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# 2024 CANADIAN FOOD INDUSTRY REPORT

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# 2024

## CANADIAN FOOD INDUSTRY REPORT

# FOOD *in* CANADA

Canada's food & beverage processing magazine

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# EXECUTIVE SUMMARY

Growth slowed in 2023 as real after inflation spending on food and beverages declined in the domestic market. The downturn would have been worse for food and beverage manufacturers if not for a real decline in imports that allowed them to gain share at home while exports grew modestly. The most significant change was moderated growth in previously strong sectors such as meat and poultry and other food products. Only three of the 10 sectors—beverages, seafood, and animal food—experienced a decline of real value added greater than one per cent in 2023. The two sectors that significantly outperformed the industry average were fruit and vegetable processing, which grew real value added by four per cent after six per cent gains in 2022, and grain and oilseed milling, which grew by 11 per cent in 2023 after two per cent growth in 2022.

## CAPITAL INVESTMENTS

The most significant capital investments last year centred on expanding production capacity for commodities. Sucro Can Sourcing plans to build a \$135 million sugar refinery in Hamilton. Rogers Sugar will invest \$200 million to expand its Montreal sugar refinery. P&H Milling Group and Parrish and Heimbecker add a third flour mill to their Hamilton operations. ADM expands its Port Windsor grain terminal.

Beyond commodities, Adriani SpA of Italy will build its first North American facility in London to produce gluten- and allergen-free pasta and Cafe William opened a new plant in Sherbrooke, Que.

## MERGERS & ACQUISITIONS

Food manufacturers are restructuring their production assets to focus on their strengths and goals. Unilever will spin off the ice cream business to focus on its beauty, personal care, home care and nutrition

## THE OUTLOOK

The recent substantial investments by grocers into their discount banners indicate that spending will remain focused on value for the foreseeable future. The success of many premium-priced options such as gourmet chocolate and high protein bread, however, suggest opportunities for affordable luxuries and functional foods.

Rabobank noted earlier this year that a more stable environment for commodities and limited supply chain constraints in 2024 will allow manufacturers the margins necessary for promotional activities to restore volumes.

Growth in some previously high growth categories, such as ready-to-drink cocktails and RTD coffee, is forecast to slow as markets approach saturation. Energy drinks and the emerging hydration beverages are forecast to lead overall non-alcoholic beverage growth. In the food categories, nutrition/intrinsic health bars as well as naan, pitas, tortillas, and other flat breads are forecast to outperform. 

businesses. Mondelez International sold its developed market gum business in North America and Europe to Perfetti Van Melle to focus on Toblerone and other premium confectionery brands. Nestle and Mars also expanded their premium confectionery exposure with the former's purchase of Mexico's Grupo CRM and the latter's acquisition of U.K.-based Hotel Chocolat. Brown-Forman sold its Finlandia vodka brand as it premiumizes its spirits portfolio. Campbell Soup acquired Sovos Brands to expand into premium sauces, soups, and pastas.

## TRADING DOWN, SAVING MONEY

Food inflation is causing Canadians to spend less at grocery stores to balance their budgets. Dr. Sylvain Charlebois, senior director of the Agri-Foods Analytics Lab at Dalhousie University, Halifax, explained that in January 2024, the average per capita spending on food was \$248 at retail, down four per cent from the January 2023 in real inflation adjusted dollars and down 12 per cent from seven years earlier.

Canadians have cut back on discretionary foods and beverages, such as salty snacks, soft drinks, confectionery, and packaged cookies. They shifted their protein purchases from beef to pork and seafood to eggs. Private label brands have gained share in all categories, especially packaged bread, coffee, and edible oils.

Households are sacrificing on convenience to prepare meals from scratch or, more often, from prepared ingredients and leftovers, hence the remarkable success of marinades, sauces, and dressings. Demand has shifted to prepared meals for many, such as a 1-kg frozen lasagna, from meals for few.

## SPENDING FAVOURS EXPERIENCES

Consumer spending has shifted to necessities, such as rent and mortgage payments, but also to experiences rather than goods. Spending on food in restaurants rose as spending at stores declined. The average cheque size declined, as diners ordered fewer drinks and dishes and dined off premises to avoid paying tips. Additionally, more consumer ordered take-out than delivery to avoid delivery charges.

Consumers are also redefining value, unwilling to buy their favourite soft drink, cereal, coffee, or tea unless it delivers functional benefits such as energy, protein, alertness, or calm.

## GOOD- AND BETTER-FOR-YOU OUTPERFORM

Good-for-you foods are making a comeback after COVID shifted demand to conventional alternatives. Wendy Davidson of Hain Celestial cited mid-2023 as the turning point as consumers reverted to historical behaviours in the snack category. Barry Callebaut noted healthy indulgence (foods high in protein, calcium, vitamins, and minerals) is in its infancy in confectionery, but flagged it as a trend to watch.

The larger better-for-you foods category is outperforming conventional alternatives. In confectionery, Hershey brought its Oat Made Hershey bars to Canada earlier this year and last fall, Kraft Heinz launched its plant-based Kraft Not Mac & Cheese. Mondelez introduced its gluten-free Oreos in December 2023.

Whether it's chips, candy, cookies or crackers, consumers increasingly favour portion control. NielsenIQ reports that 'indulgent portion control' accounts for multi-packs gaining momentum relative to singles. 

# ECONOMIC OVERVIEW

## INPUT COSTS TO MODERATE OR DECLINE

Last year and this year will undo the run-up in commodity prices as global economic growth slows from the six per cent pace of 2021 to half that in the succeeding two years. West Texas Intermedia Crude oil, which reached a decade high of US\$94 per barrel in 2022 declined to US\$78 last year and is forecast to rise by a modest three per cent to US\$80 this year, according to BMO Capital Markets.

Prices for canola and soybeans are forecast to decline by a further 16 per cent in 2024, wheat and corn by 10 per cent and 20 per cent respectively. Hog prices, which fell by 17 per cent last year to US\$81 per hundredweight, are forecast to rise by six per cent to US\$85 while the double-digit annual growth in cattle prices will ease back to one per cent, bringing average 2024 prices to US\$175 per hundredweight.

Wages, which rose by 3.6 per cent in 2023 should rise more slowly in 2024 as tight labour markets ease. The unemployment rate, which had fallen to 5.4 per cent in 2023 are forecast by BMO to rise to 6.3 per cent this year. The Canadian dollar is forecast to stabilize at US\$0.74, easing the inflationary pressure on imported goods.

## LABOUR PRODUCTIVITY DECLINES

Labour productivity declined by three per cent in 2023 to \$115,000 per employee (salaried and hourly paid). Kiefer Van Mulligen, senior economist, economic forecasting, with the Conference Board of Canada notes that labour productivity across all industries is a growing concern, and cites a recent speech by Carolyn Rogers, senior deputy governor of the Bank of Canada, on the causes, of which two seem relevant to the food and beverage sector—weak capital investment per worker and a reliance on temporary workers, which “may act as a disincentive for firms to make productivity-boosting investments” (*i.e.* cost advantage of lower labour costs). Capital investment has slowed since reaching a decade peak of \$5 billion in 2019. Nominal investment growth declined by 10 per cent to an average of \$4.5 billion over the next four years but

Real spending on food and beverages at retail declined for the second consecutive year in 2023 to \$160 billion chained 2017 dollars, the most substantial drop since the 2009 recession as interest rates climbed to 2001 levels. A sharp rise in Canada’s population in 2023 meant that per capita spending declined even more. Food’s share of overall spending declined as consumers traded down at supermarkets to pay higher prices for mortgages and rental housing. Grocers resisted producers’ efforts to pass on rising costs and gross margins fell to 85.5 per cent of pre-COVID levels of 2019. Most commodity prices declined in 2013 and are expected to decline further in 2024 allowing producers to both lower prices and increase margins.

adjusted for rising costs, real spending dropped by more than 20 per cent. Wages have been rising in the food and beverage industry, but not enough to trigger significant capital investments in productivity.

## THE STRUGGLING AND THRIVING

Generalizations about the cost-of-living crisis fail to capture the different circumstances facing various groupings of Canadians. The 475-basis point rise in interest rates between February 2022 and August 2023 was a major hit on Canadian homeowners renewing mortgages and prospective home buyers seeking mortgages. Canada Mortgage and Housing Corporation (CMHC) reports that over a million households will renew mortgages this year and a million next year and two-thirds of those mortgages are uninsured. In March 2024, CTV reported that asking prices for rental units in Canada rose 21 per cent over the past two years. Rising interest rates, however, are a boon to Canadians with money to invest and no burden on the two-thirds of homeowners that are mortgage-free.

Angus Reid reported in March 2024 that the groups hardest hit by the cost-of-living crisis are those aged 35 to 54. Its latest survey found ↗

## Shipments, Imports, Exports & Domestic Market for the Canadian Food and Beverage Industry 2019 to 2023

	UNITS	2019	2020	2021	2022	2023	2023 VS 2019
<b>SHIPMENTS (1)</b>	<b>\$ BILLION</b>	\$119.9	\$123.5	\$139.6	\$153.5	\$165.3	
	<b>% CHANGE</b>	3%	3%	13%	10%	8%	38%
<b>IMPORTS (2)</b>	<b>\$ BILLION</b>	\$35.1	\$36.7	\$38.0	\$45.0	\$46.3	
	<b>% CHANGE</b>	4%	5%	3%	18%	3%	32%
<b>EXPORTS (2)</b>	<b>\$ BILLION</b>	\$38.9	\$40.8	\$47.6	\$54.4	\$57.4	
	<b>% CHANGE</b>	7%	5%	17%	14%	5%	47%
<b>BALANCE OF TRADE (2)</b>	<b>\$ BILLION</b>	\$3.8	\$4.1	\$9.6	\$9.4	\$11.0	188%
<b>DOMESTIC MARKET (3)</b>	<b>\$ BILLION</b>	\$116.1	\$119.4	\$130.0	\$144.1	\$154.3	
	<b>% CHANGE</b>	2%	3%	9%	11%	7%	33%
<b>PROCESSOR PRICES (4)</b>	<b>INDEX</b>	98.2	102.2	111.0	122.3	126.6	
	<b>% CHANGE</b>	2%	4%	9%	10%	4%	29%
<b>F&amp;B GDP AT BASIC PRICES (5)</b>	<b>\$ BILLION</b>	\$33.5	\$33.1	\$34.7	\$35.4	\$35.2	
	<b>% CHANGE</b>	1%	-1%	5%	2%	-1%	5%
<b>EXPORT INTENSITY (6)</b>	<b>PER CENT</b>	32%	33%	34%	35%	35%	9%
<b>DOMESTIC MARKET SHARE (7)</b>	<b>PER CENT</b>	70%	69%	71%	69%	70%	0%

1.Statistics Canada, Table 16-10-0047-01 Manufacturers' sales, inventories, and orders, by industry 2. Statistics Canada, Table 12-10-0136-01 Canadian international merchandise trade by industry

3. Domestic Market = Shipments + Imports – Exports 4. Statistics Canada, Table 18-10-0267-01 Industrial product price index, by industry, monthly 5. Statistics Canada, Table 36-10-0434-01 Gross domestic product (GDP) at basic prices, by industry, monthly 6. Export Intensity = Exports/Shipments 7. Domestic Market Share = (Shipments – Exports) / Domestic Market

## > ECONOMIC OVERVIEW

### Key Economic Indicators: Canadian Food and Beverage Industry, 2019-2023 and Comparison 2023 vs 2019

	UNITS	2019	2020	2021	2022	2023	2023 VS 2019
<b>F&amp;B EMPLOYMENT (1)</b>	<b>PERSONS</b>	289,593	279,599	293,952	300,370	306,513	
	<b>% CHANGE</b>	4%	-3%	5%	2%	2%	6%
<b>F&amp;B AVERAGE WEEKLY HOURS (2)</b>	<b>HOURS</b>	35.2	34.9	34.9	35.4	36.5	
	<b>% CHANGE</b>	4%	-1%	0%	1%	3%	4%
<b>F&amp;B AVERAGE EARNINGS (3)</b>	<b>\$/HOUR</b>	\$20.81	\$23.02	\$23.51	\$24.28	\$24.89	
	<b>% CHANGE</b>	-2%	11%	2%	3%	3%	20%
<b>LABOUR PRODUCTIVITY (4)</b>	<b>\$'000 (2017)</b>	\$115.8	\$118.5	\$118.0	\$118.0	\$114.9	
	<b>% CHANGE</b>	-3%	2%	0%	0%	-3%	-1%
<b>CAPACITY UTILIZATION FOOD (5)</b>	<b>PER CENT</b>	80.3	77.7	78.8	79.5	79.5	
	<b>% CHANGE</b>	-1%	-3%	1%	1%	0%	-1%
<b>CAPACITY UTILIZATION BEVERAGE (5)</b>	<b>PER CENT</b>	75.5	73.6	72.1	75.9	71.4	
	<b>% CHANGE</b>	-3%	-2%	-2%	5%	-6%	-5%
<b>F&amp;B CAPITAL EXPENDITURES (6)</b>	<b>\$ BILLION</b>	\$4.984	\$4.530	\$4.259	\$4.206	\$4.468	
	<b>% CHANGE</b>	15%	-9%	-6%	-1%	6%	-5%
<b>CPI FOOD (7)</b>	<b>INDEX 2002=100</b>	150.2	153.7	157.5	171.5	184.3	
	<b>% CHANGE</b>	4%	2%	2%	9%	7%	23%
<b>INFLATION (7)</b>	<b>INDEX 2002=100</b>	136.0	137.0	141.6	151.2	157.1	
	<b>% CHANGE</b>	2%	1%	3%	7%	4%	16%
<b>F&amp;B SPENDING AT RETAIL (8)</b>	<b>\$ BILLION (2017)</b>	\$135.9	\$146.3	\$145.6	\$140.5	\$138.4	
	<b>% CHANGE</b>	0%	8%	0%	-4%	-1%	2%
<b>F&amp;B SPENDING AT FOOD SERVICE (8)</b>	<b>\$ BILLION (2017)</b>	\$75.0	\$52.3	\$60.1	\$71.0	\$74.5	
	<b>% CHANGE</b>	1%	-30%	15%	18%	5%	-1%
<b>CANADIAN GDP (9)</b>	<b>\$ BILLION (2017)</b>	2,241	2,128	2,241	2,327	2,351	5%
	<b>% CHANGE</b>	2%	-5%	5%	4%	1%	5%
<b>HOUSEHOLD INCOMES (10)</b>	<b>\$ BILLION</b>	1,280	1,388	1,435	1,514	1,597	25%
	<b>% CHANGE</b>	5%	8%	3%	5%	5%	25%
<b>HOUSEHOLD DEBT (11)</b>	<b>DEBT/INCOME</b>	181.4	176.3	178.1	185.2	181.8	0%
<b>UNEMPLOYMENT RATE (12)</b>	<b>RATE</b>	5.7	9.7	7.5	5.3	5.4	-5%
<b>WTI (13)</b>	<b>US\$/BBL</b>	57.01	39.31	67.96	94.43	77.67	36%
<b>EXCHANGE RATE (14)</b>	<b>CAD/USD</b>	0.75	0.75	0.8	0.77	0.74	-2%
<b>BANK RATE (15)</b>	<b>PER CENT</b>	2.00	0.81	0.5	2.18	4.99	150%
<b>CANADIAN POPULATION</b>	<b>MILLION</b>	37.6	38.0	38.2	38.9	40.0	6%

**8.** Statistics Canada, Table 14-10-0201 Employment by industry, monthly, unadjusted for seasonality **9.** Statistics Canada, Table 14-10-0255-01 Average weekly hours for employees paid by the hour, by industry, unadjusted for seasonality **10.** Statistics Canada, Table 14-10-0205-01 Average hourly earnings for employees paid by the hour, by industry, unadjusted for seasonality **11.** Statistics Canada, Table 36-10-0434-01 Gross domestic product (GDP) at basic prices, by industry - divided by number of salaried and hourly paid employees **12.** Statistics Canada, Table 16-10-0109-01 Industrial capacity utilization rates, by industry **13.** Statistics Canada, Table 34-10-0107-01 Household final consumption expenditure **14.** Statistics Canada, Table 18-10-0004-01 Consumer Price Index, monthly, not seasonally adjusted **15.** Statistics Canada, Table Household final consumption expenditure, quarterly, Canada **16.** Statistics Canada, Table 36-10-0104-01 Gross domestic product, expenditure based, Canada, quarterly **17.** Statistics Canada, Table 36-10-0112-01 Current and capital accounts – Households, Canada, quarterly **18.** Statistics Canada, Table 38-10-0235-01 Financial indicators of households, national balance sheet accounts **19.** Statistics Canada, Table 14-10-0287-01 Labour force statistics, monthly, seasonally adjusted **20.** The World Bank: Commodity Markets: Monthly Prices, Crude oil, West Texas Intermediate (WTI) **21.** Statistics Canada, Table 33-10-0163-01 Monthly average foreign exchange rates in Canadian dollars, Bank of Canada **22.** Statistics Canada, Table 17-10-0009-01 Population estimates, quarterly

### THE OUTLOOK

Real foodservice sales are expected to decline by 1.1 per cent in 2024, according to Restaurants Canada. The Conference Board of Canada forecasts a continued slowdown in income growth with disposable incomes growing by only 3.5 per cent this year.

Farm Credit Canada forecasts a 2.1 per cent decline in food and beverage manufacturers' sales in 2024 following the 1.5 per cent decline in 2023. But sales volumes and margins will rise as falling costs of commodities allow manufacturers to raise their gross margins to 87 per cent of 2019 levels from the 85.5 per cent level of 2023. 

that the groups defined as 'struggling' and 'thriving' grew over the previous 18 months while the two groups in the middle—the 'uncomfortable' and the 'comfortable'—shrank. The share of households struggling grew to 29 per cent and the thriving group expanded to 25 per cent. For marketers it is particularly concerning that three-in-five of the struggling group expect their financial situation to deteriorate further.

Grocers are investing in discount banners to capture this surge in down trading. JLL Retail's North American Grocery Report of February, reported, "Companies have witnessed strong performances from their discount banners and products, leading to increased same-store sales, footfall, loyalty membership, and market share." In February 2024, Loblaw Companies announced plans to invest \$2 billion in 2024 on expanding its retail network, including the building of 40 new discount stores, and expanding or relocating 10 more. 



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# BAKED GOODS SECTOR

[sector snapshot]



The baked goods sector includes most grain-based foods with the exception of snack foods, which fall into the Other Food Products sector, and breakfast cereals, covered in the Grain and Oilseed Milling sector. Fresh and frozen breads, rolls, cakes, and pastries

account for 75 per cent of sector shipments; cookies and crackers for 16 per cent; and flour mixes, dough, and dry pasta for eight per cent. Retail bakeries, including in-store bakeries, are classified as manufacturers for statistical purposes. Together they

accounted for 12 per cent of the shipments of bread, rolls, cakes, and pastries.

Shipments rose in value by 12 per cent to \$17.8 billion in 2023, but adjusted for manufacturers' price increases, volume was unchanged from 2022. Volume

in 2022 was down one per cent for the year previous. The value of the domestic market rose by nine per cent to \$13.7 billion but adjusted for prices, volume declined by three per cent. Real value-added declined by one per cent to \$4.8 billion (2017 dollars).

## INTERNATIONAL TRADE

The value of exports increased by \$1 billion to \$7.2 billion in 2023, reflecting nominal growth of 15 per cent and inflation adjusted growth of two per cent. The bread, rolls, cake, and pastry sub-sector accounts for two-thirds of Canada's baked goods exports, and cookies, crackers, pasta, dough, and baking mixes for the remainder. In 2023, the bread and rolls sub-sector increased its exports by double digits for the third straight year while cookies and crackers sub-sector export sales expanded by high single digits. In both cases, the U.S. accounted for 95 to 98 per cent of the export sales. Exports explained two-thirds of the increase in Canada's \$4.1 billion balance of trade surplus in baked goods in 2023. Imports accounted for the remainder. Although the value of imports increased in nominal terms, they declined by five per cent in price adjusted dollars and lost some share of the domestic market to Canadian bakers.

## CAPITAL INVESTMENTS

In January 2024, Andriani SpA of Italy announced plans to build its first North American production facility in London, Ont. The 61,225-sf

facility will produce gluten-, allergen-, and GMO-free pasta to replace the products it has been importing from Italy. The \$33.6 million facility will employ 42 people when operational.

In November 2023, Nissin Foods USA, announced a US\$228 million investment to develop a third U.S. manufacturing facility to meet surging demand for its popular ramen products including Top Ramen. Construction of the 640,000-sf plant in South Carolina began in December 2023 and operations are planned to start in August 2025.

## MERGERS AND ACQUISITIONS

J&J Snack Foods announced the acquisition of the Thinsters cookie brand from Hain Celestial Group in April 2024. Hain divested the popular Thinsters cookies to focus on its better-for-you-brands. Dan Fachner, president and CEO of J&J, said, "This acquisition is a natural fit for us, complement our already vast offering of cookies and baked goods."

St-Methode Bakery (BSM), Quebec's second-largest bread producer, was acquired in January 2024 by Swander Pace Capital in partnership with CDPQ and Roynat Equity Partners.

Grupo Bimbo SAB acquired Denver-based Mile Hi Bakery in October 2023. Mile Hi is a supplier of buns and English muffins for the quick-service restaurant (QSR) channel. Rafael Pamias, Bimbo's chief operating officer, said in an investor presentation, "This strategic acquisition strengthens our geographic presence in this high-growth industry and opens doors to new QSR customers in the U.S."

Family-owned Redwood Holdings of Cincinnati acquired food ingredient company Newly Wed Foods of Chicago in October 2023 for approx. US\$4 billion. Newly Wed, with 29 plants around the world including Mississauga, Ont., produces ingredients and additives including batters, binders, coatings, baking mixes, spices, seasoning blends, and dough conditioners.

The J.M. Smucker Co. completed its US\$5.6 billion acquisition of Hostess Brands in November 2023. The transaction includes the Hostess sweet baked goods brands along with manufacturing facilities in five U.S. states as well as the Voortman plant in Burlington, Ont.

Grupo Bimbo acquired rye bread baker Natural Bakery of Winnipeg in April 2023. Bimbo's executive chair Daniel Servitje said at the time of the acquisition that Natural Bakery is "a one-bakery operation specializing in the production and sales of rye bread, strengthening our health and wellness portfolio."

