RESEARCH REPORT

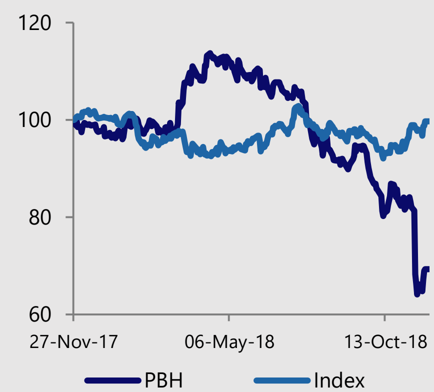
November 26, 2018

Stock Rating	BUY
Price Target	CAD $146

Bear Case	Price Target	Bull Case
$115	$146	$175

Ticker	PBH
Market Cap (MM)	$2,498
EV / EBITDA	15.7x
P / E	24.1x

52 Week Performance



Premium Brands Holdings

Beyond the Viande

Overview

PBH is a portfolio of more than 60 brands involved in the manufacturing and distribution of meat-based food products.

The company operates in niche markets, and as a result commands higher margins than national or international level players. PBH has been highly successful with this strategy, delivering a compound annual return to shareholders of greater than 28% over the past fifteen years.

Management

PBH is endowed with a capable, experienced management team that has decades of combined experience at the helm. However, lack of clear targets pertaining to at-risk compensation creates an accountability problem, with the compensation program ultimately falling short of true alignment with shareholder risk and incentives.

Moving Forward

We expect PBH to continue to command higher margins as they push deeper into the US market. We believe that identified key risks such as a tight labor market, M&A integration, and pricing power erosion are immaterial to the long-term success of the company and can be addressed without significantly changing the business.

Valuation

The C&H team values PBH at $146 per share, a ~40% premium to current share price.

Consumers & Healthcare

Andrei Florescu
aflorescu@quiconline.com

Ioulia Malamoud
imalamoud@quiconline.com

Connor Steckly
csteckly@quiconline.com

Bronwyn Ferris
bferris@quiconline.com

Reid Kilburn
rkilburn@quiconline.com

Jamie Bennett
jbennett@quiconline.com

Table of Contents

Company Overview

General Overview

Premium Brands Holdings Corporation (Premium Brands) is an investment platform that acquires and builds food businesses. The company acts like many private equity firms by executing a strategy of non-intrusive, long-term and partnership-oriented acquisitions. From the period 2005-2016 the company averaged 3.5 acquisitions per year. The company places paramount importance on the management teams of their targets and sees themselves as more of a conduit to resources for these management teams.

Premium Brands now operates more than 60 brands. The company operates primarily in Canada and in the US. The current holdings of the company can be divided in two primary categories: Specialty Food and Premium Food Distribution businesses.

Specialty Food

Specialty Food businesses are manufacturers of specialty food products with strong brands and/or leading niche market positions. The company defines these Specialty Food businesses as those that operate within a niche market and have pricing power.

When combined, these two factors result in higher margins, relative to other food manufacturers, due to brand loyalty and relative scarcity when compared to other food manufacturers. As well, the niche nature of each brand's market largely protects these businesses from competition from large firms.

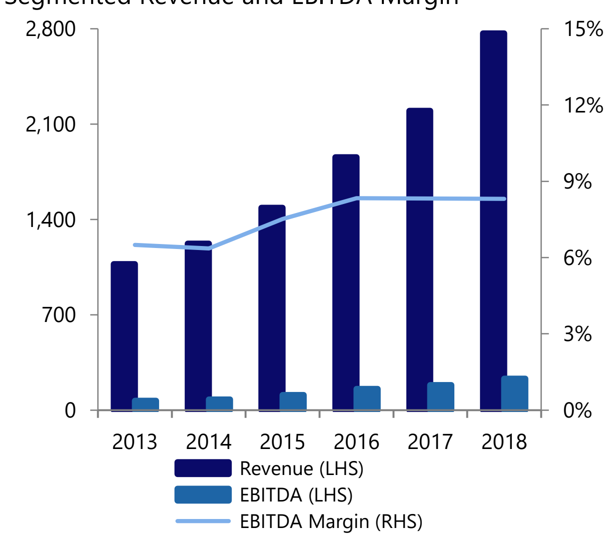
Several current Premium Brands subsidiaries fit this description including: Bread Garden Express, which makes bread products and sushi and Isernio's, which makes various Italian sausages.

