinvested)			4.16%
S&P TSX Venture (Total Return with dividends reinvested)			29.34%
Chart 2: Market Data ¹			Value
US Government 10-Year			0.69%
Canadian Government 10-Year			0.58%
Crude Oil Spot			US \$41.11
Gold Spot			US \$1953.20
US Gov't10-Year/Moody BAA Corp. Spread			265 bps
USD/CAD Exchange Rate Spot			US \$0.7573

¹ Period ending September 18, 2020. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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