Lactalis Canada acquired Marie Morin Canada in August 2023, a Quebec-based maker of premium desserts including its signature cheesecakes. The company employs 52 people at its Saint-Bruno-de-Montar-

## Bakeries and Tortilla Manufacturing

	UNITS	2023	2022 VS 2021	2023 VS 2022
<b>SHIPMENTS (1)</b>	<b>\$ BILLION</b>	\$17.8	14%	12%
<b>IMPORTS (2)</b>	<b>\$ BILLION</b>	\$3.1	24%	8%
<b>EXPORTS (2)</b>	<b>\$ BILLION</b>	\$7.2	29%	15%
<b>DOMESTIC MARKET (3)</b>	<b>\$ BILLION</b>	13.7	10%	9%
<b>TRADE BALANCE (2)</b>	<b>\$ BILLION</b>	\$4.1	33%	21%
<b>PROCESSOR PRICES (4)</b>	<b>INDEX, 2020=100</b>	133.8	15%	12%
<b>REAL SHIPMENTS (5)</b>	<b>PER CENT</b>		-1%	+/-0%
<b>REAL GDP (6)</b>	<b>\$ BILLION</b>	\$4.8	-1%	-1%
<b>EXPORT INTENSITY (7)</b>	<b>PER CENT</b>	40%	13%	4%
<b>DOMESTIC MARKET SHARE (8)</b>	<b>PER CENT</b>	78%	-3%	+/-0%

**Sources:** 1) Statistics Canada, Table 16-10-0047-01 Manufacturers' sales, inventories, orders... by NAICS (North American Industry Classification System) - Sales of goods manufactured - billions of dollars - seasonally unadjusted 2) Statistics Canada, Table 12-10-0136-01 Canadian international merchandise trade by industry - billions of dollars - not seasonally adjusted 3) Calculated (shipments + imports - exports)

4) Statistics Canada, Table 18-10-0267-01 Industrial product price index, by industry, monthly Index 2020=100 5) Calculated (shipment change - price change) 6) Statistics Canada, Table 36-10-0434-01 Gross domestic product at basic prices, by NAICS (North American Industry Classification System) - billions of dollars (2017 constant prices) - seasonally adjusted 7) Calculated (exports/domestic market) 8) Calculated ((shipments-exports)/domestic market)



ville plant. Mark Taylor, president and CEO of Lactalis Canada, said the acquisition, "will enable Lactalis Canada to pursue its strategy in developing desserts for the North American market."

In December 2023, CTH Invest, a Ferrero-related holding company, entered exclusive negotiations to acquire Michel et Augustin, a France-based baker of sweet and savoury biscuits and snacks from Danone.

## THE DOMESTIC MARKET

In 2024, the baked goods sector may return to pre-COVID trends after four years of turmoil caused by supply chain disruptions, soaring commodity prices and consumers spending reductions. Rabobank, citing U.S. retail sales data in its January 2024 Bakery Bites report, noted that amid double-digit bakery inflation, "volumes for selected bakery categories in the retail channel were down 2.7 per cent year-over-year with average prices 10.6 per cent higher." Rabobank's modestly positive outlook for this year is based on its expectations of a more stable environment for commodities and limited supply chain constraints, which "in addition to improved margins," writes Rabobank analyst J.P. Frossard, "should create room for promotional activities to restore volumes."

Farm Credit Canada (FCC) noted in its 2024 Food and Beverage Report that the sector's double-digit sales growth of the last two years reflected soaring prices and flat to declining volumes. FCC estimated volume to have been flat in 2023 following a one per cent decline in 2022.

## SAVE AND SPLURGE

There were exceptions to the overall trend to discount grocers and club stores, from bricks and mortar retailers to online, and national brands to private label. Martin Barnett, executive director of the Baking Association of Canada, notes strong sales for \$7 to \$9 artisan breads and for \$4 to \$5 pastries. Ryals McMullan, Flowers Foods chair and CEO, told investors during the company's year-end earnings call in February 2024, "Dave's Killer Bread was a particular standout, achieving a record US\$1 billion in retail sales." Despite a suggested retail price of \$6 per loaf, it grew unit volumes in tracked channels by 10 per cent while the overall bread category, with an average price of approximately \$3.50 per unit, declined three per cent.

These exceptions are partially explained by the save and splurge phenomenon wherein consumers cut back elsewhere to have money left over for an exceptional pastry for weekend guests or an artisan bread for a once-a-week meal for the whole family. Tania Goecke, vice-president of marketing for Bimbo Canada, notes strong sales for its premium Oroweat Keto Tortillas, which it launched in 2023. "People are prepared to pay for an elevated experience," she says.

## MINDFUL CONSUMPTION

Sales of high protein, sustainably sourced, vegan, and organic baked goods have held up remarkably well despite the overall downtrading trend. Lorelei Begin, vice-president of North American retail at Nielsen IQ, noted in its Snackonomics presentation at GroceryShop in Las Vegas in September 2023, "Top quality nutrition matters to the 42 per cent of consumers who claim their eating habits have been healthier in

## Bakeries and Tortilla Manufacturing Regional Breakdown of Canadian Output and International Breakdown of Imports and Exports

SHIPMENTS (1)	CANADA	ONT	QUE	B.C.	ROC
2022	\$14.9 BILLION	66%	18%	7%	9%
EXPORTS (2)	WORLD	USA	UK	MEXICO	ROW
2023	\$7.2 BILLION	97%	1%	1%	1%
IMPORTS (2)	WORLD	USA	ITALY	MEXICO	ROW
2023	\$3.1 BILLION	68%	6%	3%	23%

**Sources:** (1) Statistics Canada, Table 16-10-0117-01 Principal statistics for manufacturing industries by NAICS (North American Industry Classification System) – Revenue from goods manufactured (2022) - billions of dollars – not seasonally adjusted (2) Statistics Canada, Table 12-10-0136-01 Canadian international merchandise trade by industry (2023) - billions of dollars – not seasonally adjusted

the past year. Better-for-you products and functional ingredients are attractive to many," she said. "Those package labels are critical."

Mintel notes in its Dessert Industry Trends in the U.S. report of October 2023, "Brands can remove the guilt associated with dessert eating by leaning toward sustainability, providing consumers with responsible indulgence."

Barnett also mentioned the current research into alternative grains, texturizers, legume proteins and starch blends that perform like traditional ingredients, while "delivering a better sustainability narrative, which is appealing to consumers."

## MILLENNIALS OPEN TO INNOVATION

The growth categories in general and flat breads in particular are over indexing among Millennials (ages 28 and 43) and Gen Z (ages 12 to 27). Through their travels overseas and dining out in ethnic restaurants in Canada they have developed an openness for naan, pitas, tortillas, and other world cuisines. Mintel noted these younger consumers have a stronger preference for unique creations in the cookie category relative to Gen X and boomer generations and "Gen Z's adventurous, sense-driven palates point toward the potential for targeted dessert innovation."

Kellanova is targeting this demographic in its current roll-out of Cheez-It beyond North America. In February 2024, Steve Cahillane, chair, president, and CEO of Kellanova, told investors the snack cracker will follow on the success of Pringles. First launched in Canada in 2020, Kellanova will launch it major European markets in the back half of 2024. The company noted, "Cheez-It is most popular as an afternoon snack or evening fun munch and, with more movement outside the home, we're seeing a rise in on-the-go consumptions. Cheez-it specifically overdevelops with families and Gen Z."

## OPPORTUNITIES IN RISING LABOUR COSTS

The high and rising costs of labour at foodservice has significantly benefited food processors generally and bakeries, in particular, as restaurants opt for par-baked breads and rolls in lieu of scratch baking and as the home meal replacement departments of supermarkets switch to premade desserts. Dirk Van de Put, chair and CEO of Mondelez International, said its Toronto-based Give & Go Prepared Foods subsidiary, which it acquired in 2020, "will continue to see big growth because" →

## > BAKED GOODS SECTOR

clients like Target and Walmart are moving from made-in-store towards freeze-and-thaw, which is what Give & Go is offering here." Mondelez estimates the value of in-store bakery cakes and pastries to be worth US\$900 million annually.

Chris Elliott, chief economist and vice-president research for Restaurants Canada, explains why labour savings are so important to restaurateurs. "Foodservice is very labour intensive, requiring 12.8 employees for each \$1 million in receipts compared to 3.9 for grocery stores and 2.7 for general merchandise stores." Elliott doesn't expect labour costs of the association members to ease any time soon, in part because, "six out of 10 provinces raised minimum wages, effective October 2023, in the range seven to 10 per cent." He does caution that restaurateurs won't sacrifice quality and freshness regardless of the promised savings offered by partially or fully prepared foods.

### WEIGHT-LOSS DRUGS

Surging growth in the use of diabetes drug Ozempic and related GLP-1 receptor agonists that regulate dopamine and help the body process sugar more effectively will be a particular challenge for baked goods, but also an opportunity for the most nutritious. A Numerator Intelligence report in November 2023 found that among the 11.8 per cent of 100,000 survey respondents using GLP-1 drugs, the worst-performing food categories were packaged sweet baked goods, packaged cookies, cold cuts, and chips. It is noteworthy that among respondents taking GLP-1 drugs specifically for weight-loss, most are younger and higher income. Forty-three per cent are Gen X, 35 per cent are high income, 39 per cent are suburban and 31 per cent are Black or Hispanic. Dr. Leo Feler, Numerator's chief economist said in December 2023 that the group driving growth in GLP-1 use are those buying the drugs for weight loss and these consumers "tend to have larger declines in spend (on food and beverages) than those using the medication for diabetes. Reduction in buy rate are even more significant for consumers using the

### THE OUTLOOK

Profitability will improve throughout 2024 as bakers capture a portion of the declining cost of flour, oils, Class 5 butter, and other ingredients while retail and foodservice customers capture the rest. This will allow, as noted earlier, more trade spending to promote categories and brands and this will restore some volume lost in 2023. Consumers that switched to private label for low-margin breads and other baked goods are unlikely to return to national brands given the economic outlook for 2024 but hearth baked breads, decadent desserts and other special occasion items will do well among save-and-splurge consumers.

Farm Credit Canada forecasts a 4.3 per cent increase in shipments in 2024, but the nominal value of sales would decline due to falling ingredient and finished product prices. The sector could outperform 4.3 per cent growth if the U.S. economy defies expectations and grows at its current pace. 



medication to lose 15 lb or less."

Jennifer Ziegler, associate director of food and drink for Mintel, noted in December that consumers may seek the benefits of GLP-1 drugs by switching to foods that provide the same sensation of 'feeling fuller for longer' without taking the GLP-1 drugs. She explains, "In contrast to the drugs, which are currently very expensive, nutritious and filling, food and drink can be seen as having good value..." Ryals McMullan, chair and CEO of Flowers Foods (Wonder Bread), similarly sees an opportunity for his company's products with consumers taking these drugs as they seek out healthier foods, which "could drive demand for some of our breads and snacks."

Mondelez International is zeroing in on better-for-you in 2024. Dirk Van de Put said earlier this year, "We are gradually eliminating close to half of these small (innovation) projects because, over time, they don't have much impact on the business. We are shifting our focus to bigger innovation projects... first, making healthier versions of our mainstream products." He cited Oreo gluten-free and Oreo sugar-free as examples, adding, "You can expect that we will continue to expand those efforts across other brands."

### PORTION PACKS AND AFFORDABLE LUXURIES

Consumers were buying larger packages to reduce unit cost, particularly multi-packs. In its September 2023 Snackonomics report, NielsenIQ noted, "Multi-packs were also gaining more momentum over singles, as consumers seek on-the-go convenience, variety, indulgent portion control, and savings." The report cites retail sales data showing overall growth in the cookie category of one per cent (52 weeks to May 2023) but 19 per cent growth in sales of multi-packs. For crackers, retail sales declined two per cent while multi-pack sales rose three per cent.

Dirk Van de Put said in January 2024, "More than 55 per cent of our snack revenue comes from mindful portion snacks, that is, snacks that are packaged individually wrapped in mindful portion serving sizes or with clear mindful portion recommendations on the pack."

Trading up in the midst of trading down favours fewer but better baked goods items. Tania Goecke of Bimbo Canada cited the increased popularity of brioche rolls as an example as well as Bimbo's recently launched Villaggio Rustico hearth baked artisan bread. J.P. Frossard of Rabobank cited both brioche and artisan bread as examples of choices consumers make to "offset less frequent dining out." 

# DAIRY SECTOR

[sector snapshot]



The dairy sector comprises three sub-sectors: Fluid milk manufacturing including milk, cream, cottage cheese, sour cream, dairy substitutes, and yogurt (35 per cent); butter, cheese products, dry and canned dairy products (59 per cent); and ice cream, sherbet, and similar frozen desserts (five per

cent based on 2022 data).

Dairy sector shipments were up four per cent over 2022 to \$18.06 billion, an annual increase of \$723 million. Imports were \$1.63 billion, up 9.1 per cent over 2022, and exports increased by just 3.4 per cent to \$1.24 billion. The domestic market settles out at a 4.5 per

cent increase at \$18.5 billion.

Processor prices increased 3.9 per cent year over year resulting in real shipments increasing only 0.12 per cent. The net GDP for the dairy sector came in at -1.6 per cent.

The Canadian Dairy Commission recommended a 1.7 per cent increase in farm milk prices

from May 1, 2024. Both the price increase and implementation dates are departures from historical practice. Price changes normally occur in February and this adjustment is the lowest in the last five years, the largest of which was an 8.4 per cent adjustment in 2021.

## INTERNATIONAL TRADE

The dairy, egg and poultry sectors are controlled by supply management, which protects the domestic market from foreign competition. As a result, imports capture a small, but growing portion of the domestic market, with nine per cent in 2023. Imports hold an increasingly significant share of the variety cheese market. The higher prices made possible through restrictions on imports make Canadian dairy products relatively uncompetitive in export markets. Exports accounted for seven per cent of domestic shipments in 2022 with dry dairy products more export-oriented than milk and ice cream.

The U.S. was Canada's largest export customer with 78.8 per cent of exports, followed by Egypt at 3.4 per cent, Algeria at 2.2 per cent and China at 1.78 per cent. Fifty-two per cent of Canada's imports came from the U.S., 10.8 per cent from New Zealand and 8.8 per cent from Italy.

A Pacific Rim trade dispute panel found Canada's dairy-sector protections violate obligations that Ottawa signed with New Zealand and other countries. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership includes certain quotas for countries to export dairy at preferred tariff rates into other member countries. Australia and Japan filed submissions in support of New Zealand, while Mexico, Peru and Singapore also expressed an interest in pushing back against Canada's use of dairy quotas. The dispute-settlement report sided with New Zealand on two complaints, finding the country could not use Canada's quotas and that Canada gave priority access to its own dairy processors, while rejecting two other arguments.

Canada also had a trade dispute with the U.S. However, the Canada-United States-Mexico Agreement (CUSMA) trade dispute settlement panel concluded the Canadian measures were "not inconsistent" with the terms of CUSMA. U.S. milk producers had accused Canada of "playing games" with its largest trading partner.

The deal between Canada and the United Kingdom established after Brexit that allowed the import of British cheddar cheese expired in 2023. Government negotiators are still working on a longer-term bilateral trade deal.

## MERGERS & ACQUISITIONS

Unilever expanded its ice cream portfolio, then spun off the entire ice cream business. In June 2023, Unilever acquired Yasso Holdings, a premium frozen Greek yogurt brand in North America. The acquisition was said to align with the premiumization strategy of Unilever's ice

cream business. However, earlier this year, Unilever announced it was separating its ice cream business from the rest, cutting 7,500 jobs, and focusing on four core business groups across beauty and well-being, personal care, home care and nutrition that have complementary routes to market and/or R&D, manufacturing, and distribution systems. The company's board believe its ice cream business has a very different operating model, and future growth will be better delivered under a different ownership structure. The business has five of the top 10 selling global ice cream brands including Wall's, Magnum, and Ben & Jerry's. The full separation of the business is expected to be completed by the end of 2025.

In August 2023, Lactalis Canada acquired premium dessert manufacturer Marie Morin Canada, thereby entering the dessert category in Canadian and U.S. markets. With traditional French fresh and frozen desserts in glass jars, Marie Morin Canada was established in Quebec in 2004 by David Morin and Sophie Le Vexier. ↗

## Dairy Product Manufacturing

	UNITS	2023	2022 VS 2021	2023 VS 2022
SHIPMENTS (1)	\$ BILLION	\$18.1	8%	4%
IMPORTS (2)	\$ BILLION	\$1.6	22%	9%
EXPORTS (2)	\$ BILLION	\$1.2	31%	3%
DOMESTIC MARKET (3)	\$ BILLION	\$18.5	8%	5%
TRADE BALANCE (2)	\$ BILLION	-\$0.4	2%	-30%
PROCESSOR PRICES (4)	INDEX, Jan 2020=100	116.7	8%	40%
REAL SHIPMENTS (5)	PER CENT		0.13%	0%
REAL GDP (6)	\$ BILLION	\$3.4	0%	-1%
EXPORT INTENSITY (7)	PER CENT	7%	22%	-1%
DOMESTIC MARKET SHARE (8)	PER CENT	91%	-1%	0%

**Sources:** 1) Statistics Canada, Table 16-10-0047-01 Manufacturers' sales, inventories, orders... by NAICS (North American Industry Classification System) - Sales of goods manufactured - billions of dollars - not seasonally adjusted 2) Statistics Canada, Table 12-10-01136-01 Canadian international merchandise trade by industry - billions of dollars - not seasonally adjusted 3) Calculated (shipments + imports - exports) 4) Statistics Canada, Table 18-10-0267-01 Industrial product price index, by industry, monthly Index Jan, 2020=100 5) Calculated (shipment change - price change) 6) Statistics Canada, Table 36-10-0434-01 Gross domestic product at basic prices, by NAICS (North American Industry Classification System) - billions of dollars (2017 chained dollars) - seasonally adjusted 7) Calculated (exports/domestic market) 8) Calculated ((shipments-exports)/domestic market)

## > DAIRY SECTOR

### Dairy Product Manufacturing

#### Regional Breakdown of Canadian Output and International Breakdown of Imports and Exports

SHIPMENTS (1)	CANADA	ONTARIO*	QUEBEC*	PRAIRIE*	ROC*
2023	\$20.2	49%	30%	11%	10%
EXPORTS (2)	WORLD	USA	EGYPT	ALGERIA	RO16
2022	\$1.2	79%	3%	2%	6%
IMPORTS (2)	WORLD	USA	NEW ZEALAND	ITALY	ROW
2022	\$1.6	52%	11%	9%	28%

**Sources:** (1) Statistics Canada, Table 16-10-0117-01 Principal statistics for manufacturing industries by NAICS (North American Industry Classification System) – Total shipments based on revenue from goods manufactured (2022) - billions of dollars – not seasonally adjusted \* but regional breakdown based on manufacturing value added. (2) Statistics Canada, Table 12-10-0136-01 Canadian international merchandise trade by industry (2023) - billions of dollars – not seasonally adjusted

The acquisition includes Marie Morin Canada's production facility in Saint-Bruno-de-Montarville, Que., and the addition of 52 employees.

"We are delighted to add Marie Morin Canada and its product line of signature desserts to the Lactalis Canada family," said Mark Taylor, president & CEO of Lactalis Canada. "As part of our broad-based dairy portfolio that continues to evolve and expand to meet consumer trends and demands, this acquisition will enable Lactalis Canada to pursue its strategy in developing desserts for the North American market and will further expand our product offering for our valued retail and foodservice customers."

### CAPITAL INVESTMENT

Lactalis Canada entered a long-term lease agreement for a new distribution centre in Oshawa, Ont., principally for its cheese and table spreads supply chain network. Set to open in Q4 2024, the 379,000-sf centre will consolidate multiple shipping locations, such as the internally operated Belleville, Ont., distribution centre, used to service the cheese and table spreads category.

Fraser Valley's Vitalus Nutrition will be getting an expanded dairy production plant to help meet growing demand for dairy products. The province of British Columbia is contributing as much as \$25 million to help Vitalus Nutrition's expansion to a 143,500-sf facility in Abbotsford. The larger manufacturing plant will increase B.C. processing capacity by 50 per cent to a new total of approximately 1.4 billion L of milk processed annually.

The governments of Canada and Ontario are investing up to \$8 million, through the Sustainable Canadian Agricultural Partnership, to create or increase processing efficiencies and enhance food safety in the province's dairy processing sector.

Saputo permanently closed its Lancaster, Wis., facility following the start of its recently converted goat cheese manufacturing facility in Reedsburg, Wis. The company intends to transition production from its Lancaster facility to Reedsburg, along with that of its facility in Belmont, Wis., the closure of which was previously announced. The Lancaster and Belmont facilities are expected to close in the fourth quarter of fiscal 2024.

Canada Royal Milk in Kingston, Ont., has been approved by Health Canada to produce infant formula. Previously, it was only producing powdered milk products.

### ANOTHER RECORD YEAR FOR EGGS

Stats Canada reported that Canadian Egg Farmers produced 883 million dozen eggs in 2023. The majority of these (58 per cent) were produced in Ontario and Quebec. The egg market in Canada is divided into two categories—table eggs, which account for roughly 70 per cent of the eggs produced, and processed eggs which make up the remaining 30 per cent. Table eggs are destined for the retail and foodservice market, while the egg processing sector supplies the industrial, foodservice, and retail sectors. Processed eggs are produced from shell eggs broken and processed into whole eggs, albumen, and yolks, in liquid, frozen, and dried forms. Scrambled egg mix, hard-cooked eggs, and egg patties are examples of processed egg products.

### ANIMAL-FREE AND PLANT-BASED OPTIONS PROLIFERATE

A plant-based Kraft Not Mac & Cheese was released in late 2023 by the Kraft Heinz Company. This is the third innovation to launch from the joint venture between the Kraft Heinz Company and The Not Company.

"The Kraft Heinz Not Company creates plant-based versions of fan-favourite foods that taste like the real thing, yet don't require people to drastically change their eating habits," said Lucho Lopez-May, CEO, the Kraft Heinz Not Company. "NotCo brings its revolutionary AI



technology that has a proven track record in creating mouthwatering plant-based foods to Kraft, the beloved mac & cheese brand that sells over a million boxes every day. Leveraging the strengths of both companies, we're offering the creamy and comforting experience Kraft Mac & Cheese fans have loved for over 85 years, without the dairy."

Previously, the two companies debuted plant-based versions of sliced cheese and mayonnaise.

In February 2024, Health Canada approved Remilk's animal-free BLG protein. Remilk is a foodtech company specializing in the production of animal-free dairy protein through precision fermentation. It is the first producer of animal-identical dairy protein to receive approval from Canada. The Letter of No Objection from Health Canada means Remilk can sell its animal-free BLG protein in the country for use in a variety of dairy products such as milk, ice cream, yogurt, and cream cheese.

The dairy alternatives market is expected to grow from about \$26 billion in 2022 to \$66.9 billion by 2030, according to research firm Research and Markets. It is separate from the plant-based milk sector, where beverages are made from soy, almond, coconut, oats, hemp, and other non-animal material.

## AWARD-WINNING PRODUCTS FROM CANADIAN DAIRY AND EGGS

Several Canadian-produced dairy items won the 2024 Product of the Year Awards. The awards are determined through a national survey of 4,000 Canadian shoppers conducted by Kantar Consumer Research. Award-winners include Balderson Aged Gouda by Lactalis Canada; Cheese Fries from Saputo; Iogo's Nano 900-ml drinkable yogurt; Boursin Truffle Salt & Hint of Pepper Cheese from Bel Group Canada; and Chapman's Super Premium Plus Cold Brew Coffee Ice Cream.

## NEW PRODUCTS AND INGREDIENTS

Nestle introduced a sugar reduction technology to reduce intrinsic sugars in key ingredients. Using an enzymatic process, it reduces intrinsic sugar in ingredients such as malt, milk, and fruit juices by up to 30 per cent. The sugar-reduced ingredients can be used to produce low-lactose and skimmed milk-based products. There is no need to add sweeteners or bulking agents to replace the volume of eliminated sugar.