Premium Food Distribution

Premium Food Distribution companies offer customers specialized and/or unique products and services in addition to logistical solutions. Several of these firms

EXHIBIT I

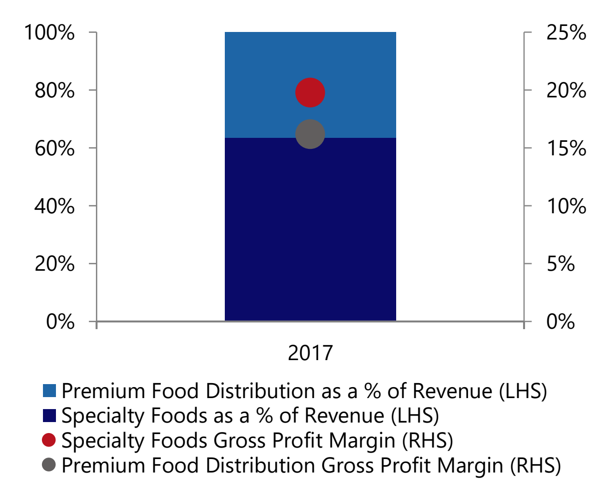
Segmented Revenue and EBITDA Margin



Source(s): Company Reports

EXHIBIT II

Strong Financial Performance



Source(s): Company Reports

Company Overview

act as foodservice companies as well as distributive logistical service providers.

Like businesses in the Specialty Food segment, these distribution companies are shielded from large competitors due to their specialized offerings. This allows the Company to command higher margins, as they are often not competing completely on the basis of price.

Additionally, these distribution firms give the company's specialty food businesses access to a broad customer base. For example, if a foodservice company within Premium Brands' Premium Food Distribution arm gains caters a client, they are inclined to purchase the food that they will cater from the Company's Specialty Food business.

This arm of the company includes Centennial Foodservice a, seafood, poultry and premium meats foodservice and distribution company and Westcadia, a halal foods supplier.

Customer Overview

As a whole, the company serves a variety of customers including: large format retailers and food chains (35.5% of revenue), independent and specialty retailers and foodservice operators and distributors.

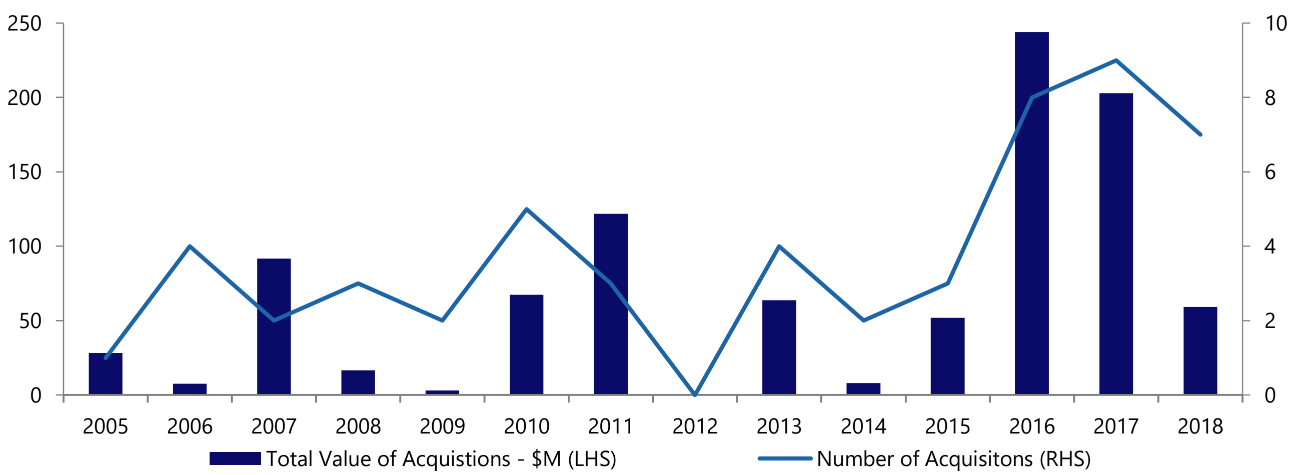
The company holds no long-term contracts with any customers which is a risk, but is also very common in the food industry. Customer diversification are a concern for the company as 17.2% of revenues is derived from one "Core Customer" who buys products from a variety of Premium Brands subsidiaries.

Recent Performance

The Company has been performing very well in recent years. The company has delivered an annual compounded return in excess of 28% over the past fifteen years, to its shareholders. The company has done this by capitalizing on its unique business model in an industry dominated by large organizations.

EXHIBIT III

Historical Annual Acquisition Activity



Source(s): Company Reports

Industry Overview

Overall Industry Performance

The food and beverage industry is a complex, global collective of diverse businesses that supply most of the food consumed by the world's population. The revenue in the segment amounts to $17.4B in 2018 and is expected to show a compounded annual growth rate (CAGR 2018-2023) of 11.4%, resulting in a market volume of $29.9B by 2023 in North America. Average revenue per user (ARPU) currently amounts to $184.60 and is expected to grow to $249.55 by 2023. The industry employees more than 1.65M workers annually in North America alone.

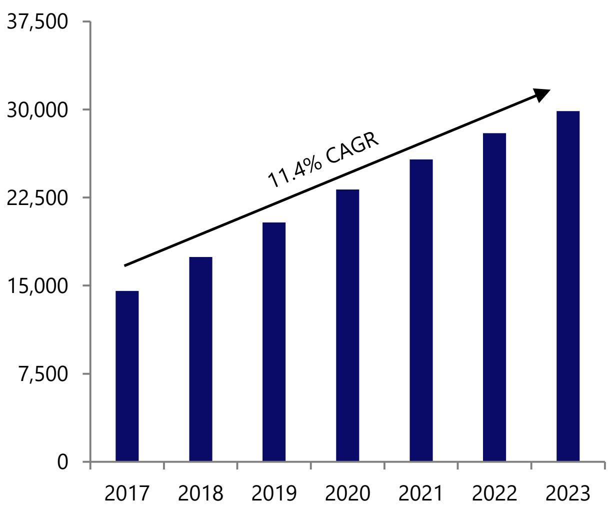
Consumer Trends

Consumer demand patterns in the industry can be broken down into dining habits and convenience. First, there has been a significant shift towards healthier food products that encompass many attributes like low-fat, low-calorie, or natural/organic. Additionally, a growing number of consumers have specific dietary restrictions (celiac disease/gluten-free, lactose intolerance/dairy-free, vegan). These consumers are diverting their expenditure to products that meet their needs, which in the past tend to be small niche brands. Furthermore, consumers are more interested in, and more willing to spend on, products that are locally grown or raised. Demand for products from small, family-owned farms is demonstrably on the rise, and the consumers' need to know where a product is beings sourced from. Consumers are also increasingly concerned about the social and environmental impact and carbon footprint of growing and processing methods and animal treatment, contributing to rapid changes in demand patterns.

On the convenience side, consumers want freshly prepared foods wherever they are and wherever they go, which has been fuelled by the increased snacking in between and in replacement of meals. Overall, this has increased the importance of managing the supply chain for shorter-shelf-life foods.

EXHIBIT IV

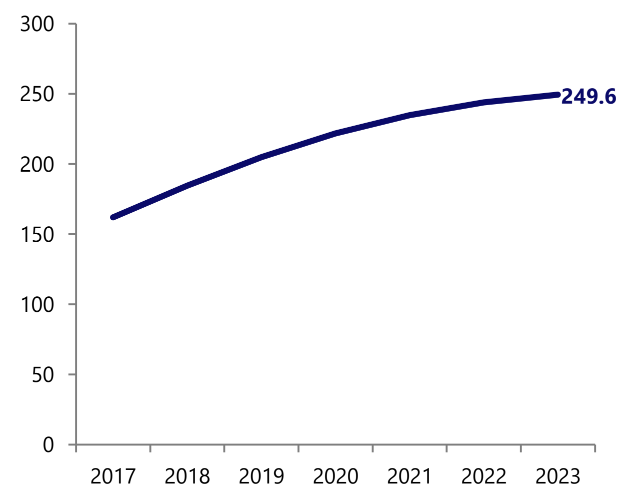
Food & Beverage Industry Revenue Growth in $B