Häagen-Dazs has brought 'ice cream' to the yogurt aisle with the debut of Cultured Creme, a snack comprising yogurt and ice cream. Innovation is the slow-craft nature of the product, made utilizing a fermentation process that is up to five times longer than traditional yogurt to create a thick, creamy texture reminiscent of ice cream. Cultured Creme also uses a blend of dairy cultures that is said to offer a smoother taste experience. Häagen-Dazs Cultured Creme has nine flavours, such as vanilla bean, strawberry, coffee, lemon, blueberry, and black cherry.

Burnbrae launched two new whole egg products: Naturegg and Solar Free Range. Both are produced in Woodstock, Ont., at their solar-powered farm. The new offerings come from free range hens housed in open-concept barns with access to the outdoors.

Lactalis Canada Foodservice launched the Galbani Professionale Premio pizza mozzarella in Canada. Premio is a 26 per cent fat pizza mozzarella that comes in a 2.3 kg block format.

## SUSTAINABILITY INITIATIVES

Ontario-based Dairy Distillery and Michigan Milk Producers Association (MMPA) launched a joint initiative to transform milk permeate into ethanol. MMPA's facility in Constantine, Mich., produces 14,000 tonnes of milk permeate annually. The plan is to process the milk permeate into 2.2 million gal of ethanol. When blended with transportation fuel, the permeate ethanol is expected to offset 14,500 tonnes of carbon a year. Ethanol production at the \$40 million ethanol plant is planned for early 2025. The project has received \$2.5 million in funding from the Michigan Strategic Fund.

## AVIAN INFLUENZA

While avian influenza has not been discovered in dairy cattle or other livestock in Canada, the Canadian Food Inspection Agency (CFIA) is encouraging veterinarians to keep an eye out for signs of avian influenza in dairy cattle following recent discoveries of cases of the disease in U.S. cow herds.

Since March 2024, U.S. officials have confirmed cases of the illness in dairy cow herds in multiple states. Officials suspect wild birds may have spread the virus to the cattle, though it appears cattle experience a milder form of the illness than birds. No cows have died from the virus, and affected cattle typically recover within a couple of weeks. Avian influenza has not had any impact on the trade of cattle or the products. The virus does not pose a food safety concern and CFIA said the risk of transmission to humans remains low. 

## THE OUTLOOK

Expect dairy product demand to grow in 2024. That higher demand will deliver improved profitability over the previous two years. Farm-level milk production is already showing increases, which means increased volume for processors. Consumers recognize dairy products for their nutritional value. While fresh milk consumption has been steadily declining for decades, full-fat, ultra-filtered, lactose-free and high-protein milk varieties have been gaining popularity in recent years and will continue to do so in 2024.

Ice cream consumption was up 5.8 per cent in 2023, while butter consumption was down five per cent. According to Stats Canada, creamery butter stocks, as of March 2024, were 23,579 tonnes, 13 per cent below the five-year average of 27,161 tonnes ending in 2023.

Farm Credit Canada reports milk and cheese remained price competitive in 2023. Milk and cheese prices increased 1.9 per cent and 2.4 per cent, respectively, in 2023. Both are below the increase in total grocery prices (4.7 per cent) and of many other major food products.

Dairy price inflation in 2023 lagged many other food products, and in 2024, it is forecast to be low. Due to this, dairy products will have a relative price advantage in the grocery aisle, which supports demand. 



The Canadian seafood processing and packaging sector includes both freshwater and saltwater, wild and farmed, shellfish and finfish. Domestic supply and global

demand for each species varies yearly for each species. Canada ranks fourth in the world for farmed salmon output and aquaculture accounts for roughly 30 per cent of

finfish harvest in the country. The most popular fish and seafood consumed by Canadians are salmon, shrimp, and tuna. Salmon (largely farmed)

accounts for about one-third of this consumption, followed by shrimp at nearly one-quarter of consumption while tuna makes up about one-tenth.

## SHIPMENTS

Domestic shipments of fish and seafood were down 3.39 per cent to \$5.68 billion compared to 2022 and 11.73 per cent compared to 2021. Prices are up 1.4 per cent over 2022, a significantly lower price increase compared to the 7.9 per cent increase the market experienced in 2022. The domestic seafood market shrunk 0.52 per cent.

Stats Canada reports that seafood product preparation and packaging manufacturers received 1.2 per cent (canned and smoked fish and the processing of fresh fish) less at the factory gate in December 2023 than the same month the previous year.

## INTERNATIONAL TRADE

Canada imported 12 per cent less fish and seafood than the previous year. Exports shrunk by 13 per cent to \$4.83 billion, yielding a trade balance of \$1.1 billion. Imports decreased by \$530 million to \$3.8 billion, which is \$180 million more than was imported in 2021.

The United States remains Canada's biggest supplier and customer, with exports to the U.S. at \$3.12 billion or 64.6 per cent of Canada's exports. Exports to China accounted for 15.7 per cent and Japan at 3.21 per cent. The U.S. accounted for more than a fifth (22.5 per cent) of seafood imports, China for 14.35 per cent and Chile for 9.4 per cent.

## Seafood Product Preparation and Packaging

	UNITS	2023	2022 VS 2021	2023 VS 2022
SHIPMENTS (1)	\$ BILLION	\$5.6	-12%	-5%
IMPORTS (2)	\$ BILLION	\$3.8	20%	-12%
EXPORTS (2)	\$ BILLION	\$4.8	-10%	-13%
DOMESTIC MARKET (3)	\$ BILLION	\$4.6	13%	-2%
TRADE BALANCE (2)	\$ BILLION	\$1.0	-52%	-14%
PROCESSOR PRICES (4)	INDEX, 2020=100	104.2	8%	1%
REAL SHIPMENTS (5)	PER CENT	-20%	-6%	
REAL GDP (6)	\$ BILLION	\$1.3	-2.36%	-17.23%
EXPORT INTENSITY (7)	PER CENT	86%	120.17%	150.44%
DOMESTIC MARKET SHARE (8)	PER CENT	26%	-54.34%	20.57%

**Sources:** 1) Statistics Canada, Table 16-10-0047-01 Manufacturers' sales, inventories, orders... by NAICS (North American Industry Classification System) - Sales of goods manufactured - billions of dollars - not seasonally adjusted 2) Statistics Canada, Table 12-10-0136-01 Canadian international merchandise trade by industry - billions of dollars - not seasonally adjusted 3) Calculated (shipments + imports - exports) 4) Statistics Canada, Table 18-10-0267-01 Industrial product price index, by industry, monthly Index Jan, 2020=100 5) Calculated (shipment change - price change) 6) Statistics Canada, Table 36-10-0434-01 Gross domestic product at basic prices, by NAICS (North American Industry Classification System) - billions of dollars (2017 chained dollars) - seasonally adjusted 7) Calculated (exports/domestic market) 8) Calculated ((shipments-exports)/domestic market)

Imports from the United States increased by 1.7 per cent over the previous year while imports from China decreased by 22 per cent. Imports from Chile were up by 24.2 per cent over the previous year.

## CAPITAL EXPENDITURES

Grieg Seafood reported harvesting the first generation of fish from Placentia Bay in Newfoundland, an aquaculture project that started in 2014. Grieg's N.L.-issued licenses stipulate using sterile triploid salmon in Placentia Bay to prevent them from interbreeding with wild Atlantic salmon if they escape. This first-generation harvest marks a milestone for Grieg Seafood. The second generation will be harvested later in 2024.

Grieg Seafood invested \$40 million in Newfoundland and Labrador in 2023.

High Liner anticipates \$20-\$25 million in capital expenditures in fiscal 2024 to continue to maintain, upgrade and modernize its asset base.

In November 2023, Fisheries and Oceans Canada and the Province of Newfoundland and Labrador announced an investment of more than \$25 million in 147 projects. The investments come from the Atlantic Fisheries Fund. The goal is to help modernize equipment, improve productivity, and drive product quality and sustainability in the fish and seafood sector in Newfoundland and Labrador.

New Brunswick announced in November 2023 that it'll invest \$547,095 to help snow crab fishers test whale-safe equipment and acoustic technologies. The federal government, through the Atlantic Fisheries Fund, is investing \$2,823,946 into this initiative. The New Brunswick snow crab industry exported \$349.3 million worth of products in 2022.

Nova Scotia Aquaculture Review Board has approved the development of a new oyster farm in Antigonish Harbour by Town Point Consulting. The company plans to develop a 36-hectare farm where up to three million oysters can be harvested annually from three sites.

Lagoon Seafood completes the \$10 million construction of its 63,000-sf facility in Granby, Que., which was announced in 2021. The new production and packaging facility mainly supplies Blue Tide branded and private label products. It also increases Lagoon Seafood's storage capacity and centralizes its logistics and storage process. It houses a freezer capable of accommodating more than 2,500 pallets of frozen products, includes new production rooms and accommodates a new spiral freezer that shortens the time required to freeze products.

Nova Scotia Premier Tim Houston has come out against the Cooke Aquaculture salmon farm expansion even though the final decision will be made by the independent Aquaculture Review Board. Cooke subsidiary Kelly Cove Salmon has applied to expand its existing fish farm at Coffin Island, and open two new ones at Brooklyn and Mersey Point in Queens County. If approved, each site would contain 660,000



Photo © Liudmila Chernetska / iStock / Getty Images Plus

fish—a 370 per cent increase in the number of farmed salmon in Liverpool Bay.

In 2014, the Doelle-Lahey report on aquaculture called for a classification system that rates coastal areas for suitability for aquaculture. Nova Scotia said it will reveal its classification map in March 2025.

## MERGERS & ACQUISITIONS

In July 2023, Ocean Choice and the Barry Group of Companies announced the sale of Ocean Choice's Port au Choix shrimp processing facility to the Barry Group. Shrimp quotas and catch rates continue to decline in the Gulf and the Northeast Coast of Newfoundland. Further decline in shrimp biomass is anticipated. The Port au Choix processing facility processes cooked and peeled shrimp.

Phillips Foods, one of the largest U.S. suppliers of crab meat, has purchased two plants in Canada to process lobster and snow crab. The facilities include the former South Shore Seafoods plant in Bloomfield, P.E.I., and the former Pêcheries Bas-Caraquet Fisheries plant in Bas-Caraquet, N.B. The company formed a Canadian subsidiary to purchase South Shore Seafoods out of bankruptcy, reaching an asset purchase agreement between Deloitte Restructuring and the new subsidiary, Phillips Bridge Seafoods. While the company does not plan to manufacture value-added products at either facility, Phillips is launching refrigerated pasteurized lobster meat products.

## CLOSURES AND BANKRUPTCIES

In April 2024, Nova Scotia-based Canadian RAS firm Sustainable Blue was placed in receivership due to unpaid debts. The failure of its aquaculture systems due to filtration problems in November 2023 resulted in the loss of 100,000 Atlantic salmon (roughly 20 per cent of its fish), which cost the company as much as \$5 million.

A Royal Greenland-owned seafood-processing facility in Matane, Que., has been declared a total loss after a fire hit the facility just days before the company announced its closure. The Fruits de mer de l'Est du Québec processing plant was affected by a fire. Royal Greenland said that long-term declines in shrimp quotas, coupled with increasing



## Seafood Product Preparation and Packaging Regional Breakdown of Canadian Output and International Breakdown of Imports and Exports

SHIPMENTS (1)	CANADA	ATLANTIC	B.C.	QUE	ROC
2022	\$4.1	76%	11%	9%	4%
EXPORTS (2)	WORLD	USA	CHINA	JAPAN	ROW
2023	\$4.8	65%	16%	3%	4%
IMPORTS (2)	WORLD	USA	CHINA	CHILE	ROW
2023	\$3.7	22%	14%	9%	55%

**Sources:** (1) Statistics Canada, Table 16-10-0117-01 Principal statistics for manufacturing industries by NAICS (North American Industry Classification System) – Revenue from goods manufactured (2022) - billions of dollars – not seasonally adjusted (2) Statistics Canada, Table 12-10-0136-01 Canadian international merchandise trade by industry (2023) - billions of dollars – not seasonally adjusted

costs to manage the processing plant, meant operating the plant was no longer sustainable.

The fire is just the latest challenge faced by the shrimp industry in the region. Stocks of northern shrimp have been steadily decreasing, and in January 2024, Canada's Department of Fisheries and Oceans (DFO) announced that the total shrimp quota in the Gulf of St. Lawrence would be just 3,060 metric tons (MT), a fraction of the 14,500 MT quota handed out in 2023. The 2023 quota itself was less than half the 35,000 MT quotas that were the norm as recently as 2015.

Riverside Lobster International, a lobster processing plant in Meteghan, N.S., is shutting down permanently saying there are "not enough lobsters to sustain current processing capacity."

South Shore Seafoods files for creditor protection in New Brunswick. According to court records, the Rosebank-based lobster processor and related companies owe creditors more than \$55 million.

## WILD HARVEST VERSUS FISH FARMS

The federal government plans to close open-net fish farming on the West Coast. At the same time, there is significant investment into aquaculture on Canada's East Coast.

Completed in November 2023, the Ontario Farmed Trout Sector market assessment and growth plan suggested that Ontario's trout farming sector has the potential to grow from \$38 million to more than \$200 million annually. The report suggested this growth could be achieved by capturing market share from salmon consumption in Canada, market share for Ontario trout from imports, and exporting more trout to the U.S. market, particularly those markets that can be easily accessed by land transport. The report identified market trends that point to demand for more than 15,000 tonnes of Ontario-farmed trout in five years, three times the current supply.

## INVESTMENTS IN PLANT-BASED SEAFOOD

In February 2024, Konscious Foods launched plant-based Smoked Salmon, Kimbap Korean Veggie Rice Roll, and Salmon Avocado Roll. The company has also partnered with Protein Industries Canada, Avena Foods, and Canadian Pacifico Seaweeds (CPS) to bring new plant-based products to the marketplace. Through this project, Konscious Foods will advance the fortification and commercialization of its existing ↗

## > SEAFOOD SECTOR

products, as well as develop an extended range of new offerings out of its 34,000-sf facility in Richmond, B.C., by using pulse ingredients sourced from Avena in the Prairies, as well as CPS' locally sourced seaweed. This project will launch new products like nori and tamagoyaki plant-based egg. Konscious Food's will also improve the nutritional content of its existing seafood-alternative products, including increased protein and vitamin integration of Omega-3 fatty acids.

Protein Industries Canada also invested in a project by New School Foods, Liven Proteins and NuWave Research. The three companies will combine their expertise to commercialize a whole-muscle cut of plant-based salmon that transforms from raw to cooked. The project will see \$11.4 million invested into R&D to help commercialize the product. Protein Industries Canada is investing just over \$4.5 million, with the consortium partners investing the remainder. New School Foods will use its newly developed production technology to create a plant-based whole fillet of salmon that transforms from raw to cooked. Liven is creating animal-free proteins through precision fermentation that will provide functional and nutritional benefits to this product and other plant-based products. NuWave Research is contributing through the development and validation of new production techniques for their core vacuum microwave technology, which will accelerate the production for New School Foods and others.

### NEW PRODUCTS

Royal Star Foods in P.E.I. developed a new lobster dip by working with Canada's Smartest Kitchen in Charlottetown. The project has been

### THE OUTLOOK

Global seafood consumption has doubled in the last 35 years, and now more than half of that is sourced from farms.

The Fisheries Council of Canada anticipates global consumption of seafood is to double again by 2050. With the world's longest coastline, Canada has a unique advantage to take lion's share of the global seafood market. In 2024, price increases of three to five per cent are likely, as inventory from the pandemic has been consumed while demand remains strong.

Retail prices of fish, seafood and other marine products increased 3.9 per cent on average in 2023, much lower than comparable protein groups and products. Still, seafood products are more expensive than comparable meat proteins on a price per gram of protein basis.

In Canada, seafood is usually one of the first casualties in consumer diets during economic uncertainty. That said, convenient, prepared, ready-to-eat seafood items (e.g. sushi, appetizers) performed well in the latter half of 2023 and early 2024.

Despite seafood product sales decreasing in the last two years Farm Credit Canada Economics forecasts sales and volumes to increase in 2024 (17.5 per cent and 13.8 per cent, respectively). 



going on for six years. Royal Star Foods has processed lobster in Tignish for many years. Now, thanks to work with Canada's Smartest Kitchen through the Culinary Institute of Canada at Holland College, a new lobster dip will hit P.E.I. shelves. Ideally, the initiative will stretch out the working year for 30 to 40 people, who will get two to three months more on the job at a time when production is usually shut down for the winter. The new dip is 100 per cent lobster, including meat, processed lobster paste, and even some of the water that was used to cook the lobster. The lobster dip can be served hot or cold.

### TROUBLED WATERS

Canadian seafood company High Liner cut ties with its supplier Yantai Sanko Fisheries in China following a four-year investigation by Outlaw Ocean. According to the investigation, at least 10 large seafood companies in China have used more than 1,000 Uyghur workers since 2018. Seafood from these plants, it said, was purchased by major importers including High Liner. Shortly after Outlaw Ocean published the story in early October 2023, High Liner launched its own investigation and cut ties with the seafood plant in China. Meanwhile, Albertsons, one of the largest U.S. grocery store chains, has stopped purchasing flounder and yellow tail sole from High Liner until it completes its own investigation. High Liner spokesperson Jennifer Bell said it has extensively researched its supply chain. She said High Liner's third-party social compliance auditors examined the supplier and found no evidence of forced labour.

### CANOLA AS FISH FOOD

According to the Canola Council of Canada, Canola meal has become an important ingredient in aquaculture diets around the world. As the supply of fishmeal dwindles, options are opening for vegetable proteins to be used in its place, and canola meal has an amino acid profile that is closer to fishmeal than any other common vegetable protein. 

# MEAT & POULTRY SECTOR

[sector snapshot]

The meat and poultry sector includes primary and secondary processing of red meats and poultry. For statistical purposes, the industry is divided into two sectors—red meats, including beef, pork, and lamb, which accounted for 75 per cent of the value of shipments in 2023; and poultry, including chicken and turkey, which accounted for 25 per cent of shipments.

Inflation, labour shortages, wage increases, and elevated interest rates present operational challenges. On the bright side, producers' feed costs have stabilized to a certain degree.

The value of shipments in 2023 rose by \$2.93 billion (7.6 per cent) to \$41.42 billion. Prices on average are up 4.7 per cent. Real value added (GDP) for the meat and poultry sector rose 1.5 per cent,

while the value of the domestic market rose by \$2.8 billion (8.6 per cent) to \$35.1 billion. The largest percentage of production came from the prairie provinces at 37.21 per cent, followed by Ontario at 34.67 per cent and Quebec at 20 per cent.

Meat sector imports are up just 0.35 per cent over 2023 and up 13.93 per cent in 2022 compared to 2021. Exports increased 1.38 per

cent. Processor prices increased 4.72 per cent on average.

The U.S. remains the largest trading partner, claiming 62.25 per cent of Canada's exports and 68.42 per cent of our imports. Japan received 11.28 per cent of meat and poultry imports followed by Mexico at 6.61 per cent. Canada imported 6.62 per cent from Australia and 5.34 from New Zealand.

## BEEF

Brenna Grant, executive director with Canfax said, "Domestic beef production was down five per cent. We saw the cost of some inputs stabilize. Combined with productivity improvements, it provided some relief on the feed cost side of things."

## PORK

Stephen Heckbert of the Canadian Pork Council said, "Overall domestic pork consumption is up about 13 to 15 per cent because pork is, at this moment, the most affordable protein."

## POULTRY

Phil Boyd, executive director at Turkey Farmers of Canada, reported that the occurrence of avian influenza in 2023 was less than 2022. He said, "Our total loss across the country in terms of turkeys had reduced from 2022. However, some individual farmers experienced catastrophic losses. They got their barns cleaned up and placed birds that were infected again. The positive outcome of the avian influenza experience is that the process from detection to repopulation is smoother. CFIA and the farmers worked exceptionally well together."

B.C. chicken meat production has been hit hard by the avian influenza. B.C. accounted for 52 per cent of all impacted birds in Canada. The B.C. Ministry of Agriculture and Food noted 52 farms were infected with avian influenza in just the last three months of 2023. The number of poultry deaths in British Columbia hit over five million in 2023.

## INTERNATIONAL TRADE

Grant anticipates increased imports of beef to offset reduced production this year. On pricing, she said, "While the expectation is overall stability in terms of annual average price with 2023, it's going to be a very rocky road to that stable price with lots of ups and downs. We have a smaller calf crop coming forward in both the U.S. and Canada."

Turkey imports from Chile were approved in 2023. At this point, most of these imports are turkey parts destined for further processing into value-added products.

Heckbert said, "The Philippines, with a population of 110 million people, increased their domestic consumption by 13 per cent.



Domestic consumption is up, and exports continue to be strong." Pork accounts for 0.7 per cent of Canada's total exports.

"Japan is Canada's biggest export market for pork. We're now 47 per cent of their inputs of Canadian pork. That market is still growing and is crucial for us. After the Chinese market, Mexico, the Philippines, and South Korea remain a market of interest. Most of our growing markets are going to be in the Indo-Pacific region. In South America, Colombia is a growing market for us. We're trying to grow in those markets," he added. ↗

## Meat Product Manufacturing

	UNITS	2023	2022 VS 2021	2023 VS 2022
SHIPMENTS (1)	\$ BILLION	\$41.0	11%	7%
IMPORTS (2)	\$ BILLION	\$5.2	14%	0%
EXPORTS (2)	\$ BILLION	\$11.5	3%	1%
DOMESTIC MARKET (3)	\$ BILLION	34.7	14%	7%
TRADE BALANCE (2)	\$ BILLION	\$6.3	-4%	2%
PROCESSOR PRICES (4)	INDEX, 2020=100	120.4	2%	5%
REAL SHIPMENTS (5)	PER CENT		9%	2%
REAL GDP (6)	\$ BILLION	\$7.3	9%	1%
EXPORT INTENSITY (7)	PER CENT	28%	-7%	-5%
DOMESTIC MARKET SHARE (8)	PER CENT	85%	0%	1%

**Sources:** 1) Statistics Canada, Table 16-10-0047-01 Manufacturers' sales, inventories, orders... by NAICS (North American Industry Classification System) - Sales of goods manufactured - billions of dollars - not seasonally adjusted 2) Statistics Canada, Table 12-10-0136-01 Canadian international merchandise trade by industry - billions of dollars - not seasonally adjusted 3) Calculated (shipments + imports - exports) 4) Statistics Canada, Table 18-10-0267-01 Industrial product price index, by industry, monthly Index Jan, 2020=100 5) Calculated (shipment change - price change) 6) Statistics Canada, Table 36-10-0434-01 Gross domestic product at basic prices, by NAICS (North American Industry Classification System) - billions of dollars (2017 chained dollars) - seasonally adjusted 7) Calculated (exports/domestic market) 8) Calculated ((shipments-exports)/domestic market)

## > MEAT & POULTRY SECTOR

### Meat Product Manufacturing

#### Regional Breakdown of Canadian Output and International Breakdown of Imports and Exports

SHIPMENTS (1)	CANADA	PRAIRIE	ONTARIO	QUEBEC	ROC
2022	\$40.1	37%	35%	20%	8%
EXPORTS (2)	WORLD	USA	JAPAN	MEXICO	ROW
2023	\$11.6	62%	11%	7%	20%
IMPORTS (2)	WORLD	USA	AUSTRALIA	NEW ZEALAND	ROW
2023	\$5.2	68%	7%	5%	20%

**Sources:** (1) Statistics Canada, Table 16-10-0117-01 Principal statistics for manufacturing industries by NAICS (North American Industry Classification System) – Revenue from goods manufactured (2022) - billions of dollars – not seasonally adjusted (2) Statistics Canada, Table 12-10-0136-01 Canadian international merchandise trade by industry (2023) - billions of dollars – not seasonally adjusted

### CANADA EXPANDS TAIWAN MARKET FOR BEEF

Canada regained market access to Taiwan for Canadian beef and beef products from animals over-30-months (OTM) of age. In 2003, Taiwan imposed import restrictions on both under-30-months and over-30-months Canadian beef. This regained access will offer an opportunity to expand Canadian beef exports to Taiwan and diversify export markets in the Indo-Pacific region.