Source(s): Statista, IBIS World, S&P Capital IQ

EXHIBIT V

Average Revenue Per User



Source(s): Statista IBIS World, S&P Capital IQ

Industry Overview (Continued)

Producer Trends

Overall, these consumer demands have directly impacted the trends in food manufacturing and distribution industry. The first main trend being the investment in automation systems and equipment. With labour costs rising and demand for innovative new food products increasing, more food manufacturers/distributors are looking into how automation can reduce costs and improve efficiency. The second trend being an increased investment in highly-skilled employees. In the past, finding, attracting, training, and retaining skilled staff has been one of the biggest challenges in both manufacturing and distribution. Retaining these skilled workers will give companies a competitive advantage when it comes to meeting consumer demands.

Competition Analysis

PBH competes with large, national incumbents, as well as regional, niche players. As a result, investigating a key player in each category demonstrates differences in competitive positioning and strategy.

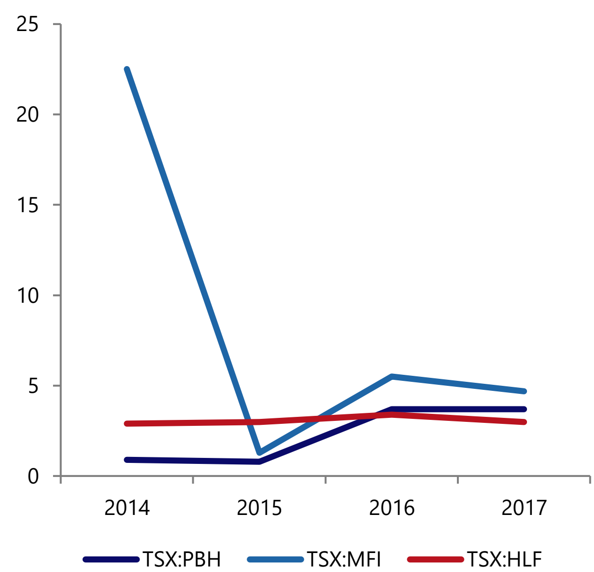
Maple Leaf Foods Inc. is a consumer protein company that produces and distributes various meats and plant protein products internationally. The company has 24,000 employees, a market capitalization of 3.65 billion and is overall one of the biggest food & beverage companies in Canada. Comparing Maple Leaf Foods Inc. to PBH, two national players, we see that Maple Leaf Foods Inc. had 2.8% revenue CAGR while PBH had a 15.8% revenue CAGR over the past four years. Maple Leaf Foods Inc.'s profit margin has been on the decline for the past four years while Premium Brands Holdings has increased its profit margin by a 63% CAGR.

High Liner Foods Incorporated is a frozen seafood product company that produces and distributes various seafood products in North America. The company has 1,540 employees, a market capitalization of 233.4M and is a niche player in the food & beverage industry. Comparing High Liner Foods Incorporated to PBH, a niche and national player, we notice that High Liner Foods Incorporated has 0.6% revenue CAGR and a 10% net income CAGR over the past four years. In contrast, PBH has 15.8% revenue CAGR and a 63% net profit margin CAGR.

Overall, Premium Brands Holdings has been able to grow its margins significantly more than its national and regional players in the food & beverage industry.

EXHIBIT VI

Net Income Margin Comparison in (%)



Source(s): S&P Capital IQ

Management: Background & Compensation

Overview
PBH is endowed with a management team that has a strong track record with the company and a wealth of experience in the food manufacturing & distribution industry. CEO George Paleologou has spent his career in the meat industry – he began his career at Fletcher's Fine Foods, where his experience managing two separate meat plants (a large scale plant for international export & a small scale plant for local ethnic markets) shaped his belief in the importance of serving niche markets where price and macro industry factors were more controllable. He took this philosophy to PBH as President in 2001. By 2008, he was promoted to CEO and has since led the company as a quiet success in the food industry. His CFO, Will Kalutycz, has a similar depth of experience in the industry, having led PBH's finances since 2000.

The length of service for both executives indicates a deep commitment to the success of the company. Nearly two decades at the helm provides confidence that they are emotionally invested in the company and will strive to act with a long-term time horizon.

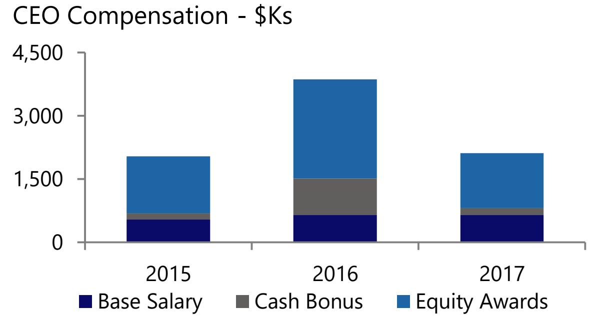
Compensation
The company's key philosophy is that compensation outcomes must be symmetric with risk outcomes, and be sensitive to the time horizon of the given risks. Executives are prohibited from engaging in hedging strategies that would alter the risk profile of awarded corporate securities, they must maintain a minimum equity ownership of 3x base salary, and stock options are avoided entirely. This structure ensures that management has substantial skin in the game and shares in the downside risk of their decision making. At present, Paleologou has ~$34M in accumulated equity, showing he deeply believes in the company's future outperformance by continuing to grow his portion of awarded shares.

PBH utilizes cash bonuses and equity awards to create an incentive structure that attempts to align with shareholders, but ultimately falls short from lack of accountability in the way bonuses are awarded.

The first at-risk component is the short-term incentive, awarded each year in cash on the basis of growth in FCF per share and individual performance. Executives can elect to receive the award in equity for a 25% increase in value. Of concern is that are no minimum targets to achieve for bonus eligibility; it is given at the board's discretion and based on circumstance. The second at-risk component is the Employee Benefit Plan (EBP), which the corporation pays into with cash to establish a pool of market-priced shares. Any shares awarded in a given year vest in equal increments over a two year period. Each year, the board determines which (if any) executives are able to receive shares, and the amount they are eligible to receive. There are no set criteria to award shares from the EBP. Finally, if average annual shareholder returns exceed 15% over a three year period, executives are eligible for an additional bonus that is split between cash and additional shares, which vest over a five year period. The board determines size of the bonus, if awarded.

The lack of transparent KPIs for cash and equity bonuses is concerning. While Paleologou is not chair of the board nor part of the compensation committee, the lack of hard targets on sustainable long-term success metrics creates an accountability problem. While some "targets" exist, (FCF, individual KPIs) they are highly discretionary. Thus, it is difficult to believe that management is as committed to alignment with shareholders as publicly espoused.