### CANADA SECURES GUATEMALA MARKET

Canada regained market access to Guatemala for Canada's pork, beef, and poultry products. Guatemala had closed access to its market for Canadian meat products in December 2013 due to new requirements to inspect facilities in Canada for approval of exports. Since 2013, the Canadian Food Inspection Agency, with the support of Agriculture and Agri-food Canada, has been negotiating access for Canada's meat products to Guatemala. As part of this market access, Canadian exports of beef, pork and poultry meat products produced on or after April 17, 2023, are now eligible to be exported to Guatemala.

### CAPITAL EXPENDITURES

Cardinal Meat Specialists, a Canadian family-owned business in the protein processing industry, added 33,000-sf its head office and main production facility in Brampton, Ont.

The governments of Canada and Ontario are investing up to \$10

million to enhance the processing capabilities of Ontario's meat processing plants and abattoirs through the Meat Processors Capacity Improvement Initiative. The initiative will provide funding to eligible free-standing meat plants and abattoirs to make short-term investments in meat handling and processing equipment, technologies, and practices that improve efficiency, productivity, and food safety. The initiative is being funded through the Sustainable Canadian Agricultural Partnership and will provide up to \$150,000 per eligible applicant.

Maple Leaf Foods was awarded the Leadership in Energy and Environmental Design (LEED) Silver certification by the Canada Green Building Council for its Heritage plant in Hamilton. LEED is an international certification recognizing sustainability excellence and green building leadership. The Heritage facility has implemented several initiatives that have led to gradual reductions in Maple Leaf Foods' environmental impact. This includes a national LED lighting retrofit program, equipment efficiency and optimization upgrades, ammonia heat recovery and wasted heat recovery systems, composting and recycling programs, control measures and closed-loop systems for water use, and improvements to storage, handling, and employee training to reduce food waste.

### PLANT CLOSURES

Olymel made several operational changes in 2023 and early 2024, investing in some plants, closing some, moving equipment, and consolidating operations. It closed five sow units in Alberta and one in Saskatchewan, which reduced Olymel's western sow herd to 40,000 from 57,000. The company says the closures will result in a net reduction of about 200,000 market hogs annually to its Red Deer, Alta., slaughter plant from company-owned farms. Additionally, Olymel closed its pork boning and packaging plant in Princeville, Centre-du-Quebec, in November 2023, impacting 300 employees. The poultry processing plant in Paris, Ont., was also closed. The Paris plant operations will be consolidated with those of the Oakville plant. Refurbishment work at the Oakville plant will include an \$8 million investment. The Orenda plant in Brampton, Ont., will also see its activities grow as part of the restructuring, particularly in tumbling. The restructuring in the Ontario poultry sector will have a positive impact on the activities of Olymel's poultry further processing plant in Sainte-Rosalie in the Saint-Hyacinthe region. Finally, Olymel accelerated the closure of its Saint-Simon distribution centre in Monterege Est. The centre closed a year ahead of the planned date.





## PLANT-BASED MEAT

NotChicken launched NotChicken nuggets and burgers in Canada. NotChicken is vegan, non-GMO, cholesterol-free and formulated using a combination of unexpected ingredients like peach, bamboo fibre and fava bean. It was developed using a patented artificial intelligence technology.

Beyond Meat released the newest iteration of Beyond Sausage. The company claims these products to be juicier and meatier than the original versions. The new iteration of Beyond Sausage features garlic powder, onion powder and paprika to deliver the taste of traditional pork sausage. Their latest version of Beyond Burger is made with avocado oil and has just 2 g of saturated fat per serving with 21g of protein from peas, brown rice, red lentils, and fava beans.

Nestle recently launched a range of shelf-stable plant-based cooking solutions under the Maggi Veg brand that are certified vegan. This range includes Nestle's first shelf-stable plant-based minced meat made with soy.

## CULTIVATED MEAT

Cultivated, bio-engineered food, or cellular food cleared important regulatory hurdles in 2023. In June 2023, U.S. regulators allowed Upside Foods and Good Meat to sell their bio-engineered chicken products. However, the products aren't yet ready to be sold in retail.

## TRENDS

Customers began returning to restaurants in 2023. Chris Elliot of Restaurants Canada shared that sales are up 12.1 per cent over 2022. Once inflation of 6.5 per cent is considered, the net increase is 5.3 per cent. Recent data shows 50 per cent of retail food operations are either in a break-even or loss situation. Off-premises sales are still strong, but these average cheques are 30 per cent less than on-premises dining.

## SUSTAINABILITY

Cargill and Trees Consulting developed a Gold Standard-approved framework for measuring methane emissions reduction using feed supplements that have been incorporated into beef cattle diets. Gold Standard's Verified Emissions Reductions can be traded in carbon markets, allowing credit purchasers to directly support the projects.

The Canadian Roundtable for Sustainable Beef released its second National Beef Sustainability Assessment and Strategy report. The

assessment highlighted the Canadian beef sector's progress between 2014 and 2021 on sustainability indicators like greenhouse gas emissions, biodiversity, carbon storage, people's health and safety, animal care, and economic contributions. Key environmental improvements included a 15 per cent reduction in greenhouse gas emissions to produce 1 kg of beef since 2014. This improvement is largely attributed to increased efficiencies of cattle growth, leading to a smaller overall carbon footprint as fewer resources are required to produce the same volume of beef. 

## THE OUTLOOK

Stephen Heckbert of the Canadian Pork Council said, "Over the next 12 months, food security and water use are going to dominate our conversations. Those two conversations will be very good for pork producers in Canada, because pork is the most efficient protein in terms of water use. It's also the most efficient protein in terms of carbon production. I think we've got a great story to tell, we just simply must learn to tell our story better."

We anticipate the red meat and poultry sector to perform at or above the 2019 level. The combination of expanding exports and strong domestic consumption will be offset by lower cattle available for slaughter, which will elevate retail prices for beef. Look for combined growth in this sector in the range of four to five per cent over 2023. 



# FRUIT & VEGETABLE PROCESSING SECTOR

[sector snapshot]

The fruit and vegetable processing and specialty food manufacturing sector includes frozen, canned, pickled, and dried products comprising primarily fruits and vegetables. For statistical purposes, it is divided

into two sub-sectors: frozen food, including potato products (French fries), dinners, side dishes, pizza, fruits, and vegetables; and non-frozen products including canned fruit and vegetables, baby food, soups, juices, sauces, pickles,

and ketchup.

In 2023, shipments rose by \$775 million (7.7 per cent) to \$10.9 billion but adjusted for price inflation, real shipments rose by three per cent. Real value added (GDP) increased

by four per cent. The domestic market increased five per cent to \$10.785 billion.

Ontario produced 32 per cent, Quebec 26 per cent, and the Prairies produced 18 per cent of the 2023 volume.

## INTERNATIONAL TRADE

International trade is significant for the sector. Canada exported \$5.93 billion with the United States being our largest market, accounting for 86 per cent of export shipments, followed by Japan and the Netherlands at two per cent. Last year, exports rose by \$523 million (9.8 per cent) to \$5.9 billion, while imports increased by \$259 million (five per cent) to \$5.83 billion, turning a four-year stretch of trade deficits into \$98 million.

Exports to the United States increased by \$522 million (11.5 per cent) to \$5.1 billion. Exports to China increased year over year by 12.8 per cent to \$61 million, which is 2.3 per cent below 2021 levels. Exports to Mexico increased 22 per cent to \$82.5 million.

Canada's imports are more diversified, with the United States accounting for just 54 per cent, and China and Mexico for seven and four per cent, respectively. While imports from the United States increased six per cent to \$3.13 billion, Canada's overall imports grew by 4.6 per cent, to \$5.83 billion.

## MERGERS & ACQUISITIONS

Nature's Touch, a supplier of frozen organic and conventional fruits with freezing and packaging facilities in Canada and the U.S., acquired certain assets of Sunrise Growers, SunOpta's frozen fruit operations. The transaction includes Sunrise Growers frozen fruit operations in Edwardsville, Kan., and Jacona, Mexico. Sunrise Growers is in the private label frozen fruit sector in the United States. This acquisition allows Nature's Touch to diversify its frozen food offerings.

McCain Foods completed the acquisition of Strong Roots, a Dublin-based frozen food producer. Strong Roots has developed a range of vegetable dishes, including meals, sides, and snacks, which complement McCain's current portfolio. Strong Roots will operate as a distinct business under the leadership of Charlotte Turton, with founder, Dennigan, working alongside the team to propel growth.

The J.M. Smucker Co. sells Bick's pickles, Habitant pickled beets, Woodman's horseradish and McLaren's pickled onions brands to TreeHouse Foods. The all-cash transaction is valued at approximately US\$20 million.

Nature's Path Organic Foods acquired Love Child Organics, a Canadian organic baby food and children's snack brand.

## CAPITAL INVESTMENTS

In September 2023, Conagra Brand Canada unveiled upgrades to its tomato processing plant in Dresden, Ont. The multi-million-dollar



investment has increased production by 25 per cent. Upgrades included software, a new evaporator, and the addition of a Rotel line. Dresden plant produces Aylmer, Hunt's, and Rotel branded products.

Covered Bridge Potato Chips factory in Waterville, N.B., was destroyed by fire in early March 2024. Ryan Albright, president of the company, said there is no timeline yet on when a replacement factory will be up and running, but he is committed to rebuilding.

"We're in design mode," he said. "We have meetings with equipment manufacturers ... as soon as the ground dries, if everything works out, shapes up, we'll be hitting it as quickly as we can."

About 30 of the company's 185 employees were at the factory when the fire began, and while the place was destroyed, there were no injuries. The company, named for the Covered Bridge in nearby Hartland

## Fruit and Vegetable Preserving and Specialty Food Manufacturing

	UNITS	2023	2022 VS 2021	2023 VS 2022
SHIPMENTS (1)	\$ BILLION	\$10.9	16%	8%
IMPORTS (2)	\$ BILLION	\$5.8	17%	5%
EXPORTS (2)	\$ BILLION	\$5.9	24%	10%
DOMESTIC MARKET (3)	\$ BILLION	10.8	13%	5%
TRADE BALANCE (2)	\$ BILLION	\$0.1	60%	159%
PROCESSOR PRICES (4)	INDEX, JAN, 2020=100	117.4	10%	4%
REAL SHIPMENTS (5)	PER CENT		6%	4%
REAL GDP (6)	\$ BILLION	\$2.2	6%	4%
EXPORT INTENSITY (7)	PER CENT	54%	7%	2%
DOMESTIC MARKET SHARE (8)	PER CENT	46%	-4%	0%

**Sources:** 1) Statistics Canada, Table 16-10-0047-01 Manufacturers' sales, inventories, orders... by NAICS (North American Industry Classification System) - Sales of goods manufactured - billions of dollars - not seasonally adjusted 2) Statistics Canada, Table 12-10-0136-01 Canadian international merchandise trade by industry - billions of dollars - not seasonally adjusted 3) Calculated (shipments + imports - exports) 4) Statistics Canada, Table 18-10-0267-01 Industrial product price index, by industry, monthly Index Jan, 2020=100 5) Calculated (shipment change - price change) 6) Statistics Canada, Table 36-10-0434-01 Gross domestic product at basic prices, by NAICS (North American Industry Classification System) - billions of dollars (2017 chained dollars) - seasonally adjusted 7) Calculated (exports/domestic market) 8) Calculated ((shipments-exports)/domestic market)



that is billed as the longest in the world, had hit 15 years of production this year and was expanding into making sweet potato chips, chickpea flour crisps and other products.

The Canadian Food Innovation Network (CFIN) awarded \$238,337 to CanDry Technologies. CanDry Technologies has successfully harnessed the synergies of vacuum, microwave, and infrared technologies to develop a pioneering patented dehydration system. Their low-temperature technology preserves nutrients and cuts dehydration costs. Equipped with a fully operational 15 kg/cycle prototype unit, CanDry has systematically tested and refined its technology within controlled laboratory settings but using industrial feedstocks. CFIN's funding will help with precise customization of CanDry's prototype to meet specific requirements of the Canadian agri-food sector, with their primary focus revolving around optimizing the dehydration process for berry products and spent grains.

## GROCERY CODE OF CONDUCT

At the time of writing this report, Canada's grocery code of conduct was at an impasse after two years of development, as Walmart Canada and Costco have refused to sign it. In May 2024, Loblaw said it's ready to sign the code as long as other industry players do so.

Michael Graydon, CEO of FHCP and chair of the interim board for the code said, "The (grocery conduct) code is done. Fundamentally, we have completed the provisions of the code and the governance and the operating rules around it are done, and we're ready to go. We have two major retailers that won't sign on to the current code in a voluntary way, which has stalled the process."

The code acts as a protective measure for the entire supply chain. It addresses longstanding issues, such as payment terms and contract fairness, which are crucial for the viability and sustainability of Canadian growers. The code is meant to be voluntary and industry-led, but the federal government has indicated it may pass legislation if there's no consensus. It's expected to take effect on June 1, 2025.

## NEW PRODUCTS

In June 2023, Del Monte launched four new canned products: chickpeas, kidney beans, black beans, and mixed beans, which will be available in 398-ml cans.

The Retail Council of Canada's 30<sup>th</sup> annual Canadian Grand Prix product awards were won by Patreats for its infused fruit gourmet spread made with dried fruits cooked with rum and fortified wine; and Market Harvest for its frozen roastable vegetable medley.

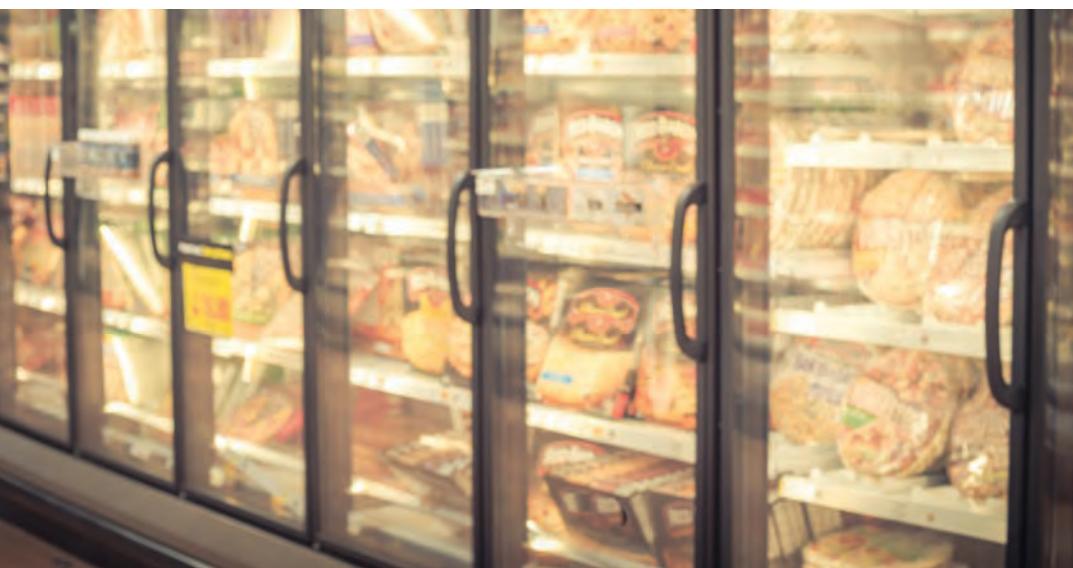
Conagra Brands Canada introduced Bertolli frozen skillet meals in five flavours—Chicken Florentine & Farfalle, Italian Sausage & Rigatoni, Chicken Carbonara, Chicken Alfredo & Penne and Chicken Broccoli Fettuccine Alfredo.

P.F. Chang's launched Sesame, Teriyaki, Sweet Chili, and Kung Pao sauces, made with ingredients like brewed soya sauce, brown sugar and pineapple juice; four single-serve frozen bowls including Broccoli & Beef, Chicken Lo Mein, Chicken Pad Thai and Korean Inspired Pork; and four multi-serve frozen skillet dinners including Broccoli & Beef, Chicken Lo Mein, Chicken Fried Rice and Mongolian Style Beef.

Cordon Bleu unveiled a new packaging design, courtesy marketing agency LG2. The updated packaging features a bold blue design.

The Kraft Heinz Company introduced the Homebake 425%:30 brand, a family-friendly, mix-and-match collection of frozen entrée, side, and veggie dishes with over 500 possible menu combinations from 15 base products. Consumers can pick their entrée, side, and veggie of choice, place all three in the oven together, set the timer, and then plate dinner right out of the trays.

McCain Canada entered the frozen vegetable category with the launch of new McCain Medleys—side ↗



## > FRUIT & VEGETABLE PROCESSING SECTOR

dishes, featuring blends of lightly seasoned potatoes and vegetables. McCain Medleys come in two flavours: Italian-style Roasted Potatoes & Veggies and Roasted Potatoes & Broccoli. They can be prepared in the air fryer or oven in 16 minutes.

Researchers from the University of Saskatchewan have teamed up with the Saskatchewan Food Industry Development Centre in Saskatoon to fight local food insecurity. They developed Farm2Kitchen, an oat and lentil-based soup mix that would be distributed to local food banks. Each soup packet makes four to five cups of soup when mixed with water.

Else Nutrition launched their full product range in Canada. The launch includes Else Nutrition's entire product range of toddler nutritional supplements, kids drinks, and baby super cereals.

Plant Up has debuted globally inspired plant-based frozen meals, such as Asian Dumplings and Thai Basil Chik'n, at major Canadian retailers. Plant Up meals come ready-to-cook and feature clean-label ingredients like pea protein and a variety of vegetables, herbs, and spices. The meals are also low in fat, soy-free and made with non-GMO ingredients.

Crafty Ramen, an Ontario-based brand reimagining the ramen experience with innovative restaurant, retail and online offerings, is now available at Walmart Canada in three flavours—Spicy Chicken Tantanmen - Chicken Sesame Ramen, the Northern Warmer - Pork Miso Ramen, and the Kaizen Warrior - Tofu Miso Ramen.

President's Choice has introduced an addition to the frozen pizza aisle: the PC Black Label Frozen Pizzas in three varieties—Margherita, Diavola (Ventricina salami, smoked provola cheese, red onion and

### THE OUTLOOK

Consumers are looking for affordable choices due to sticky inflation. "We're still seeing volatility in input costs, volatility in the labour market, and more regulatory burden, which is adding cost. It's making it harder and harder to stabilize pricing to the point where it's starting to be visible to the consumer. So 2024 will be the year of continued inflation," said Michael Graydon of FHCP.

Prepared meals and frozen pizza sales will remain one of the country's fastest-growing food segments with annual sales worth \$2.6 billion. This growth is driven by consumer desire for convenience, particularly for millennials as they manage family and work life balance.

As consumers pursue value at the grocery store, they'll veer toward canned and frozen foods to save money and reduce food waste. Farm Credit Canada's 2024 Food and Beverage Report indicates this shift towards canned and frozen fruits and vegetables, predicting an increase in volume of 5.1 per cent. With fresh fruit and vegetable food waste accounting for 45 per cent, preserved foods become a more attractive way to reduce food waste. 



spices), and Funghi (a mix of three mushrooms and black truffle).

Campbell's unveiled two condensed gluten-free cooking soups—Cream of Mushroom and Cream of Chicken.

La Presserie, a Toronto-based award-winning frozen F&B manufacturing start-up, launched a line of four Asian soups.

La Terra Fina's Pineapple Habanero Dip & Spread has made its exclusive debut at Costco warehouses in western Canada.

Del Monte presented its brand-new fruit chunks in fruit purée snacks. These new snacks are available in peach and pear flavours and high in Vitamin C.

Subway Canada launched four new sauces—Sweet Onion Teriyaki, Roasted Garlic Aioli, Baja Chipotle, and Creamy Italian.

### CONSUMER TRENDS

Black Swan reported that consumers are searching for cleaner labels and are more inclined to purchase foods with simple ingredients. The current trend is to incorporate vegetarian options into menus as opposed to strictly vegan meal options. Of particular interest are classic meal items of Indian, Mexican, and Thai origins, cultures that have a history of vegetarian meals.

A Leger survey commissioned by Nortera found 85 per cent of Canadians enjoyed convenient, nutritious meal options over the past year, and nearly half (48 per cent) of the respondents said they purchased frozen products at least once a month. The main factors motivating the purchase of frozen vegetables include longer shelf life, increased convenience, year-round availability, and more affordable than fresh produce.

Faced with soaring food prices, a third of Canadians (33 per cent) are buying frozen food products more frequently because of the increase in grocery costs. Green peas are the most commonly purchased frozen vegetables in Canada. 

# CONFECTIONERY SECTOR

[sector snapshot]

The sugar and confectionery sector comprises three sub-sectors: sugar manufacturing, primarily from domestic sugar beets and imported sugar cane; manufacturing chocolate confectionery from purchased chocolate or cocoa beans into boxed chocolate, chocolate bars, and seasonal specialties such as Easter eggs; and manufacturing non-chocolate confectionery including chewing gum, mints, toffee, licorice, cough

drops and hard candy. Most recently (2022), sugar manufacturing accounted for a quarter of the sector's shipments (26 per cent), non-chocolate confectionery for the same proportion (24 per cent) and chocolate confectionery for one half of the total (50 per cent).

The impact of recent capital investments by Ferrero, Barry Callebaut and others can be seen in the share of chocolate confectionery made from cocoa beans,

rather than purchased chocolate. Since 2019 the share made from cocoa beans has doubled to 30 per cent while the share made from purchased chocolate has fallen to 70 per cent. The value of cocoa bean imports rose by 63 per cent to \$500 million between 2019 and 2023.

In 2023, the value of sugar and confectionery sector shipments increased by \$600 million or 11 per cent to \$5.7 billion or two per cent

adjusted for rising prices. Sugar and non-chocolate confectionery contributed two-thirds of the gain. Growth in the domestic market for sugar and confectionery offset a decline in our balance of trade. The value of our market increased by \$800 million or 15 per cent to \$5.7 billion. Adjusted for prices, it grew by six per cent. Real value added (GDP) remained unchanged from the previous year at \$1.9 billion (2017).

## INTERNATIONAL TRADE

European- and American-owned manufacturers dominate the confectionery manufacturing sector, and their products have North American mandates. Four-fifths (79 per cent) of domestic shipments are exported and imports account for a similar proportion of the domestic market. The U.S., which has held a 92 to 93 per cent share of our exports since 2019, accounted for a similar proportion of our 10 per cent increase in exports (one per cent after adjusting for prices). The American share of Canada's sugar and confectionery imports has fallen over the same period to 42 per cent from 46 per cent, as Brazil's share has tripled to 20 per cent. Germany, Switzerland, Mexico, and Belgium account for 10 per cent of our imports.