EXHIBIT VII



Source(s): Company Filings

Management: Capital Allocation

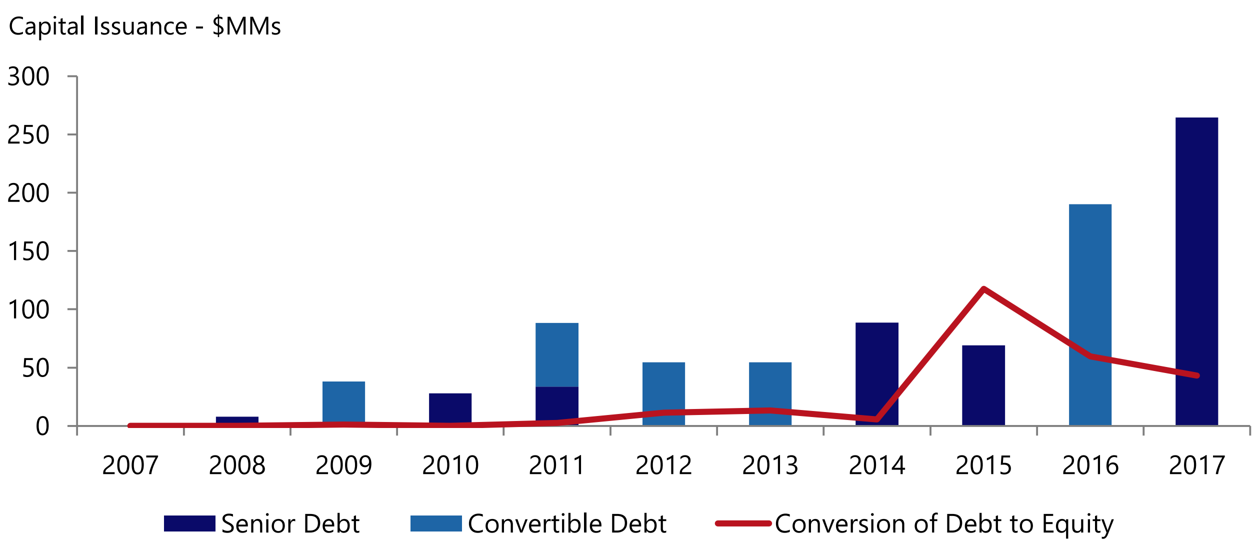
Philosophy

In his most recent shareholder letter, CEO Paleologou emphasized his belief in focusing time and capital into niches where PBH can maintain higher margins through differentiated specialty products, rather than competing in commoditized global meat markets where macro factors are beyond management control. PBH understands the power of local competitive advantage and has constructed a capital allocation strategy that has allowed them to be highly successful despite their relatively smaller size. PBH understands their market position and actively avoids battles they believe they are unlikely to win given their size and geographic footprint. In his shareholder letter, Paleologou drove home this point, stating "*we often pass on potential deals … I am sometimes more proud of the deals we have passed on than the ones we have completed*". This attitude shows a strong underlying discipline in management's capital allocation philosophy.

In Practice

PBH's payout policy strongly favors dividends over buybacks. The company has not bought back shares at any significant level in the past decade, using dividends almost exclusively to return capital. More interestingly, on the issuance side PBH utilizes a combination of senior and convertible debt as primary sources of financing. Equity issuances are used only in small quantities to provide ownership stakes to acquired business owners. Using convertible debt over equity issuance results in less dilution, as equity can effectively be raised at a premium, rather than a discount. Management estimates their convertible debt strategy has created $20 per share in value by minimizing dilution. PBH has completed 8 convertible offerings to date for net proceeds of $654M, 5 of which have been fully converted. Management maintains discipline in following their local niche strategy through a minimum IRR of 15% on any financial decision.

EXHIBIT VIII



Source(s): Company Filings

Management: Acquisitions

Philosophy

PBH believes in acquiring dominant niche brands and empowering them with the resources necessary to expand their local competitive advantages. Paleologou recognizes that this is a very difficult approach to standardize or scale, and as a result the company takes a very decentralized approach to their acquired brands. Acquired management teams are retained and given sufficient freedom to remain independent and keep their brand's entrepreneurial spirit alive. Rather than look to cut costs and impose strategy on smaller players, PBH helps solve issues many small family-run business face, such as (1) access to capital, (2) back-end IT modernization, (3) succession planning, and (4) innovation sharing. By employing a supportive approach, PBH empowers companies to continue doing what made them successful and entrusts decision making to long-time owners who know their business and industry drivers best. This approach enables success in localized niche markets that more rigid players would not find attractive.

In Practice: Oberto Sausage Company

Oberto was acquired in April 2018 for an undisclosed sum. The Seattle-based brand is one of North America's leading meat manufacturers and has been family-run for 100 years. Oberto provides PBH with a dominant local market in Washington State and platform for continued expansion into the USA as Oberto leverages available resources to grow the brand. Oberto management stated they are pleased with the acquisition, citing PBH's track record for decision making autonomy, past performance of acquired companies, and a long-term time horizon as factors which instill confidence that their multi-generational family brand will not be drowned in corporate noise. Concurrent with their reputation for nurturing (rather than squeezing) acquired brands, CEO Paleologou stated that they are driving the acquisition with growth synergies rather than cost synergies. He expects to grow Oberto through sharing product know-how and distribution platforms as well as providing access to capital and IT expertise.