In 2023, Canada's \$200 million balance of trade surplus was erased as a \$400-million increase in the value of exports was more than offset by a \$600-million increase in the value of imports. The most notable change was a 40 per cent increase in sugar imports from Brazil, which accounts for two-thirds of our sugarcane imports.

## CAPITAL INVESTMENTS

In January 2024, Sucro Can Sourcing of Hamilton announced that it plans to build Canada's largest sugar refinery at the Port of Hamilton's Pier 15. The \$135 million plant, with an annual refining capacity of 1 million tonnes, is expected to open in 2025.

Redpath Sugar completed a planned expansion of its Toronto sugar refinery in late 2023 that added 65,000 metric tonnes of cane sugar refining capacity. Rogers Sugar announced plans in August to invest \$200 million to expand its Montreal sugarcane sugar refining capacity by 20 per cent or 100,000 tonnes per year.

Mars announced a new US\$237 million baking facility for Salt Lake City, Utah, to produce Nature's own better-for-you snacks that are plant-based, dairy-free, nut-free and non-GMO. The 339,000-sf plant will employ 190 workers and be operational by July 2025.

## MERGERS AND ACQUISITIONS

The Ferrara Candy Company completed the acquisition of Jelly Belly Candy Company in November 2023. Ferrara appointed Jelly Belly's

former EVP of global operations, Jeff Brown, as CEO. Ferrara, makers of Laffy Taffy, Red Hots, Brach's, and other sugar candies, was acquired by Nutella-maker Ferrero Group in 2017.

Mars acquired Britain's Hotel Chocolat for US\$665 million in November 2023 to expand its presence in the United Kingdom. Hotel Chocolat is best known for its lower sugar and higher cocoa content premium confectionery made from natural ingredients. The company reported US\$289 million in revenue for fiscal 2023.

Treehouse Foods sold its snacks bars business and its Lakeview, Minn., manufacturing facility to John B. Sanfilippo & Son in September 2023 for approximately US\$61 million in cash. John B. Sanfilippo produces snack bars, dried cheese, and nut & dried fruit-based ↗

## Sugar and Confectionery Product Manufacturing

	UNITS	2023	2022 VS 2021	2023 VS 2022
SHIPMENTS (1)	\$ BILLION	\$5.7	14%	11%
IMPORTS (2)	\$ BILLION	\$4.5	17%	16%
EXPORTS (2)	\$ BILLION	\$4.5	15%	10%
DOMESTIC MARKET (3)	\$ BILLION	\$5.7	15%	15%
TRADE BALANCE (2)	\$ BILLION	\$0.010	-14%	-105%
PROCESSOR PRICES (4)	INDEX, 2020=100	128.6	8%	9%
REAL SHIPMENTS (5)	PER CENT		6%	2%
REAL GDP (6)	\$ BILLION	\$1.9	3%	0%
EXPORT INTENSITY (7)	PER CENT	79%	1%	-1%
DOMESTIC MARKET SHARE (8)	PER CENT	77%	-1%	-4%

**Sources:** 1) Statistics Canada, Table 16-10-0047-01 Manufacturers' sales, inventories, orders... by NAICS (North American Industry Classification System) - Sales of goods manufactured - billions of dollars - seasonally unadjusted 2) Statistics Canada, Table 12-10-0136-01 Canadian international merchandise trade by industry - billions of dollars - not seasonally adjusted 3) Calculated (shipments + imports - exports) 4) Statistics Canada, Table 18-10-0267-01 Industrial product price index, by industry, monthly Index 2020=100 5) Calculated (shipment change - price change) 6) Statistics Canada, Table 36-10-0434-01 Gross domestic product at basic prices, by NAICS (North American Industry Classification System) - billions of dollars (2017 constant prices) - seasonally adjusted 7) Calculated (exports/domestic market) 8) Calculated ((shipments - exports)/domestic market)

## > CONFECTIONERY SECTOR

### Sugar and Confectionery Product Manufacturing:

#### Regional Breakdown of Canadian Output and International Breakdown of Imports and Exports

SHIPMENTS (1)	CANADA	ONTARIO	QUEBEC*	B.C*	ROC*
2022	\$4.1 BILLION	50%	39%	10%	1%
EXPORTS (2)	WORLD	USA	MEXICO	ITALY	ROW
2023	\$4.5 BILLION	93%	1%	1%	5%
IMPORTS (2)	WORLD	USA	BRAZIL	MEXICO	ROW
2023	\$4.5 BILLION	42%	20%	4%	34%

**Sources:** (1) Statistics Canada, Table 16-10-0117-01 Principal statistics for manufacturing industries by NAICS (North American Industry Classification System) – Revenue from goods manufactured (2022) - billions of dollars – not seasonally adjusted \* Note, regional breakdown based on share of exports instead of share of manufacturing as details suppressed for the latter due to confidentiality (2) Statistics Canada, Table 12-10-0136-01 Canadian international merchandise trade by industry (2023) - billions of dollars – not seasonally adjusted

products as well as a variety of private brands. Mondelez International completed the sale of its developed market gum business in the United States, Canada, and Europe to Perfetti Van Melle Group in October 2023 for US\$1.4 billion. The sale includes manufacturing facilities in Illinois and Poland and gum brands such as Trident, Dentyne and Bubbalicious as well as European candy brands.

Nestle acquired a majority stake in Grupo CRM, a premium chocolate player in Brazil in September 2023. In June 2023, organic and fair-trade chocolate producer Theo Chocolate of Seattle announced it would merge with U.S. candy manufacturer American Licorice Company of La Porte, Indiana. American Licorice, producer of Red Vines and Sour Patch confections, had revenues of US\$215 million in fiscal 2022.

### THE DOMESTIC MARKET

Canadians spent roughly \$4.8 billion at retail on sugar and confectionery in 2021 (latest statistical year) of which \$900 million was spent on ‘sugar, syrups, and substitutes.’ However, that represents only a small fraction of the market for Canadian sugar refiners, as 85 per cent of the roughly 1.4 million tonnes of sugar refined in Canada is purchased by industrial users, mainly food manufacturers.

The shift from dining out to dining at home during the pandemic increased per capita consumption of honey by 17 per cent to 0.68 kg/pc and maple syrup by 21 per cent to 0.32 kg/pc while reducing refined sugar consumption by two per cent to 18 kg.

Of the \$3.9 billion spent on confectionery at retail in 2021, \$2.6 billion (67 per cent) was spent on chocolate confectionery and the remainder on non-chocolate. COVID had the effect of depressing consumption of non-chocolate confectionery generally, and gums and mints in particular, as people stayed home. Household purchases declined in value by six per cent to \$800 million. Home baking explains the 60 per cent increase in sales of baking chocolate to \$260 million. Spending on chocolate bars rose 16 per cent to \$1.5 billion while those of ‘other chocolate’—mainly boxed chocolates and chocolate novelties—rose by 11 per cent to \$1. billion.

### SUGAR AND NATURAL SWEETENERS

Canadian sugar refiners benefit from paying the world price for sugar, which, in March 2024, was US\$0.48 per kg compared to the U.S.

price of US\$0.88. Canadian manufacturers of baked goods, confectionery and other foods obtain a price advantage relative to manufacturers south of the border by using Canadian sugar in their products.

Canadian maple syrup and honey producers are making inroads in the ingredient market, as consumers seek clean label claims such as ‘all natural’. Canada produced almost \$300 million worth of honey in 2023, 23 per cent more than the previous year. Maple syrup production in 2023 was down 40 per cent from 2022 due to unfavourable weather. Canada is the world’s largest producer and exports roughly three-quarters of its production with the U.S. buying 62 per cent. Germany, France, the U.K., Australia, and Japan accounted for about 30 per cent. With limited supplies, the value of exports remained unchanged at 2022 levels of \$600 million in 2023.

Maple syrup shares a challenge with other premium priced luxury foods and beverages during periods of strained household finances. A lapse in purchases can become permanent. David Marino, director of promotions and market development at the Quebec Maple Syrup Producers, explains, “We would prefer people to buy more maple syrup, but our priority is getting more people to consume it, even if only a little.” The key demographic for maple syrup consumption is families with young children, particularly families preparing pancakes and waffles at home.

### COCOA PRICE

Commodity prices, aside for crude oil prices, rarely make the news but cocoa prices were making headlines as they doubled between August 2023 and March 2024. The hit US\$7.09. In April 2024 prices were down 20 per cent and futures contracts show prices falling to US\$4.50 in December 2024. Barry Callebaut explained in its first half report in April 2024 that the prices were initially driven higher by El Nino impacts, poor weather and the cocoa swollen shoot disease in Ghana and Cote d’Ivoire, where 55 to 60 per cent of the world’s cocoa beans are grown. The company explains that the mid-crop, which is harvested from May through September, is developing normally and other cocoa regions such as Ecuador are expanding their plantings.

### CHOCOLATE CONSUMPTION DECLINES

According to Barry Callebaut, North American chocolate consumption in the September to November 2023 period were down 6.6 per

cent from the same period of 2022. CEO Peter Field told shareholders in January, “Food manufacturers in the region were impacted by weaker consumer demand,” while “gourmet and specialty chocolate saw signs of recovery.” Dr. Albert Lechner, CEO of Lindt & Sprungli Group, also referenced the volume decline amid growth in the premium segment, in his March 2024 presentation.

Consumers of non-premium chocolate are buying less products, switching to private label and buying in bulk to save money, according to Barry Callebaut’s Chocolate Trends report of November 2023. In December 2023, the U.S.-based National Confectionery Association noted, “62 per cent of consumers now shop candy differently, aiming to buy it less often, finding sales promotions, sticking to the budget and buying smaller pack sizes.”

At the premium end, Dir Van de Put, chair and CEO of Mondelez International, said in January 2024, “We’re pushing hard on premium chocolate, so we launched, for instance, Toblerone Pralines.” In the everyday chocolate category, there is more focus on fun, variety, and novelty. Late last year, Mars expanded its M&Ms minis line-up. Ellen Thompson, general manager of Mars Wrigley Canada, explained, “Minis are a frontrunner, having seen the greatest growth of our entire M&M’s offering.” Recognizing that peanut butter has emerged as the top growing flavour within the category over the past year, it introduced M&M’s Peanut Butter Minis in September 2023. At the same time, Hershey Canada launched its first plant-based chocolate bar, Hershey’s Oat Made bars, in the Canadian market.

## FROM GUM TO GUMMIES

Sales of gum have recovered slightly from the COVID downturn but *Fortune* magazine, quoting data from Euromonitor, reported 2023 global sales remained below 2019 levels and especially weak among Millennials and Generation Z. Consumers equate gum with sugar, which they are trying to avoid, as well as sugarless alternatives due to their artificial sweeteners. Younger consumers, however, are drawn to novelty candies such as gummies.

In a presentation to the Consumer Analysts Group of New York in February 2024, Hershey Foods reported gummies had the highest three-year growth rate among the five largest non-chocolate confectionery segments, expanding by 18 per cent annually over that period. Hershey’s chair, president and CEO Michelle Buck told the forum the company would expand its gummy capacity by 50 per cent in 2024.

## MINDFUL INDULGENCE

Barry Callebaut expects mindful indulgence to drive the chocolate confectionery segment in the near term. In its November 2023 “Chocolate Trends 2024 and Beyond” report, it notes, “Mindful indulgence favours smaller portions of more premium chocolate while assuaging the guilty pleasure with assurances of environmental responsibility and ethical conduct. The report notes four drivers for mindful indulgence—natural and clean label; less or no sugar; sustainable and traceable; and vegan or plant-based.”

The report also notes that healthy indulgence, “while in its infancy in chocolate, is definitely a trend to watch.” The five most appealing claims in this segment are high in protein; high in energy boosting

ingredients; high in omega 3; high in vitamins and minerals; and high in calcium.

In its fifth annual State of Snacking Report (March 2024), Mondelez International found that seven in 10 survey respondents “agree they would rather have a smaller portion of an indulgent snack than a bigger portion of a low fat/sugar alternative version.”

## NUTRITION DRIVES PROTEIN BAR SALES

Retail sales of granola/protein bars topped \$1 billion in 2021. The category received a significant boost during COVID with sales rising 24 per cent between 2019 and 2021 and they continue to grow, albeit at a slower pace. The CAGR 2014 to 2021 was 5.6 per cent. The ‘nutritional/intrinsic health value bars’ sub-category, which includes protein bars, accounts for roughly half of the category sales and most of the growth. Prophecy Market Insights forecasted a CAGR of 6.6 per cent for the protein bar segment of the U.S. market to 2030. NielsenIQ’s Snackonomics Report of September 2023 noted that while sales volume declined for most snack categories in the 12 months ended May 2023, unit volume rose five per cent for the performance nutrition products, a category that includes protein bars.

Product innovation continues to focus on boosting the nutritional properties while reducing carbs and calories. YouBar, a protein bar developer, said in February 2024, “In 2024, we can expect a continued surge in demand for plant-based protein bars,” and cited increased interest among manufacturers in plant proteins such as pea, hemp, and algae. Additionally, expect to see more functional ingredients like adaptogens, probiotics, and nootropics to offer specific health benefits, such as stress reduction, gut health, and cognitive enhancement.” 

## THE OUTLOOK

Farm Credit Canada forecasts 5.5 per cent volume growth for the sector in 2024. Sugar and non-chocolate confectionery will drive the growth as Barry Callebaut forecast flat growth for chocolate confectionery in the North American market. There are, however, opportunities in the higher margin categories as demand for gourmet chocolate held up in 2023 and early 2024 even though overall demand declined. Kriston Dean of Purdy’s Chocolatier is optimistic for 2024 based on her company’s strong sales for both the Christmas and Valentine’s celebrations. Purdy’s competes in the gourmet/luxury market segment.

It will be difficult for confectioners to fully recover their increased commodity costs in today’s budget-strained marketplace, so expect profit margins to be below 2023 averages.

Look for maple syrup shipments to increase this year as the Quebec Maple Syrup Producers announced the addition of 7 million new maple taps to the member quota beginning this year.

Based on recent investments in capacity, Canadian sugar refiners are quite optimistic about growing demand in 2024 and beyond. 



The beverage sector includes alcoholic and non-alcoholic drinks produced by companies primarily engaged in the production of beverages. Drinks not included in this sector include fluid milk produced by the dairy sector; juices manufactured by the fruit and vegetable processing sector; and tea and coffee produced by

the other food products (OFP) sector. All of the above beverages compete with tap water.

Soft drink and water bottlers accounted for 34 per cent of sector shipments in 2023; brewers for 46 per cent; wineries for 11 per cent and distillers for nine per cent.

In 2023, the value of domestic shipments increased by \$200

million to \$15.1 billion following a \$700 million (five per cent) rise in the previous year. But the nominal increase of one per cent was actually a decline of seven per cent after adjusting for price inflation. Production declined in three of the four sub-sectors with only distilleries reporting growth. The value of spirits shipments rose by

\$200 million (17 per cent) to \$1.4 billion, reversing the declines of 2022 and bringing volume back to 2021 levels. Adjusted for prices, spirits shipments rose in value by 11 per cent. Real value added (GDP) for the entire sector fell six per cent to \$5.8 billion chained 2017 dollars, reversing the gains of the previous two years.

## INTERNATIONAL TRADE

The decline would have been worse had shipments tracked the domestic market, which shrank by three percent or 13 per cent after adjusting for prices in 2023. Canada's historic balance of trade deficit in beverages was reduced by \$700 million to -\$4.7 billion due to a modest \$200 million rise in exports to \$1.7 billion and a substantial \$500 million decline in imports to \$6.4 billion. The declines in imports were concentrated in the wineries and distilleries sub-sectors.

The value of imports in these two sub-sectors declined by 10 per cent. The declines were evenly distributed among our top seven suppliers (U.S., France, Italy, UK, Spain, Australia, and New Zealand), which accounted for 80 per cent of our wine and spirits imports in 2023. Their shares have remained fairly constant since 2019 with two

exceptions. The U.S. share rose to 28 per cent over the four years from 25 per cent and Australia's share declined to four per cent from six.

## MERGERS AND ACQUISITIONS

New York-based Chobani acquired ready-to-drink coffee maker La Colombe from Keurig Dr. Pepper (KDP) in December 2023 for US\$900 million. La Colombe is a growing player in the US\$5 billion ready-to-drink (RTD) coffee category.

Keurig Dr. Pepper acquired the global rights to the non-alcoholic, RTD cocktail brand Atypique from Station Agro-Biotech of Quebec in June 2023. Atypique provides a wide range of RTD cocktails. Last June, it held a 42 per cent market share in that segment in Canada with retail sales up 30 per cent during the past year.

Celsius partnered with PepsiCo in January 2024 to distribute its namesake energy drinks in Canada. Celsius obtained US\$930 million of its US\$1 billion in 2023 revenues from the U.S. market and the remainder from Canada, the U.K., and other international markets. Celsius, founded in Florida in 2005, draws on functional ingredients, such as ginger, guarana, and green tea, and vitamins to make its gluten-free, non-GMO and kosher beverages.

In June 2023, Pernod Ricard announced its Canadian affiliate, Corby Spirit and Wine, had acquired a 90 per cent stake in Ace Beverage Group, the largest independent player in the Canadian RTD beverage alcohol market for an enterprise value of \$165 million.

Tilray Brands completed the acquisition of Truss Beverage from Molson Coors in January 2024. Tilray produces cannabis beverages in London, Ont., and will operate the Truss beverage facility in Belleville, Ont. The deal expanded Tilray's Canadian market share in cannabis beverages to about 40 per cent, making it the country's largest player.

Molson Coors expanded its 'beyond the beer aisle' portfolio in August 2023 with the acquisition of Kentucky-based Blue Run Spirits, a distiller of award-winning bourbons and ryes. It also expanded its stake in ZOA Energy in September 2023, the better-for-you energy drink brand co-founded by Dwayne (The Rock) Johnson. ZOA reported more than US\$100 million in sales in 2022 and 138 per cent year-over-year growth.

Brown-Forman completed the sale of the Finlandia vodka brand to Coca-Cola HBC of Zug, Switzerland—Coca-Cola's third largest

## Beverage Manufacturing

	UNITS	2023	2022 VS 2021	2023 VS 2022
<b>SHIPMENTS (1)</b>	<b>\$ BILLION</b>	\$15.1	5%	1%
<b>IMPORTS (2)</b>	<b>\$ BILLION</b>	\$6.4	11%	-6%
<b>EXPORTS (2)</b>	<b>\$ BILLION</b>	\$1.7	1%	14%
<b>DOMESTIC MARKET (3)</b>	<b>\$ BILLION</b>	\$19.8	7%	-3%
<b>TRADE BALANCE (2)</b>	<b>\$ BILLION</b>	-\$4.7	-14%	12%
<b>PROCESSOR PRICES (4)</b>	<b>INDEX, 2020=100</b>	131.8	8%	9%
<b>REAL SHIPMENTS (5)</b>	<b>PER CENT</b>		-3%	-8%
<b>REAL GDP (6)</b>	<b>\$ BILLION</b>	\$5.8	0%	-6%
<b>EXPORT INTENSITY (7)</b>	<b>PER CENT</b>	11%	-4%	13%
<b>DOMESTIC MARKET SHARE (8)</b>	<b>PER CENT</b>	68%	-2%	2%

**Sources:** 1) Statistics Canada, Table 16-10-0047-01 Manufacturers' sales, inventories, orders... by NAICS (North American Industry Classification System) - Sales of goods manufactured – billions of dollars – seasonally unadjusted 2) Statistics Canada, Table 12-10-0136-01 Canadian international merchandise trade by industry - billions of dollars – not seasonally adjusted 3) Calculated (shipments + imports – exports) 4) Statistics Canada, Table 18-10-0267-01 Industrial product price index, by industry, monthly Index 2020=100 5) Calculated (shipment change – price change) 6) Statistics Canada, Table 36-10-0434-01 Gross domestic product at basic prices, by NAICS (North American Industry Classification System) – billions of dollars (2017 constant prices) – seasonally adjusted 7) Calculated (exports/domestic market) 8) Calculated ((shipments-exports)/domestic market))



anchor bottler—in June 2023 for US\$220 million. The company said the sale is, “another step in Brown-Forman’s long-term strategic ambition to premiumize its portfolio.”

## WATER AND SOFT DRINKS

Gary Hemphill, managing director of research for New York-based Beverage Marketing Corporation (BMC), reported most of the beverages in the water and soft drink sub-sector saw volume declines as consumers cut back in the face of eight to 14 per cent retail price increases. Flat water volumes remained unchanged from 2022 in the U.S. market after four years of mid-single digit growth.

“Sparkling water lost some of its fizz after several years of healthy growth,” he explained as eight per cent annual growth from 2018 to 2022 ended in a three per cent decline in 2023.

Sports drink volumes fell five per cent after growing at four per cent annually over the previous five years. Energy drinks, however, continued their CAGR of 6.2 per cent in 2023. RTD tea continued its decline while RTD coffee, which had been growing 10.5 per cent annually, saw volumes decline by three per cent.

For reference, Canadians spent \$3.3 billion at retail on RTD non-alcoholic beverages in 2021 (most recent statistical year). Soft drinks accounted for \$1.5 billion of the total, bottled water for \$800 million, sports and energy drinks for \$500 million and carbonated water and flavoured water (including mineral water) for \$450 million.

In February 2024, Ramon Laguarta, chair and CEO of Pepsico, noted, “The energy category continues to grow above the LRB (liquid refreshment beverage) category,” and “continues to expand into new consumers and new consumer occasions.” Most of the product innovation in the LRB category in 2023 and early 2024 focused on functional beverages. In January 2024, Coca-Cola expanded its Bodyarmor portfolio with the addition of Bodyarmor Zero Sugar to compete more directly with PepsiCo’s Gatorade Zero (sugar). In the same

month, Pepsico, in partnership with Suntory, expanded distribution of its Celsius energy drink to Canada and the U.K. Pepsico also launched a new functional mushroom-infused beverage called Rockstar Focus.

Hydration has emerged as an offshoot of sports and energy drinks. In an August 2023 report, Precedence Research estimated the global electrolyte drinks market to be worth US\$33.4 billion in 2022 and forecast a CAGR of 5.9 percent over the next decade to reach US\$59 billion by 2032. The North American market revenues were estimated to be worth US\$13 billion in 2022. Bodyarmor entered the category last fall with a RTD Bodyarmor Flash I.V. At the same time, KDP signed an agreement to sell and distribute electrolyte-infused Electro-lit. In February 2024, Pepsico launched Gatorade Water.

Earlier this year, James Quincey, chair and CEO of the Coca-Cola Company, noted that in the midst of down trading, which has favoured growing demand for 1.25 L PET bottles and 16-oz cans, “there’s a segment of consumers that will have plenty of purchasing power and we’ve seen strong growth for some of the higher price point premium segments.” Craft colas have been particularly successful. In January 2024, the Food Institute, quoting a report from Grand View Research, estimated the global craft soda market to be worth US\$680 million in 2022. The global craft soda market is forecast to grow 5.1 per cent annually through the rest of the decade.

## TOTAL BEVERAGE ALCOHOL

In 2023, Canadians spent \$26.3 billion on alcohol of which \$15.4 billion was spent on spirits, \$7.9 billion on wine, \$9.4 billion on beer and \$2.1 billion on a portfolio of RTD alcoholic beverage including ciders, coolers, and other refreshment beverages. Since 2017, spirits’ share of spending on total beverage alcohol (TBA) has risen to 26 per cent from 23 per cent; beer’s share had fallen to 36 per cent from 41 per cent; and wine’s share had declined to 30 per cent from 32 per cent, while the RTD beverages’ share has doubled to eight per cent.