EXHIBIT IX

What PBH Provides to Purchased Businesses

Access to Capital	IT Modernization	Succession Plans	Innovation Sharing
Growth	Supply Chain	HR Capabilities	Maximize R&D
Investment	Inventory Mgt.	Control Changes	Trend Awareness
	Product Granularity		Product Portfolio
	Data Generation		Market Knowledge

US Expansion

Market Potential

Management is in the process of executing an aggressive US growth strategy to access the country's consumer market. Unsurprisingly, the US market is significantly larger than that of Canada and thus, presents an alluring growth opportunity for Premium Brands.

The combination of a large number of consumers and rising consumer consciousness regarding diet favours the American specialty foods market. American specialty foods stores are expected to experience revenue growth over the next five years, which can be used as a proxy for the market potential of Premium Brands' Specialty Foods business, as it speaks to consumer demand for specialty products. Across the Consumers space, we are seeing the affinity of consumers towards smaller, less corporate brands grow dramatically in recent years. Previously, large brands have been used as a kind of assurance of product quality. Largely due to the increase in consumers' access to information, individuals are becoming more knowledgeable and thus less reliant on recognized name-brands and their associated assurance of quality. This trend is pertinent in foods and shall stand to benefit Premium Brands as they enter the US market, given that a large portion of their strategy in this space is developing and capitalizing on the brand loyalty of the consumer towards their niche, specialty products, rather than to Premium Brands as a whole.

The true nature of the expansionary opportunity for the Premium Food Distribution business is a bit more opaque. Large competitors like US Food Holdings Corporation and Sysco could result in barriers to entry. Additionally, while Premium Brands acquires the distributive capacity of the acquiree in a transaction, ensuring an efficient and reliable cold supply chain may be a challenge, due to the widespread nature of American hubs. On the other hand, the sheer size of the US market may make finding underserved niches easier. The Premium Food Distribution business seems more difficult to execute in the US than the Specialty Foods Business in the immediate future. Regardless, the Company has experienced growth in both divisions in the US

Strategy Execution

The US operations of the Company are fundamentally similar to that of their Canadian headquarters and there are no significant business model adjustments to discuss. The Company looks to expand in the US largely by the same means that it did in Canada, through the acquisition and growth of a series of specialty food and premium food distribution companies with strong management teams and long-term growth opportunities. Overall, management sees the US market as the primary growth driver moving forward, rather than that of Canada. In line with the previous discussion on market potential, management hypothesizes that the attractive nature of the US market in the Specialty Foods segment with result in it being the primary growth driver for this division.

EXHIBIT X

Regions in which Premium Brands has operations

Source(s): Company Reports

US Expansion

Regarding the Premium Food Distribution segment, management expects that the US will drive 50% of its growth, while the Canadian market will still contribute the other half. Within the US side of the Premium Food Distribution segment, the Company has seen some success, especially in their ready seafoods business, which they believe will continue to grow.