The COVID shutdowns increased TBA consumption one per cent to 3.2 billion L from 3.1 in 2019, and in the 12 months ended April 2023, consumption dropped back one per cent to 3.1 billion. Spirits significantly outperformed beer going into the COVID years and matched the overall TBA matrix when exiting COVID. Spirits volume remains five per cent above 2019 levels at 400 million L. Beer continued its long-term decline in the COVID years and matched TBA decline in 2022/23 to end the period at 2 billion L vs. 2.2 billion ↗

## Beverage Manufacturing: Regional Breakdown of Canadian Output and International Breakdown of Imports and Exports

SHIPMENTS (1)	CANADA	ONTARIO*	QUEBEC*	RAIRIE	ROC
2022	\$14.9 BILLION	38%	25%	18%	19%
EXPORTS (2)	WORLD	USA	JAPAN	IRELAND	ROW
2023	\$1.7 BILLION	91%	2%	1%	6%
IMPORTS (2)	WORLD	USA	FRANCE	ITALY	ROW
2023	\$6.4 BILLION	36%	15%	12%	37%

**Sources:** (1) Statistics Canada, Table 16-10-0117-01 Principal statistics for manufacturing industries by NAICS (North American Industry Classification System) – Revenue from goods manufactured (2022) - billions of dollars – not seasonally adjusted \* Regional breakdown for Canada based on Manufacturing Value Added as data for Revenue from goods manufactured omits most regions. (2) Statistics Canada, Table 12-10-0136-01 Canadian international merchandise trade by industry (2023) - billions of dollars – not seasonally adjusted

## > BEVERAGE SECTOR

in 2019. Sales of RTD alcoholic beverages at 41 million L double the volume of 2018 with growth slowing to one per cent in the most recent year from double-digit growth over the previous four years.

### BRIGHT SPOTS IN A DECLINING BEER MARKET

In March 2024, New York-based BMC noted three out of the 10 broadly defined U.S. beer categories resisted the decline in the U.S. market. Flavoured malt beverages, imports such as Corona Extra, and non-alcoholic beers such as Heineken 0.0 grew their sales while craft beers have held their share. There appeared to be migration of premium beer consumers from domestics such as Michelob to imports such as Stella Artois. Curiously, value beers such as Busch lost market share. BMC forecasts modest share gains for imported brands and significant gains for craft beers to 2027 and a doubling in share to two per cent in the non-alcoholic beer segments.

Imported beers have not fared as well in Canada, but that is partly explained by Canadian brewers producing foreign brands under license. Labatt Breweries, for example, produces Corona Extra and Stella Artois. In 2022/2023, 89 per cent of the beer sold in Canada was brewed in Canada compared to 83 per cent in 2019. A third of Canada's beer imports come from the Netherlands (Heineken) and 15 per cent from the U.S. Other leading suppliers include Ireland, Germany, and the U.K., all with shares of five per cent or more.

In February 2024, Molson Coors launched Madri Excepcional beer in the Canadian market four years after its debut in the United

### THE OUTLOOK

According to IWSR, the U.K.-based global leader in beverage alcohol and intelligence, the -1 per cent CAGR for Canadian beer consumption from 2017 to 2022 will accelerate to a -2 per cent annual decline over the next four years. The wine category's recent losses are forecast to end with flat growth going forward. Spirits, which had been growing at two per cent annually, will see growth slow to one per cent. The big surprise is RTD alcoholic beverages, a category that had been growing at 22 per cent annually. IWSR forecasts it will grow at four per cent pace to 2027.

The American beer market is trending to craft and imported beers. BMC forecasts the former's share of the beer category to grow from 14 per cent today to 19 per cent by 2027 and the latter to grow from 19 per cent today to 22 per cent. Their gains will come primarily from light beer, which will see its share drop to 29 per cent from today's 38 per cent.

Farm Credit Canada forecasts overall volumes for alcohol and non-alcoholic beverages to decline by 3.3 per cent in 2024. Sales and volumes of alcoholic beverages of all types (wine, beer, spirits, RTDs) are forecast to decline while those of non-alcoholic beverages such as soft drinks are expected to increase. 

Kingdom. The beer, a collaboration between Molson Coors and the La Sagra brewery of Spain, has become the second largest above-premium lager in on-premises locations in the U.K. in the last three years.

The opportunities of low- and no-alcohol beer is attracting considerable innovation. In March 2024, Toronto-based Partake Brewing launched Pils, a limited-edition pilsener in Canada and the U.S. In December 2023, Molson Coors's craft beer subsidiary Blue Moon launched its first non-alcoholic beer.

### WINE LOSES SHARE OF TBA

Statistics Canada reported in March 2024 that wine sales for the 2022/23 marketing year declined three per cent to 500 million L following a four per cent decline the previous year from 2020/21, the peak year for wine sales at 537 million L. Wine was the only beverage category that lost market share last year, falling to 29.9 per cent of total beverage alcohol sales, its lowest level since 2010/2011. Canadian bottled wine did, however, lose less volume relative to imports, increasing its share modestly to 40.1 per cent.

Canadians' wine preferences have trended to lighter alternatives from red wine, which as recently as 2019 accounted for 52 per cent of wine purchased. Today, its share has fallen to 49 per cent while white wine's share has risen to 39 per cent from 38 per cent, rose's share to four per cent from three per cent, and sparkling wine's share to five per cent from four per cent.

### SPIRITS AND RTD COCKTAIL GAIN SHARE

Spirits Canada, the organization representing Canada's distillers, reports that in 2023, volume of spirits was down 2.5 per cent to 20.5 million cases compared to 2022 while the volume of RTD spirits-based cocktails was up five per cent to 3.7 million cases. The CAGR for spirits over the past seven years was 1.7 per cent compared to 16.6 per cent for RTD cocktails. Until recently, seltzers and other malt-based coolers were driving growth in the flavoured beverage alcohol category, but high-quality spirits-based cocktails began outpacing seltzers in 2020 when volume jumped by more than 50 per cent to 3 million cases.

Statista, in its "Hard Seltzer-Canada" report of November 2023, estimated the value of Canada's hard seltzer market to be US\$116 million. While it forecast a slowdown in revenue growth for seltzers over the next five years, it noted the trend to seltzers was driven by the younger demographic of Millennials and Gen Z 'showing a preference for lighter and more refreshing alcoholic beverages.'

Recent Canadian developments in the RTD category include the March 2024 launch of SVNS Hard 7UP from Labatt Breweries. The zero sugar, seven per cent ABV beverage is the result of a collaboration with PepsiCo Canada to develop a drink appealing to consumers of legal drinking age to 34-year-olds. The innovation is rooted in the insight that the RTD category has more than doubled in North America in the past two years and the majority (84 per cent) of RTD drinkers are looking for brands that don't already exist in the beer space. In the malt-based space, Molson Coors launched the Happy Thursday line-up of fruit-flavoured alcoholic beverages in April 2024 for Gen Z drinkers. 

# OTHER FOOD PRODUCTS SECTOR

[sector snapshot]

The other food products (OFP) sector includes five sub-sectors: snacks foods, including potato and corn-based snacks, extruded snacks, snack nuts and peanut butter representing 28 per cent of shipments in 2023; coffee and tea (16 per cent); flavouring syrups and concentrates (seven per cent); seasonings and dressings including sandwich spreads, spices, sauces, and vinegar (12 per cent); and 'all other foods' including bagged salads, fresh-cut

vegetable; fresh pizza and pasta; and sandwiches (37 per cent).

The strong recovery in sector shipments in 2021 and 2022 slowed in 2023. The value of shipments rose by \$1.7 billion, or 10 per cent, to \$18.1 billion but adjusted for prices, real growth averaged two per cent. Growth was driven by the snack foods sub-sector and seasonings and dressing sub-sector, both of which increased shipments by 16 per cent (nominal) with the former

growing sales by \$0.7 billion to \$5.1 billion and the latter by \$200 million to \$1.9 billion. Price adjusted growth for the two sub-sectors rose by seven per cent and five per cent respectively. The value of shipments for 'all other foods' sub-sector remained unchanged at \$6.7 billion after adjusting for price and the coffee and tea sub-sector's shipments declined by \$0.2 billion to \$2.9 billion. The flavouring syrup and concentrate sub-sector saw

shipments rise in value by \$0.4 billion or 20 per cent to \$1.3 billion.

The domestic market expanded by \$2.1 billion to \$21.1 billion, a gain of 11 per cent before or two per cent after price adjustments. Domestic demand was driven by strong growth in demand for snack foods and 'all other foods'. Real value added remained unchanged from the previous year at \$4.8 billion (chained 2017 dollars).

## INTERNATIONAL TRADE

Prior to 2023, other food product (OFP) exports were growing by double digits annually, led by the 'all other foods' sub-category. But growth slowed to two per cent in 2023 and 'all other foods' underperformed snack food and flavouring syrups and concentrates. While export growth to the U.S. slowed to five per cent, exports to all other countries declined by 14 per cent, leading to a modest \$0.1 billion gain in exports to \$4.4 billion, which, adjusted for price changes, meant a two per cent decline in real exports.

Imports, however, kept pace with prices rising by \$0.5 billion to \$7.4 billion, which meant 2023 imports remained unchanged from the prior year in inflation adjusted dollars. Coffee and tea imports increased by \$0.1 billion to \$1.7 billion, led by a 15 per cent increase in imports from the U.S. Imports of seasonings and dressings rose by \$0.1 billion to \$1.6 billion, and imports of all other foods rose by \$0.2 billion to \$2.9 billion. The net effect of weak exports and strong imports was a \$0.4 billion increase in Canada's trade deficit in OFP manufacturing to -\$4.4 billion.

## CAPITAL INVESTMENTS

Coffee company Cafe William opened its new \$47 million coffee plant in Sherbrooke, Que., in February 2024. Of the total, \$19 million was allocated toward implementing energy-efficient technology including a 100 per cent electric roaster with an annual capacity of 20 million lb. Remi Tremblay, CEO of Cafe William said, "Operating Canada's first electric industrial roaster fills us with immense pride."

## MERGERS AND ACQUISITIONS

J.M. Smucker completed the sale of its Sahale Snacks brand to Second Nature Brands in November 2023. The transaction, valued at US\$34 million, includes a manufacturing facility in Seattle. Sahale makes a wide variety of nut mixes (trail, glazed, coconut and bean nut).

The Hershey Company acquired two manufacturing plants from its SkinnyPop co-packer Weaver Popcorn Manufacturing in April 2023.

TreeHouse Foods acquired the Northlake (Texas) coffee facility of the Farmer Brothers Company for approximately US\$100 million in June 2023. The facility, built in 2017, brings roasting, grinding, flavouring, and blending capabilities to the TreeHouse Foods portfolio, which complements the company's existing private label single-serve and ready-to-drink coffee business.

Campbell Soup Company sold its Emerald Nuts business to Flagstones Foods in May 2023. Campbell acquired the business as part of the Snyder's-Lance acquisition in 2018. The business had US\$66 million in sales in fiscal 2022. ↗

## Other Food Manufacturing

	UNITS	2023	2022 VS 2021	2023 VS 2022
SHIPMENTS (1)	\$ BILLION	\$18.1	18%	10%
IMPORTS (2)	\$ BILLION	\$7.4	18%	7%
EXPORTS (2)	\$ BILLION	\$4.4	24%	2%
DOMESTIC MARKET (3)	\$ BILLION	21.1	17%	11%
TRADE BALANCE (2)	\$ BILLION	-\$3.0	10%	14%
PROCESSOR PRICES (4)	INDEX, 2020=100	122.7	11%	8%
REAL SHIPMENTS (5)	PER CENT		7%	2%
REAL GDP (6)	\$ BILLION	\$4.8	4%	0%
EXPORT INTENSITY (7)	PER CENT	24%	5%	-7%
DOMESTIC MARKET SHARE (8)	PER CENT	65%	-1%	2%

**Sources:** 1) Statistics Canada, Table 16-10-0047-01 Manufacturers' sales, inventories, orders... by NAICS (North American Industry Classification System) - Sales of goods manufactured - billions of dollars - seasonally unadjusted 2) Statistics Canada, Table 12-10-0136-01 Canadian international merchandise trade by industry - billions of dollars - not seasonally adjusted 3) Calculated (shipments + imports - exports) 4) Statistics Canada, Table 18-10-0267-01 Industrial product price index, by industry, monthly Index 2020=100 5) Calculated (shipment change - price change) 6) Statistics Canada, Table 36-10-0434-01 Gross domestic product at basic prices, by NAICS (North American Industry Classification System) - billions of dollars (2017 constant prices) - seasonally adjusted 7) Calculated (exports/domestic market) 8) Calculated ((shipments-exports)/domestic market)

## > OTHER FOOD PRODUCTS SECTOR

### Other Food Manufacturing:

#### Regional Breakdown of Canadian Output and International Breakdown of Imports and Exports

SHIPMENTS (1)	CANADA	ONTARIO	QUEBEC	PRAIRIE	ROC
2022	<b>\$16.1 BILLION</b>	44%	30%	12%	14%
EXPORTS (2)	<b>WORLD</b>	USA	CHINA	S. KOREA	ROW
2023	<b>\$4.4 BILLION</b>	89%	1%	1%	9%
IMPORTS (2)	<b>WORLD</b>	USA	SWITZERLAND	CHINA	ROW
2023	<b>\$7.4 BILLION</b>	71%	4%	3%	22%

**Sources:** (1) Statistics Canada, Table 16-10-0117-01 Principal statistics for manufacturing industries by NAICS (North American Industry Classification System) – Revenue from goods manufactured (2022) - billions of dollars – not seasonally adjusted (2) Statistics Canada, Table 12-10-0136-01 Canadian international merchandise trade by industry (2023) - billions of dollars – not seasonally adjusted

In January 2024, Utz Brands announced it would sell its R.W. Garcia and Good Health brands along with two manufacturing facilities to Our Home, a better-for-you snack platform. R.W. Garcia is known for its tortilla chips and gluten-free crackers. Good Health makes a variety of salted snacks including pretzels, veggie chips and popcorn.

Private equity firm Clayton Dubilier & Rice acquired contract snack food manufacturer Shearer's Foods from the Ontario Teachers' Pension Plan in December 2023. Ohio-based Shearer's produces over US\$2 billion worth of snacks annually at 17 plants across North America. Campbell Soup completed its US\$2.7 billion acquisition of Sovos Brands in March 2024. The deal strengthens Campbell's sauces range (Prego) in the premium category with Sovos' Rao's Italian pasta sauces. Sales of Rao's brand sauces, dry pastas, soups, and frozen meals grew by 37 per cent last year and were responsible for three-quarters of Sovos' US\$1 billion sales in 2023.

### SHOPPERS SPLURGE ON DRESSINGS

Few food categories were as successful as the dressing and seasonings sub-sector in 2023 and early 2024. The average Canadian household spent \$357 at retail in 2021 on items in this sub-sector. Mayonnaise, salad dressings and dips accounted for 23 per cent of the \$5.5 billion spend on foods covered by this sub-sector; canned and bottled pasta, pizza and other sauces and gravies for another 23 per cent; dried herbs, spices, and food seasonings for 24 per cent; and ketchup, pickled vegetables, and other condiments such as vinegar for the remainder.

At manufacturers' prices, the value of the domestic market grew by 17 per cent in 2023 to \$2.8 billion or 12 per cent after adjusting for prices. Domestic manufacturers captured half of the \$400 million in growth and imports the remainder. Domestic manufacturers export two-fifths (43 per cent) of their production and imports account for the same proportion of the domestic market (44 per cent). The value of Canadian exports in 2023 remained unchanged at \$900 million. As a result, the increase in imports expanded the balance of trade deficit to -\$700 million in 2023.

Unilever's success with Hellmann's mayonnaise and other dressings were matched by those of Kraft Heinz's Taste Elevation items such as Kraft ketchup and mayonnaise, Primal Kitchen dressings and Grey Poupon mustard. Other notable launches in the category included a new line of 15 seasoning blends from McCormick called Flavor Makers, each specific to a particular type of dish; and Conagra's Canadian

launch in November 2023 of P.F. Chang's Home Menu sauces and frozen meals.

### COFFEE, TEA TRADING DOWN

Canadians spent \$3.5 billion at retail on coffee and tea in 2023 and perhaps half as much on coffee and tea at foodservice. The retail spending in 2021 (most recent statistical year) was two-thirds (68 per cent) spent on roast and ground (including capsules), 15 per cent on instant coffee including flavoured, and 17 per cent on tea and herbal. The domestic coffee and tea market contracted in 2023 as consumers cut back and traded down in response to the high cost of living.

In the coffee category, according to Nielsen IQ, value and private label brands led the (nominal) growth of five per cent (-5 per cent after adjusting for prices). In October 2023, Bob Gamgort, chair and CEO of Keurig Dr. Pepper, noted that sales were stronger in untracked channels than in traditional grocery stores with sales growth "really driven by club stores and e-commerce." He added his company is increasing its subscription business.

According to Nielsen IQ, the top five factors that influenced Canadians' coffee purchases in 2023 were:

- 'best value for the money' at 82 per cent;
- 'a brand I trust' at 79 per cent;
- 'a way to treat/indulge myself' at 75 per cent;
- 'the less expensive option' at 65 per cent; and
- 'a healthier option' at 65 per cent.

Ready-to-drink is the leading trend in both the coffee and tea categories, and these are covered in the beverages sector report. In food-service, but especially at retail, functional teas are driving sales growth and tea blenders are innovating to meet demand. Hain Celestial introduced Peppermint K-cups and Sleepy Time with Melatonin in 2023. Tata Consumer Products introduced the Super Teas line of teas fortified with vitamins and minerals just before COVID and have since then expanded into teas focused on mindfulness. The latest, launched at retail in September 2023, are Live Happy and Live Balanced.

Shabnam Weber, president of the Tea and Herbal Association of Canada, said the younger generations are driving the trend to functional teas and noted that Millennials (ages 28 to 43) and Gen Z (ages 12 to 27) "have a greater interest in relaxation and calm." Despite the overall trend to spending less on food and beverages generally, high-end specialty teas are selling well because of the 'lipstick effect'. Weber

explained that in recessions, consumers buy small luxury items like red lipstick as a treat.

## SALTY SNACKS – NUTRITION AND SATIETY

Salty snacks did not fare well in 2023 as consumers bought less and traded down to private label. In December 2023, Marc Clouse, president and CEO, Campbell Soup Company, noted that the declines were most pronounced among lower income households. Among the salted snack categories, the hardest hit were aerated items like rice cakes, cheese puffs or ready-to-eat popcorn. Michelle Buck, president and CEO, the Hershey Company, attributed this to the increasing importance of affordability and value to consumers and their focus on satiety, “where we’re seeing categories like pretzels, meat snacks, tortilla chips, some of the things that are more filling, behave more strongly.” This explains the success of Dot’s, the company’s pretzel brand.

While consumers complain about shrinkflation, snack makers find it essential to maintain a range of price points to ensure their brands are purchased. Hershey, for example, found it was missing an entry-level package size for pretzels, and created one that met with success. Multi-packs have led growth in salted snacks as consumers seek portion control. Nielsen IQ noted in its Snackonomics Report (September 2023) that multi-packs have grown their share of the potato chip and tortilla chip categories, “as consumers seek on-the-go convenience, variety, indulgent portion control, and savings.”

Growth in salted snacks has favoured better-for-you and good-for-you portions. Ramon Laguarta, chair and CEO of PepsiCo, explained in February 2024, “Our permissible portfolio, which, if you think about the combination of Sun Chips, Pop Corners, Smartfoods, that part of the portfolio is growing almost three times above the average of Frito.” Lorelei Bergin, vice president of North American Retail at Nielsen IQ, said at the Grocery Shop conference in Las Vegas in September 2023, “Top quality nutrition matters to the 42 per cent of consumers who claim their eating habits have become healthier in the past year.” She added, “Gluten-free is not going away any time soon, especially in the snacking arena.”

Wendy Davidson, president and CEO of Hain Celestial Group, makers of Veggie Straws and Terra Chips, noted in a Q&A with investors in February 2024 that natural and organic foods outpaced conventional until COVID, but lost share in 2020 through 2022. However, in the latest Nielsen data, she added, “We started to see the consumer revert back to historical behaviours” in the middle of 2023. Hain Celestial launched Garden Veggie Flavor Burst in the tortilla chip category in Canada and the U.S. in January 2024. These flavoured tortilla chips were developed for on-the-go families with children for snacking between soccer games.

## CURIOS DECLINE FOR ALL OTHER FOODS

The all other foods manufacturing sub-sector ended a decade of growth with a slight decline in 2023 as shoppers found less expensive alternatives to fresh pizzas and pastas, prepared meals and fresh peeled and sliced vegetables. The real, price adjusted, value of the domestic market declined by one-per cent last year after averaging four per cent annual growth since 2013. Conagra Brands, in an investor presen-

tation in January 2024 cited four consumer trends relevant to these categories: Limited discretionary purchases; more hands-on prep, less convenience; more meals-for-many, fewer meals-for-one; and more use of leftovers, less waste.

While supermarkets remain a significant market for manufacturers of fresh prepared foods, restaurants are now a growth opportunity due to high wage costs. Chris Elliott, chief economist and vice president research for Restaurants Canada, noted, “Foodservice is very labour intensive, requiring 12.8 employees for each \$1 million in receipts compared to 3.9 for grocery stores and 2.7 for general merchandise stores. In October 2023, six of 10 provinces raised their minimum wages by seven to 10 per cent so restaurant operators don’t expect any let up in labour costs.” Elliot cautions, however, that if the semi-prepared or prepared foods are not fresh and offer comparable quality to foods made on site, they will not be interested. 

## THE OUTLOOK

Our American counterparts in salty snacks expect 2024 to restore the sub-sector to pre-COVID trends but data does not support that theory for Canada. Mike Ljubicic, managing director for Canada, Neison IQ, noted in February 2024 that sales volumes (units) of salty snacks, chocolate and beef continued to decline throughout 2023. Salty snacks are clearly discretionary purchases and Canadians, given the economic outlook, are unlikely to reverse their 2023 spending patterns at least until the end of H1 2024. Some segments will outperform, specifically those like pretzels that offer greater satiety and nuts and seeds, which are natural sources of much-valued proteins.

Coffee and tea purchases will likewise maintain their 2023 patterns until the economy shows sustained growth but again, there will be exceptions with products delivering benefits such as teas promising calm, or coffees that promise focus without the jitters. In commodity markets, the prices of coffee beans and tea leaves in the first quarter of 2024 have settled into price ranges of 2023, which were down 20 per cent and 10 per cent respectively from their 2023 highs.

There is much speculation as to which COVID-era behaviours will recede and which will remain in 2024 and beyond but home meal preparation is more widely accepted as a behaviour that will continue, especially in Canada with forecasts of flat to weak economic growth. That will benefit the dressing and seasoning sub-sector as much this year as last.

The all other foods sub-sector faces, at best, weak growth in the grocery channel as the major chains focus on their discount banners at the expense of conventional full service stores. At foodservice, as noted, restaurateurs won’t compromise on freshness and quality even while experimenting with externally sourced freshly prepared meals. 

# GRAIN & OILSEED MILLING SECTOR

[sector snapshot]

The grain and oilseed milling sector comprises three sub-sectors. The flour milling and malt sub-sector is primarily engaged in milling wheat and pulses into flour mixes or dough as well as cleaning and polishing

rice. It accounted for 10 per cent of sector shipments in 2023. The starch and vegetable fat and oil sub-sector includes the wet milling of corn and other vegetables, but oilseed crushing accounts for more than 90 per

cent of shipments. This group, which produces vegetable oils, margarines, and shortenings, accounted for 85 per cent of sector shipments in 2023. The breakfast cereal sub-sector includes the production of hot

and cold cereals and granola, but not granola bars or cereal bars, which are classified as confectionery. In 2023, breakfast cereal manufacturing accounted for five per cent of overall sector shipments.

## SHIPMENTS

The value of shipments rose by six per cent to \$21.5 billion in 2023. Declining prices for grain and oilseed commodities relative to soaring prices in 2022 meant that the real value of shipments rose by 12 per cent. The growth was driven by oilseed crushing and flour milling with the former's real value of shipments rising by 12 per cent and the latter by seven per cent. The real value of breakfast cereal manufacturing fell by 18 per cent. Real value added (GDP in chained 2017 dollars) for the overall sector rose 11 per cent to \$2.3 billion.

## INTERNATIONAL MARKETS

Aside from breakfast cereal manufacturing, the prices obtained by grain and oilseed millers are set by global markets because two-thirds (67 per cent) of sector shipments are exported and half (53 per cent) of the domestic market is supplied by imports. In 2023, the nominal value of exports increased by 10 per cent to \$14.5 billion or 16 per cent adjusted for prices, led by a nominal 11 per cent increase in oilseed crushing exports or 20 per cent increase adjusted for prices. The \$1.7 billion increase in sector exports to the U.S. more than offset the \$0.5 billion decrease in exports to all other countries. The U.S. accounts for 82 per cent of Canada grain and oilseed milling exports as compared to 71 per cent five years ago. The value of imports rose six per cent (12 per cent adjusted for prices) to \$6.2 billion. Canada's trade surplus rose by six per cent to \$8.3 billion.

## CAPITAL INVESTMENTS

In April 2023, Louis Dreyfus Company announced it will more than double the annual crush capacity of its plant in Yorkton, Sask. Construction began in the second half of 2023. Upon completion, the annual canola crush capacity will increase to over 2 million metric tonnes. Post Holding will be closing its Lancaster, Ohio, breakfast cereal plant by September 2024. The closure is intended to reduce capacity in Post's cereal production network.

In mid-December 2023, WK Kellogg reversed its plan to move several of its Battle Creek, Mich., cereal production lines to its Canadian plant in Belleville, Ont., after the Michigan Strategic Fund Board approved a business development grant of US\$5 million to keep the company in its home state for 15 years.

In January 2024, the federal government invested \$23 million in ADM's \$76 million plan to expand and upgrade its Port Windsor grain terminal. The expansion is expected to be completed in 2025. The terminal processes oilseeds into vegetable oil and livestock feed, and exports whole corn and whole wheat around the world.

P&H Milling Group and Parrish & Heimbecker announced in February 2024 a significant expansion of their flour milling operations in Hamilton. When it opened in 2017, the facility was the first new flour mill built in Ontario in 75 years. Its capacity was doubled in 2020 with the opening of a second flour mill and the current expansion will include a third flour mill.

## MERGERS AND ACQUISITIONS

Bunge of St. Louis announced in October 2023 that its shareholders had approved a merger with Viterra. The merger will create a company worth US\$34 billion once closing conditions are met mid-2024. Bunge had net sales of US\$42.8 billion in fiscal 2023 from its global grain and oilseeds trading and processing. Rotterdam-based Viterra's fiscal 2022 revenues were US\$54 billion.

## MILLERS, CRUSHERS EXPANDING

Flour milling had a record 2023 driven by high domestic and export demand. Wheat flour production topped 2.5 million metric tonnes, and the value of wheat flour exports reached a decade high of \$263

## Grain and Oilseed Milling

	UNITS	2023	2022 VS. 2021	2023 VS. 2022
SHIPMENTS (1)	\$ BILLION	\$21.5	25%	6%
IMPORTS (2)	\$ BILLION	\$6.2	30%	6%
EXPORTS (2)	\$ BILLION	\$14.5	27%	10%
DOMESTIC MARKET (3)	\$ BILLION	\$13.2	24%	2%
TRADE BALANCE (2)	\$ BILLION	\$8.3	25%	-16%
PROCESSOR PRICES (4)	INDEX, 2020=100	158.5	23%	-6%
REAL SHIPMENTS (5)	PER CENT		2%	+/-0%
REAL GDP (6)	\$ BILLION	2.3	2%	11%
EXPORT INTENSITY (7)	PER CENT	67%	2%	4%
DOMESTIC MARKET SHARE (8)	PER CENT	53%	-4%	-3%

**Sources:** 1) Statistics Canada, Table 16-10-0047-01 Manufacturers' sales, inventories, orders... by NAICS (North American Industry Classification System) - Sales of goods manufactured - billions of dollars - seasonally unadjusted 2) Statistics Canada, Table 12-10-0136-01 Canadian international merchandise trade by industry - billions of dollars - not seasonally adjusted 3) Calculated (shipments + imports - exports) 4) Statistics Canada, Table 18-10-0267-01 Industrial product price index, by industry, monthly Index 2020=100 5) Calculated (shipment change - price change) 6) Statistics Canada, Table 36-10-0434-01 Gross domestic product at basic prices, by NAICS (North American Industry Classification System) - billions of dollars (2017 constant prices - seasonally adjusted) 7) Calculated (exports/domestic market) 8) Calculated ((shipments-exports)/domestic market)

## Grain and Oilseed Milling

### Regional Breakdown of Canadian Output and International Breakdown of Imports and Exports

SHIPMENTS (1)	CANADA	PRAIRIE	ONTARIO	QUEBEC	ROC
2022	\$21.7 BILLION	56%	34%	8%	2%
EXPORTS (2)	WORLD	USA	CHINA	MEXICO	ROW
2023	\$14 BILLION	82%	12%	3%	3%
IMPORTS (2)	WORLD	USA	MALAYSIA	INDIA	ROW
2023	\$4.4 BILLION	62%	5%	4%	29%

**Sources:** (1) Statistics Canada, Table 16-10-0117-01 Principal statistics for manufacturing industries by NAICS (North American Industry Classification System) – Revenue from goods manufactured (2022) - billions of dollars – not seasonally adjusted (2) Statistics Canada, Table 12-10-0136-01 Canadian international merchandise trade by industry (2023) - billions of dollars – not seasonally adjusted

million with over 95 per cent of the total being shipped to the U.S. Oilseed crushers came close to matching their 2020 record in 2023, producing 4.8 million tonnes of oils of which 93 per cent was canola and the remainder soy. Canola crushing volumes will continue to grow as new plants come online.

Oilseed crushers are investing to meet strong domestic and U.S. demand for canola oil as a food and fuel. In 2022, the U.S. Environmental Protection Agency approved canola oil as a feedstock for renewable fuels. Flour milling capacity, as well, is growing to meet strong demand. Three new mills came online in 2023, and Farm Credit Canada reports that some existing mills have announced expansion plans for 2024.

### DOMESTIC MARKET

The consumer-facing products of the grain and oilseed milling sector have experienced more turbulence in the last five years than any other food and beverage sector because they are predominately commodities. The oilseed crushers make margarine, cooking, and salad oils but not salad dressings; the millers make flours but not bread or hummus. In 2021 and 2022, as COVID closures shifted consumption to home meal preparation, demand soared for breakfast cereal, baking flour and cooking oils. When commodity prices soared in 2022 and early 2023, consumers cut back. The most encouraging things the publicly listed companies offered in their 2024 financial outlooks was a return to 2019 trends.

Over the two-year period of 2019 to 2021 spending on food purchases from stores rose 11 per cent to \$123 billion; spending on cooking and salad oils rose 20 per cent to \$900 million; flour and flour-based mixes rose 20 per cent to \$600 million; and on breakfast cereal by 10 per cent to \$1.6 billion.

### BREAKFAST CEREAL

Breakfast cereal is an interesting category. It accounted for almost half of retail spending in the \$4.3 billion ‘breakfast cereal and other grain products’ group a decade ago, but today it accounts for less than \$2 in \$5 spent in that segment, with cereal bars growing their share to almost a quarter (23 per cent) and cereal snacks growing their share to one-third.

The continuing trend from cereal bowl to snack bowl picked up momentum in the last six months as General Mills followed up its 2022 launch of miniaturized Trix, Cinnamon Toast Crunch and

Reese’s Puffs with miniaturized Honey Nut Cheerios in December 2023 and Post Holdings followed up its early January 2023 launch of Honey Bunches of Oats as snackable granola crisps with an expansion of the brand in March 2024 into snack bars, muffins, cookies, on-the go snacks and other categories via licensing deals.

At the same time, breakfast cereals are beefing up their nutrition profiles to expand their sales among consumers seeking better-for-you food options. In January 2024, General Mills introduced Cheerios Veggie Blends made with fruit, veggies and whole grain oats. Also in January 2024, WK Kellogg introduced Eat Your Mouth Off in the U.S. market, a vegan cereal delivering 22 g of protein and 0 g of sugar per bowl. Aimed at Millennials and Gen Z, the ‘puff’ cereal comes in two flavours—Fruity and Chocolate. General Mills followed up the Veggie Blends with the launch of Wheaties Protein with 22 g of protein per serving and Ghost Protein Cereal, containing 18 g of protein and 6 g of sugar per serving. The whole grains/health breakfast image of breakfast cereals has made the category particularly receptive to protein enhancement. Technavio’s report on the global market for high protein-based foods in May 2023 forecast 7.68 per cent annual growth for the US\$64.8 billion market between 2023 and 2027.

### EDIBLE OILS

Consumers are more aware of some prices than others. For example, they’re aware of the price of ground beef, which they purchase frequently vis-a-vis a less frequently purchased item like the 3 L bottle of canola oil, which also costs quite a bit—In January 2022, the product was priced at \$9 but it went up to \$13 in May 2023. Statistics Canada reports the price in February 2024 had fallen back to \$11.61. All edible oils were in high demand during COVID closures and increased home meal preparation but soaring food inflation and tighter budgeting in 2023 depressed demand for expensive oils like olive oil and favoured the least expensive vegetable oils. Sandro D’Ascanio, general manager of ACH Food Companies, Canada (Mazola), said in March 2024 that while overall demand for salad and cooking oils has fallen back since COVID, it is above 2019 levels. Greg Heckman, CEO of Bunge, noted in remarks to investors late last year that “there has been strong demand on the food side” for canola oil in 2023. Demand is recovering as commodity prices have declined. Casey Keller, president and CEO of B&G Foods, noted in November 2023, “Crisco oil key bottle unit price is now largely below the key US\$5 and US\$6 thresholds in the market, and we are seeing healthy unit volume ↗

# > GRAIN & OILSEED MILLING SECTOR

increases in recent week scanner data." Research and Markets forecast a 7.5 per cent CAGR for the global US\$831 billion edible oils market between 2023 and 2030. The June 2023 report, "Global Edible Oils and Fats Market," cited increased health concerns as a key driver for demand, particularly their omega-3 fatty acids.

## ALTERNATIVE GRAINS

The consumption of flours made from grains, either purchased in the form of flour and baking mixes or in the form of foods made from flour, has been in slow decline for the last 20 years as rice has gained share among food starches. Wheat, including hard and soft wheat and durum, accounts for 95 per cent of the 63.5 kg pc of grain flours consumed. Its share had declined to 91 per cent prior to COVID, but lockdowns and increased home baking caused a sharp rise in demand to 59 kg per capita from 57 kg pre-COVID, particularly for flour and flour-based mixes. Retail sales rose 20 per cent to almost \$600 million between 2019 and 2021. The next two most consumed grains are: oats in the form of oatmeal and rolled oats; and corn flour and meal,

## THE OUTLOOK

In its 2024 Food and Beverage report, Farm Credit Canada (FCC) notes, "Even after a banner year in 2023, flour, oil from oilseeds, and rice demand will only continue to grow, leading to increased profitability for the sector."

Concerns regarding access to high quality durum and spring wheat are not as serious as they were in the fall of 2021 and the first half of 2022. Farm Credit Canada wrote that this would help provide adequate supply for most of 2024 until the new crop is harvested.

Rice milling was highlighted as an opportunity by FCC. Rice millers clean and polish rice and manufacture rice flour. This segment of the flour and malt milling sub-sector accounts for 20 to 25 per cent of the sub-sector's \$2.2 million in sales. Although most of the \$700 million dollars in rice imports in 2023 arrived fully processed, FCC sees opportunities for Canadian rice millers to import rice in bulk to refine, package and sell it domestically.

The prospects for edible oil and flour exports appeared dim for 2024 due to widespread expectations of reduced global economic growth. But the International Monetary Fund revised its forecast upward in mid-April 2024 to 3.2 per cent growth from its previous forecast of just 2.9 per cent growth. It was particularly encouraging that the IMF raised its forecast for China, Canada's second largest export market for grain and oilseed milling, purchasing \$1.7 billion worth of the sector's exports in 2023.

As noted previously, reduced global demand will cause commodity prices to decline. This will ease cost pressures on food and beverage manufacturers. 

the former with a three per cent share and the latter with a two per cent share. Rye flour and pot and pearl barley have a combined share of 0.5 per cent. Oats are having a star turn as social media influencers talk up its Ozempic-like quality of providing satiety to reduce over-eating. In April 2024, *The New York Times* dubbed the viral TikTok trend as 'Oatzempic'.

Martin Barnet, executive director and general manager of the Baking Association of Canada, is interested in current research into alternative grains, texturizers, legume proteins, soluble fibre as well as starch blends that perform like traditional ingredients. "The fact that the very big secondary ingredient suppliers are investing a lot of time and money into this research suggests it is about to go mainstream," he said. The appeal to consumers is the sustainability narrative they have to offer. Barnet cites greater interest in heritage wheat varieties that need less fertilizer and water and are more nutritious.

Quinoa, a Peruvian pseudo-grain, has an attractive nutrition profile and sustainability narrative as it is naturally drought resistant and requires minimal water to survive. Quinoa has been commercially grown in Canada for over a decade and now quinoa-based foods are gaining shelf space in mainstream retail stores. In January 2024, Gogo Quinoa opened a 40,000-sf factory in Laval, Que., to meet growing North American demand for its range of quinoa-based foods. Martin Bilodeau founded Gogo Quinoa 20 years ago and has recently expanded his product range to include cookies, snacks, cereals, and pastas. All are organic, gluten- and peanut-free, GMO-free, kosher certified, and plant based. The company's latest new product is GoGo Quinoa Protein Penne with 30 g of protein per 100 g.

## INCREASED PLANTINGS TO INCREASE SUPPLIES

In March 2024, Agriculture and Agri-Food Canada reported that seeding intentions of Canadian farmers are for less acreage for spring and winter wheat and increased acreage for durum. Significantly, more acreage will be devoted to oats and slightly more to corn. Pulse acreage will rise considerably, led by chickpeas, dry beans, and to a lesser extent, lentils. Rising world supplies of soybeans and palm oil have led to lower prices and this, in turn, has prompted Canadian farmers to seed fewer acres for oilseeds.

The recent rebalancing of supply and demand has altered the negotiating positions of farmers and processors.

Greg Heckman of Bunge noted earlier this year, "Producers generally don't like selling at lower price and they've got room for storage, so they are generally reluctant to sell."

Durum wheat has been a particular concern due to carry-out stocks being 48 per cent below average. However, supply is forecast to rebound sharply along with forecasts for current stocks rising to 0.75 million tonnes from a recent low of 0.45 million tonnes. The Saskatchewan spot price for the 2024-2025 crop was lowered to \$375/tonne in March 2024, under pressure from the expectation of a rebound in Canadian production. Exports are forecast at 4.5 million tonnes in line with the five-year average, driven by increased demand for high quality durum from North Africa and Europe while domestic use is projected to be up slightly year-over-year at 0.88 million tonnes. 

# ANIMAL FOOD SECTOR

[sector snapshot]

The animal food manufacturing sector is made up of two sub-sectors: dog and cat food manufacturing and all other animal food manufacturing, including pet food for birds,

fish, reptiles, and other pets; and animal food for livestock. The combined value of shipments of the sector in 2023 was \$11.1 billion, down six per cent and 700 million over 2022.

Over half of Canadians make pets part of their family. The cost of pet food has increased at a faster rate than the average human food due to increases in raw materials,

processing, staffing, machinery, and the increased cost of energy and transport. The demand for more environmentally sustainable packaging adds to these costs.

## INTERNATIONAL TRADE

The sector overall exports 15 per cent of its shipments, while imports claim 20 per cent of the domestic market. In 2023, the value of animal food exports dropped just \$64 million or down four per cent to \$1.63 billion while imports rose by \$191 million (nine per cent) to \$2.34 billion, increasing Canada's balance of trade deficit by \$260 million. Exports to the United States accounted for 84 per cent, China four per cent, and Japan three per cent with the remaining global market accounting for 28 per cent of Canada's 2023 exports.

Exports of Canadian pet food to China have dropped from \$241 million in 2020 to \$54 million in 2023, due to the countries' rocky relationship. The United States Department of Agriculture (USDA) claims that the reason for the decline in Canadian pet food exports to China in 2022 was the avian influenza epidemic. However, the Canadian pet food industry sees no scientific justification for this. It claims that despite facing similar avian influenza conditions, the U.S. did not experience such trade restrictions and continued to receive new facility approvals in China.

According to Chris Nash, executive director at Pet Food Association of Canada (PFAC), most Canadian pet companies exporting to China moved their production to the U.S. to continue shipping. He said, "There's still a demand for Canadian pet food in China. Our brands are selling, just shipped from different countries."

The loss of exports to China between 2021 and 2022 was partially offset by pet food companies successfully accessing other global markets. While exports to Russia ceased completely in 2022—they represented \$18.5 million in 2021—an increase in trade with Europe and Taiwan helped offset these losses. The drop in Canadian Exports from 2023 to 2022 is \$63 million, mainly due to lack of access to the Chinese market.

## REGULATIONS

In the U.S., the Model Regulations for Pet Food and Specialty Pet Food is setting new labelling standards for all producers and distributors of pet food. If adopted by states, the model regulation requires a Pet Nutrition Facts Box like the Nutrition Facts Panel for human food. Calorie content will be broken down into calories from protein, fat, and carbohydrates. Nutrient information will be in common household measurements like cups instead of only a guaranteed analysis percentage.

## PET FOOD TRENDS

Pet food trend seems to follow human food trends. Consumers are looking for clean easy-to-understand labels, natural ingredients, evidence of sustainable practices, particularly in packaging. Ethical treatment of animals and good environmental practice claims too are important.

Consumers also want evidence of responsible water use in the manufacturing process.

## MERGERS & ACQUISITIONS

After significant acquisitions in 2022, last year was relatively calm on the merger and acquisition front. The bulk of the mergers and acquisitions occurred in the U.S.

J.M. Smucker sold several pet food brands to Post Holdings, which is headquartered in St. Louis, Miss. The transaction included Nutrish, 9Lives, Kibbles 'n Bits, Nature's Recipe, and Gravy Train brands as well as the Smucker's private label pet food business.

Canidae and Natural Balance pet food companies merged to form Ethos Pet Brands. In this merger, both companies will maintain their individual brands. Products for both brands will be manufactured in Brownwood, Texas.

L Catterton invested close to \$60 million in Drools Pet Food, a pet food company in India.

BrightPet acquired Raw Advantage, a co-manufacturer of freeze-dried and frozen raw pet food and treats in Oregon. Topspin, a private

## Animal Food Manufacturing

	UNITS	2023	2022 VS 2021	2023 VS 2022
SHIPMENTS (1)	\$ BILLION	\$11.1	14%	-6%
IMPORTS (2)	\$ BILLION	\$2.3	21%	9%
EXPORTS (2)	\$ BILLION	\$1.6	7%	-4%
DOMESTIC MARKET (3)	\$ BILLION	\$11.8	16%	-4%
TRADE BALANCE (2)	\$ BILLION	-0.7	-143%	-55%
PROCESSOR PRICES (4)	INDEX, Jan 2020=100	134.8	16%	1%
REAL SHIPMENTS (5)	PER CENT		-3%	-7%
REAL GDP (6)	\$ BILLION	1.5	-3%	-8%
EXPORT INTENSITY (7)	PER CENT	15%	-6%	3%
DOMESTIC MARKET SHARE (8)	PER CENT	80%	-1%	-3%

**Sources:** 1) Statistics Canada, Table 16-10-0047-01 Manufacturers' sales, inventories, orders... by NAICS (North American Industry Classification System) – Sales of goods manufactured – billions of dollars – not seasonally adjusted 2) Statistics Canada, Table 12-10-0136-01 Canadian international merchandise trade by industry – billions of dollars – not seasonally adjusted 3) Calculated (shipments + imports – exports) 4) Statistics Canada, Table 18-10-0267-01 Industrial product price index, by industry, monthly Index Jan, 2020=100 5) Calculated (shipment change – price change) 6) Statistics Canada, Table 36-10-0434-01 Gross domestic product at basic prices, by NAICS (North American Industry Classification System) – billions of dollars (2017 constant prices) – seasonally adjusted 7) Calculated (exports/domestic market) 8) Calculated ((shipments/exports)/domestic market)

## >ANIMAL FOOD SECTOR

### Animal Food Manufacturing: Regional Breakdown of Canadian Shipments and Import and Export markets

SHIPMENTS (1)	CANADA	ONTARIO	QUEBEC	PRAIRIE	ROC
2022	12.0 BILLION	37%	25%	23%	15%
EXPORTS (2)	WORLD	USA	CHINA	JAPAN	ROW
2023	1.6 BILLION	65%	3%	3%	29%
IMPORTS (2)	WORLD	USA	THAILAND	CHINA	ROW
2023	2.3 BILLION	84%	4%	3%	9%

**Sources:** (1) Statistics Canada, Table 16-10-0117-01 Principal statistics for manufacturing industries by NAICS (North American Industry Classification System) – Revenue from goods manufactured (2022) - billions of dollars – not seasonally adjusted (2) Statistics Canada, Table 12-10-0136-01 Canadian international merchandise trade by industry (2023) - billions of dollars – not seasonally adjusted

equity firm, acquired the consumer products division of Three Dog Bakery, which creates humanized dog treats.

Alphaia, a U.S.-based custom manufacturer of super-premium pet food partnered with Better Choice, a pet health and wellness company. As part of the deal in June 2023, Alphaia invested US\$5 million into Better Choice. Alphaia will become the manufacturer of its premier brand, Halo, a super-premium pet food brand.

Cargill, a well-known name in the animal feed sector, re-entered the pet food market in Mexico with three brands—Pingo, Keycan and Petmaster.

Sunshine Mills, an Alabama-based pet food and treat maker, purchased Red Collar Pet Foods facility in Joplin, Miss., in August 2023. The facility will increase Sunshine Mills' baked and cold-formed pet treat production capacity.

Anchor Ingredients, a provider of ingredients for the pet food industry, acquired a grain handling facility in Hatton, N.D., allowing it to expand its ingredient portfolio and processing capabilities.

Post Holdings acquired Perfection Pet Foods for US\$235 million. The acquisition includes Perfection's two manufacturing facilities in Visalia, Calif. This move will provide Post with expanded manufacturing capabilities, allowing the company to bring a portion of its existing pet food business in-house.

Voff Pet Food of Sweden acquired the dog and cat food manufacturer Dutch Carnibest. With the gain of Carnibest's Ermelo production site, Voff now has nine manufacturing facilities.

Central Garden and Pet acquired TDBBS, a provider of premium natural dog chews and treats. This move bolsters Central's portfolio with bully and collagen sticks, bones and jerky, and enhances Central's e-commerce and digital. TDBBS is based in Richmond, Vir.

General Mills acquired Fera Pets, a vet-founded pet supplement company, bringing new health-focused offerings to General Mills' pet portfolio. This signals General Mills' first step into the pet supplement category.

Antelope, a provider of premium pet care products and services, purchased My Perfect Pet, which offers nutritionally balanced pet food crafted with ingredients like beef, turkey, broccoli, and cranberries.

A Pup Above, a provider of gently cooked dog food, partnered with Generation Pet to bring A Pup Above's meals further into the northeast region of the U.S.

In Canada, Tom & Sawyer, provider of AAFCO Human Grade pet meals in Canada, partnered with Freedom Pet Supplies to expand the distribution of its high-quality pet food across Canada, especially in

Ontario, Quebec, and the Maritimes.

### CAPITAL EXPENDITURES

In July 2023, Kemin Industries opened its first pet food pilot lab at its global headquarters in Des Moines, Iowa. With a dedicated space to develop wet pet food, as well as test dry kibble coating, Kemin can now provide customers with detailed analyses, from raw meat products and packaging to pet satisfaction.

Toronto-based Hope Pet Food is among four start-ups selected to participate in the eighth iteration of GreenShoots, a Canada-based incubator supporting early stage companies in the agri-tech and bio-economy sectors. The GreenShoots program represents a collaboration between Invest Nova Scotia, Bioenterprise Canada and Greenspring Bioinnovation Hub. All four start-ups selected for the GreenShoots program will receive \$40,000 and access to business guidance to help each entrepreneur strategize future growth.

U.S.-based Simmons Pet Food plans to close their Streetsville, Ont., canning facility later this year. The closure will affect approximately 190 employees, the company said. The group, headquartered in Siloam Springs in Arkansas, is a private label and contract manufacturer. The company supplies brands and retailers with pet food products in cans, pouches, and cups. The pet food maker is part of U.S. poultry, pet food and animal nutrition group Simmons Foods, which has 13 facilities in the U.S. and one in Toronto.

Earlier this year, Canada-based pet food producer, the Crump Group, announced a significant expansion of its U.S. manufacturing facility in Nashville, N.C., to meet growing demand. The Crump Group will invest \$85 million in the project.

### PACKAGING

In November 2023, the Pet Sustainability Coalition (PSC) launched a packaging supplier marketplace to help companies that are looking for sustainable packaging solutions. The marketplace is an online tool for PSC Packaging Pledge signatories to search, filter, and evaluate a pre-vetted directory of packaging suppliers offering sustainable packaging options including recyclable, refillable, or compostable solutions. The PSC Packaging Pledge is open to any company in the pet industry and asks companies to make measurable progress toward refillable, compostable, and/or recyclable packaging solutions by the end of 2025. In exchange for this commitment, PSC is providing signatories with tools such as packaging benchmarking tools, North American and European



legislative briefs, the marketplace of pre-vetted packaging suppliers, and more. The marketplace has suppliers like TC Transcontinental packaging and Tempo Flexible Packaging from Canada.

## INSECT-BASED FOODS STILL DEVELOPING

Canadian companies like Snuf are producing a range of pet foods containing insect protein (specifically, black soldier fly protein, which is claimed to be hypoallergenic), chamomile and ashwagandha.

In the U.S., Jiminy's produces sustainable dog food and treats using insect protein. Promoted as a sustainable alternative to other protein sources, insects are more than an environmentally conscious choice to use in pet food. According to Jiminy's, they are a complete protein source and superfood. It is worth noting France's Jiminy's makes snacks designed for human consumption from insects, evidence that pet food trends follow human food trends.

Jiminy's uses powdered cricket protein along with a blend of plant-based ingredients in its lineup of dog food, treats and chews. Insects, said the company, have proven to be high-quality digestible proteins packed with essential amino acids, vitamins and minerals dogs need. The company started with crickets—simply roasted and ground—and has recently added recipes with grubs. Jiminy's sources its insects from the U.S. and Canada.

## CELL-CULTURED PROTEIN IN PET FOODS

Pet (and other) food markets continue to develop animal-free proteins. Companies are using biotechnology to create animal-identical proteins. These cell-cultivated products are promoted as being more sustainable because they avoid carbon-intensive animal farming as well as reduce animal cruelty. Bond Pet Foods and Hill's Pet Nutrition are working to formulate new products using Bond's fermentation technology.

In April 2023, Cult Food Science launched Noochies, world's first freeze-dried, high-protein, cultured pet food. The product contains a

proprietary nutritional yeast blend, Bmmune, which is said to have essential amino acids, trace minerals and B vitamins. Noochies also includes a bioactive fermentation product, a strain of koji, which the company claims supports immune defence, gut microbial health, and gut function.

## NEW PRODUCTS

Montreal-based Healthybud has launched a super food-based mini training treat for dogs.

In August 2023, HelloFresh debuted a premium pet food brand. Developed in partnership with veterinarians, the Pets Table offers human-grade fresh and air-dried recipes customized for the exact caloric needs of each dog.

Leone Fine Foods, a Toronto-based, family-owned meat manufacturer, debuted complete-and-balanced sausage entrées for dogs. The company was already familiar with pet owners seeking raw and minimally processed nutrition for their four-legged companions. Leone Fine Foods has the necessary scale and know-how to meet these needs.

Carnivore Meat Company's Vital Essentials, a premium raw pet food brand, partnered with Anipet Animal Supplies and Freedom Pet Supplies to distribute its products.

Canadian pet nutrition company Nutram Pet Products has formed a partnership with pet product retailer Pet Planet. Nutram's products will now be available at 48 Pet Planet locations throughout Western Canada. Founded in 1993, Nutram is based out of Elmira, Ont., and operates as a privately owned production facility. The company offers all-natural diets for dogs and cats targeting specific health needs, including skin and coat health, stomach sensitivities, weight management and cognitive development. 

## THE OUTLOOK

Susan Dankert, communications director at Pets Canada, said, "Food is probably the last thing that people want to trade (down). Pet owners feeling the inflation crunch are more likely to cut back on grooming or daycare than trade down on their favourite pet foods."

Vericast's annual 2023 Retail Trend Watch surveyed more than 700 pet owners. About 78 per cent of survey respondents are willing to spend more on pet food and treats in 2023 than in 2022, indicating an interest in higher quality products. Over a third of consumers (38 per cent) are willing to spend more on health products like vitamins and supplements this year, and 38 per cent of respondents also said they will spend more on pet hygiene products.

Over half of Canadians own either a dog or cat and collectively spend billions on their pets. The relationship between owners and their pets has also changed significantly, which had led to the humanization, personalization and premiumization of pet food. We expect the pet food market to perform better in 2024 than in 2023 by four to five per cent. 



## The golden rules when selling a business

By Dr. Howard E. Johnson, DBA, FCPA, FCA, FCMA, FCBV, CPA, CFA, ASA, CF, C.Dir



**W**hen selling a business, there are many dos and don'ts that, when followed, can significantly increase the likelihood of securing a good deal, and which help the seller to realize their financial and personal goals. We refer to these guidelines as the Golden Rules.

### MAKE THE COMPANY AN ATTRACTIVE ACQUISITION TARGET

Before soliciting prospective buyers, the seller should undertake initiatives to make their company an attractive acquisition target. Buyers are wary of "transition risk," which is the risk that major customers and key employees will leave the business shortly after it has been acquired. Therefore, the seller needs to ensure they have a strong and committed management team in place. Ideally, owners should make

themselves redundant to the business. Over-reliance on the business owner makes it difficult to sell the business on attractive terms. Consequently, many business owners become "stuckholders," who are unable to sell their business without their continued long-term involvement (and deferred payment terms). Likewise, the company should work to create "customer stickiness" through unique product or service offerings, brand names, customer service, long-term contracts or other means, to increase the buyer's perception of revenue stability.

### TIMING IS EVERYTHING

It's not possible to determine the optimal time to sell a business, but there are various indicators as to whether timing is good or bad. In general, businesses sell for higher values when they have demonstrated growth over the past few years in both revenue and cash flow, and



# When selling a business, there are many dos and don'ts that, when followed, can significantly increase the likelihood of securing a good deal.

there is reason to expect that growth to continue. Proof is worth more than promises, so a business with a poor track record will often be acquired on a contingent payment basis, which means the seller still bears much of the risk. Growing businesses also tend to fetch higher valuation multiples and attract more buyer interest, which is fundamental to creating a strong negotiating position.

## UNDERSTAND THE COMPONENTS OF VALUE

There are three underlying

components to value, being:

- the cash flow a business is expected to generate;
- the valuation multiple (or rate of return) applied to that cash flow; and
- the underlying assets of the business.

Cash flow and valuation multiples are inter-related. The product of these two factors determines the “enterprise value” of the business. Deducting outstanding debt from enterprise value results in the equity value (*i.e.* share value) of the business. But don’t forget about the balance sheet. It’s not just about the price that’s paid for the business, but also the underlying net assets (*e.g.* working capital) that must be delivered to the buyer at closing. Sellers should strive to get a high price for the shares (equity value) on the least amount of underlying net assets, thereby maximizing “intangible value” (or “goodwill”), which is the essence of shareholder value creation.

## UNDERSTAND EACH BUYER’S MOTIVATIONS

In many cases, the seller is anxious to show what a great company they have built, so they focus on providing a lot of information to prospective buyers. But it’s important to recognize that the sale of a business is a two-way street. Every buyer is unique. The seller needs to understand

the interests and motivations of each buyer, and how their company will fit into the buyer’s long-term strategy. This insight will help the seller in negotiations. It’s also important to look for clues as to buyer synergies, which will influence the price a buyer is willing to pay. In most cases, the best buyer is what is referred to as a “platform buyer,” being one that looks to leverage the target company’s product and service offerings, customers and employees. Platform buyers tend to focus on revenue growth, and are more willing to pay for synergies, as opposed to buyers that emphasize cost-cutting following the transaction.

## STAY IN CONTROL OF THE PROCESS

Buyers act out of their own self-interest in order to minimize the price they pay and to get the best deal terms from their perspective. Therefore, many buyers will attempt to derail the sale process in order to avoid being part of an auction. Common tactics include delaying responses to questions from the seller’s intermediary, declaring their position of being unwilling to participate in an auction, and trying to get the inside scoop on other offers. It’s important that the seller maintain control of the sale process in order to effectively negotiate a good deal. This means having some flexibility to accommodate reasonable buyer requests, but ultimately co-ordinating the receipt of offers from buyers around the same time frame in order for the seller to maximize their negotiating position.

## CREATE A STRONG NEGOTIATING POSITION

Selling a business ultimately comes down to negotiations. The seller’s negotiating position is a function of the number and quality of alternatives available to them. You can’t negotiate effectively unless you understand the potential downside of losing a prospective buyer that decides to walk away. The seller’s negotiating position is strengthened when they understand the buyer’s motivations and potential synergies, as noted above. It’s also important for the seller to maintain credibility, which can be compromised when the seller suddenly changes their demands or provides inaccurate information to the buyer. For example, many sellers present prospective buyers with forecasts and projections that are overly optimistic. When this undue optimism is found to be unsupportable during the due diligence period, the seller’s credibility is compromised, and their negotiating position is weakened.

## DEAL STRUCTURING IS KEY

Sellers tend to emphasize the highest price. But the terms of the ↗



deal are equally important. The terms of the deal dictate when, how and under what conditions the purchase price is (or isn't) paid. In this regard, the seller should recognize that any dollar not received at the closing of the transaction represents a dollar at risk. The seller must be satisfied that the upside potential is worth the risk. It's also important to recognize that there are three parties to every deal—the buyer, the seller, and the government. There are many ways that transactions can be structured so as to legitimately reduce or defer the government's take. This includes consideration of whether the shares or assets of the business are sold, the structure of contingency payments, and remuneration paid to the seller pursuant to a management contract after closing.

## SECURE A COMPREHENSIVE LETTER OF INTENT

The letter of intent (LOI) is a pivotal document in any transaction. While LOI is non-binding, it establishes the parameters of the deal and sets the stage for negotiating the purchase agreement. Once the seller signs an LOI, it grants the buyer a period of exclusivity to conduct final due diligence and close the transaction. During that time, the buyer has the advantage in negotiations, as it becomes difficult for the seller to switch horses. The seller generally has the negotiating advantage up to the execution of the LOI. Therefore, it's critical for the seller to ensure the LOI is specific with respect to the purchase price, the terms of payment and other important commercial elements of the deal. Anything not covered in the LOI is subject to negotiation during the exclusivity period, where the buyer has the upper hand. If the seller can't negotiate a favourable LOI, they will not be able to negotiate a favourable purchase agreement.

## NO SURPRISES IN DUE DILIGENCE

Sellers should not underestimate the time and effort that will be

required from them, and their management team, during the due diligence phase. Most buyers conduct a detailed due diligence investigation on every aspect of the target company. It's important that there are no surprises during the due diligence phase that give the buyer the opportunity to renegotiate the price or terms of the deal. Any significant issues involving the company (*e.g.* legal claims, environmental concerns, customer issues, etc.) should be addressed prior to the time the seller executes the letter of intent so they can be diffused when the seller still maintains a relatively strong negotiating position.

## STAY FOCUSED ON THE BUSINESS

The sale of any business is a comprehensive undertaking. The role of the investment banker is to relieve as much of the work as possible so that the seller can stay focused on running their business. Ensuring that the business runs smoothly and generates satisfactory financial results during the sale process and through the closing date is critical. This is because most buyers carefully scrutinize a company's most recent financial results when establishing their offer price. Furthermore, any deterioration in the financial results or the operations of the business (*e.g.* lost customers) during the due diligence period can result in renegotiations of the price and terms, and possibly even jeopardize the deal itself.

The sale of a business is fraught with potential pitfalls and challenges. However, if the process is well managed, the seller can maximize shareholder value, both from the perspective of a good price and attractive deal terms. Remembering these Golden Rules can be helpful in that regard. 

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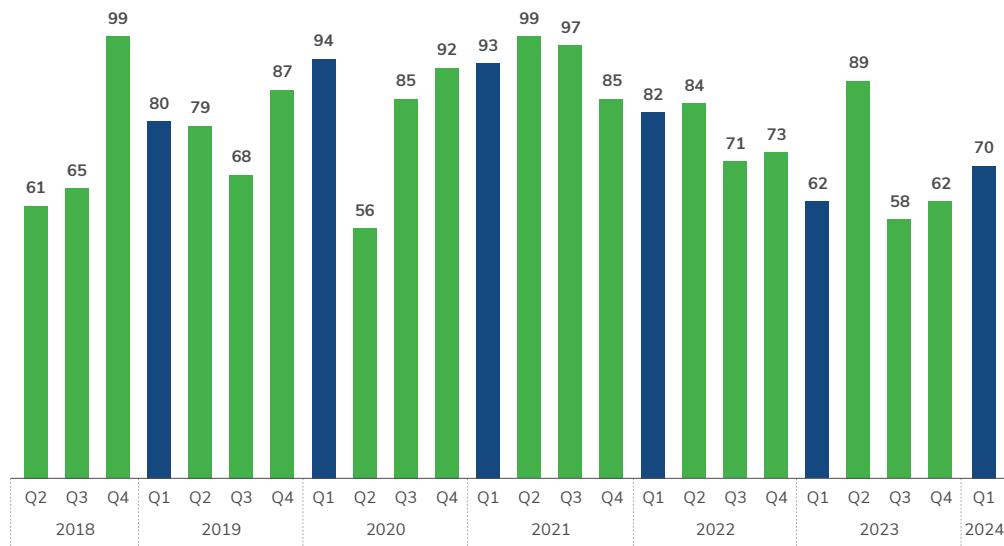
Dr. Howard E. Johnson, DBA, FCPA, FCA, FCMA, FCBV, CPA, CFA, ASA, CF, C.Dir., is the head of Canadian M&A at Kroll Corporate Finance in Toronto. He can be reached at 416-597-4500 or [howard.johnson@kroll.com](mailto:howard.johnson@kroll.com).



# Food and beverage industry insights — Spring 2024

By Dr. Howard E. Johnson, DBA, FCPA, FCA, FCMA, FCBV, CPA, CFA, ASA, CF, C.Dir

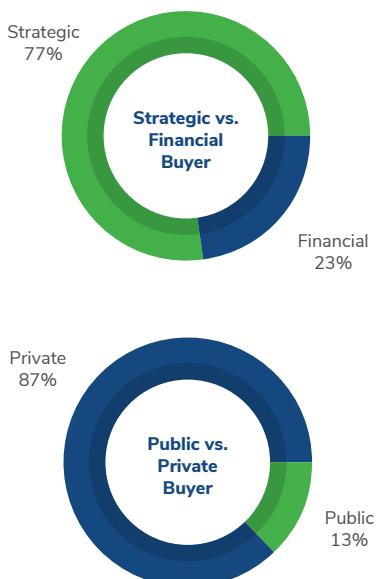
Number of Announced Deals (as of March 31, 2024)



Note: Includes food and beverage sector deals where the target was based in the U.S. or Canada.

Source: S&P Capital IQ. Transactions with more than 50% of the company acquired are included in the analysis.

By Number of Announced Deals (TTM as of March 31, 2024)



**F**ood and beverage M&A saw 70 deals announced in the first quarter (Q1) of 2024, an increase in transaction count from the previous quarter. For the trailing 12 months (TTM) ending March 31, 2024, 279 deals were announced in the space—11 fewer transactions compared to the prior TTM period. Overall, deal activity both year over year and quarter over quarter increased by 13 per cent.

## DEAL ACTIVITY

Q1 2024 saw several significant North American deals in the alcoholic beverage and protein producer spaces. Notable transactions within these areas include Prime Drink Group's acquisition of Trianis Canada, and Cal-Maine Foods' acquisition of assets from Tyson Foods. The alcoholic beverage, protein producer, general and better-for-you categories were the most active in terms of deal volume, representing 63 per cent of total transactions in the quarter.

M&A activity in the food and beverage sector in TTM March 2024 remained predominantly driven by strategic buyers (including companies primarily owned by private equity investors), with strategic transactions representing 77 per cent of total deal volume. Of the 279 deals announced over the year, 242 (87 per cent) were completed by privately owned buyers.

The food and beverage space has had two consecutive quarters of

increasing M&A activity, which can be attributed to interest rate stability, strong corporate balance sheets and improvement in the financing markets. There is an abundance of capital to drive deals, with both corporate cash balances and private equity dry powder at all-time highs. With debt reduction becoming a focus for highly leveraged businesses, well-capitalized companies are positioned to acquire high-quality assets at lower valuations.

## WHAT LIES AHEAD

Companies will have to continue adapting to changes in consumer spending due to inflation and the subsequent effects on food consumption. Investors are emphasizing volume sales growth as food price elasticity increases. Rather than increasing prices, food companies will need to prioritize operational efficiency and market share expansion. As inflation stabilizes, with interest rate cuts expected during the balance of 2024, we anticipate continued momentum in M&A activity within the food and beverage space. 

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# Forces of change in Canada's food supply chain

*RBC BFS Thought Leadership*

**W**hat do businesses involved in the world of food need more of to navigate the current challenges facing food supply chains on a global level? A lot of support, say Terri Lang and Andrew McLaughlin, senior commercial markets directors focused on the supply chain at RBC. They agree there are a number of forces driving the current instability and add there are a number of things business leaders can be doing now to remain resilient.

## **BIGGEST TRENDS IMPACTING SUPPLY CHAIN**

There are several forces driving food consumption and demand on a global level.

### **1) CLIMATE CHANGE**

The United Nations has warned of an impending food crisis and if, as estimated, food demand increases by over 50 per cent between 2020 and 2050, food systems will have to undergo significant changes.

“Food is the most complicated business to be in – everyone needs it, everyone wants it—but no one thinks about what it takes to grow it in a sustainable way. To innovate requires more than just implementing new technology—it requires investigating new ways of doing things that also align with national food and safety regulations,” says Lang. “And that can be a challenge, especially as we can’t predict when weather or other external events will harm food supplies.”

### **2) CONCERN ABOUT FOOD SAFETY**

There’s a growing need for companies to know where they’re getting their products from, how they’re being made, who’s making them, and who’s distributing them. Governments are even starting to enact laws that will force companies to show the items they’re importing meet national standards and regulations and aren’t tied to illegal practices.

“As ESG awareness and requirements become more commonplace, food and beverage companies are feeling the effects, if not directly, then through their connection to some of the larger players and retailers,” says McLaughlin.

### **3) SHIFTS IN PREFERENCES**

A growing concern about food waste is tied to the larger issue of sustainability and the increasing demand by consumers to spend their money on items from companies investing in sustainable practices.

“Sustainability is a big issue for consumers right now, and it’s impacting the products they’ll buy and how much they’ll spend on something,” Lang says.

### **4) CHALLENGING ECONOMIC LANDSCAPE**

It will come as no surprise to anyone that the overall economy—and the cost-of-living crisis—is changing the way people are buying foods

and food-based products, says Lang. Organizations are also being forced to source cheaper ingredients to use in their products.

## **HOW COMPANIES CAN RESPOND**

### **First: educate and assess**

Leaders should get educated on the issues mentioned above, so they can better understand the liabilities attached to not complying with evolving standards or consumer preferences.

“If you aren’t being impacted by all of these issues, you will be,” notes Lang. “That may not happen overnight, but it’s going to happen. Leaders need to determine where’s crawl, where’s walk, where’s run, so you can demonstrate you’re responding to market trends.”

### **Second: investigate alternate suppliers**

The Trade Club Alliance (TCA) is a great example of a resource that businesses in the food sector can use to investigate alternative suppliers. Since its inception in 2015, the TCA has grown to cover over 65 per cent of global trade corridors, accounting for 79 per cent of the world’s GDP and has created nearly 300,000 business opportunities for its 23,800-plus members in over 40 countries. RBC customers can access TCA’s value-added services such as country guides and business-to-business opportunity matching.

### **Third: manage liquidity and risk**

“In times of uncertainty it becomes increasingly important to ensure you have a well-capitalized balance sheet with sufficient liquidity to manage [shifting costs],” notes McLaughlin. “As we’ve seen over the last few years, the economic landscape can change very quickly and directionally it can be hard to predict. This reality emphasizes the need for a company to ensure they’re properly positioned for change.”

## **MOVING FORWARD**

Both Lang and McLaughlin note the challenges impacting the global food supply chain are ever evolving, so it’s on businesses to ensure they can respond with agility and resilience to any new pressures they may face. Getting ahead of things with the right partner is critical.

“Partners, like our team at RBC, can help you understand what’s happening in the context of the market, why things are happening now, and how to respond,” Lang says. “Our ultimate goal is to continue to help business navigate the complex challenges facing them and to assist them in building a strong foundation today so they can remain successful tomorrow.”

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The RBC BFS Thought Leadership team aims to inspire, deliver insights, and drive thought leadership on the topics that matter to business owners.

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