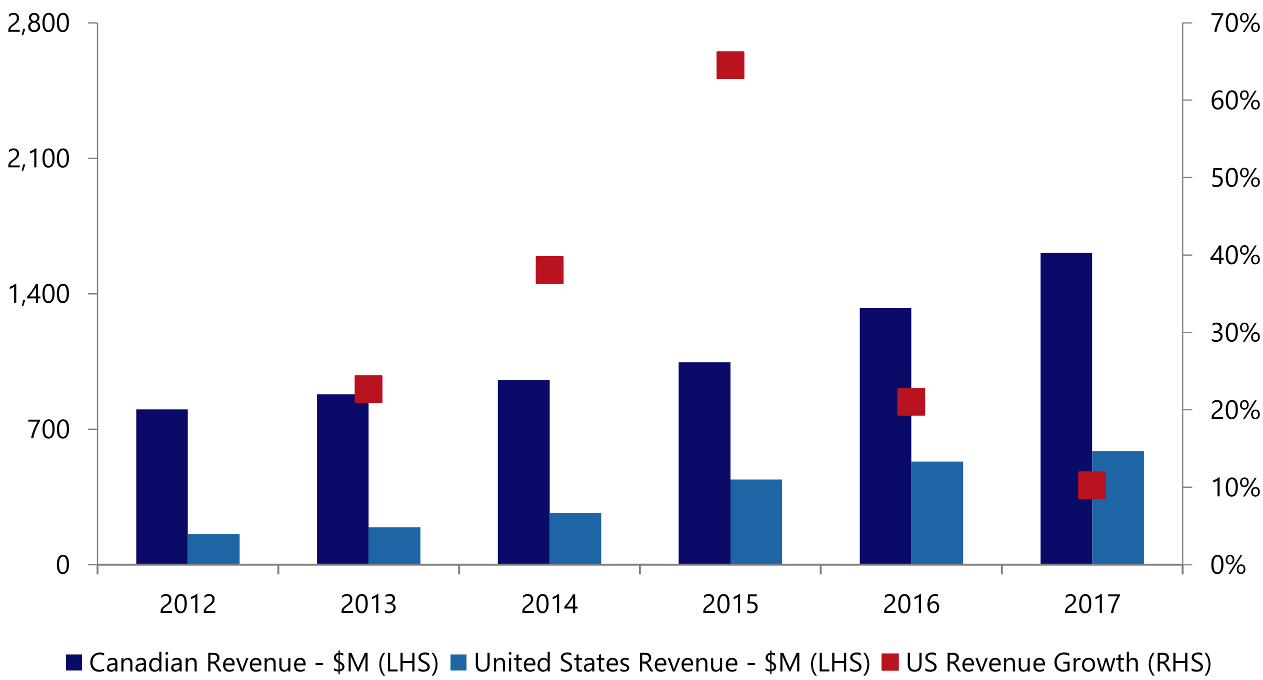
Exhibit XI showcases the growth that Premium Brands has experienced in the US market so far. The overall volatility in this growth can be attributed to their acquisition-heavy strategy, which generates lumpy increases in revenue. The positive trend in their American revenues speaks to the Company's general success in the market.

Looking Forward

Given that management is showing no intention of slowing their aggressive US growth strategy, it seems safe to assume that a large portion of the company's coming acquisition expenditures and other investments will be focused in the region. This insinuates that the US will become and increasingly important factor in the Company's performance and growth. We expected to see the Company expand its presence in the US far beyond its current four platforms in both the Specialty Foods and Premium Food Distribution space.

EXHIBIT XI

Revenue Segmentation and US Growth



Source(s): S&P Capital IQ

Competitive Advantage: Market Positioning

PBH has carved out a lucrative market positioning by competing in generally less competitive niches in which is it able to outperform. This market positioning constitutes a sustainable competitive advantage.

Food Manufacturing

Product differentiation focus leads to high margins

The company's investment and acquisition focus is on food businesses with core strategies that are based on product differentiation. These differentiated products are aligned with consumers' decisions to purchase its products based primarily on factors other than price, such as quality, convenience, health and lifestyle. This means in certain product categories, such as premium processed meats, PBH can compete indirectly with larger national and international manufacturers that generally sell lower priced mainstream products. As a result, PBH is able to command premium prices on its food brands, higher than many national competitors, and thus higher profit margins.

Strong proprietary brands and leading niche market positions

A number of PBH's businesses sell their products under one or more proprietary brands, many of which are recognized as the leading brand within a segment of the specialty food market. This allows PBH to have dominance in many food manufacturing subsegments.

Large geographic network with niche positioning

PBH has a widespread North American selling and procurement network. Sales in Canada were $1,532.2M and $661.7M in the US in 2017, with $4.4M in exports. This scale is advantageous for PBH to compete with many specialty food businesses tend to be smaller, often regionally focused companies.

As a result of these characteristics, PBH is able to generally earn higher and more consistent selling margins, relative to other types of food manufacturing companies, and avoid competing with large national and international food companies

EXIHBIT XII

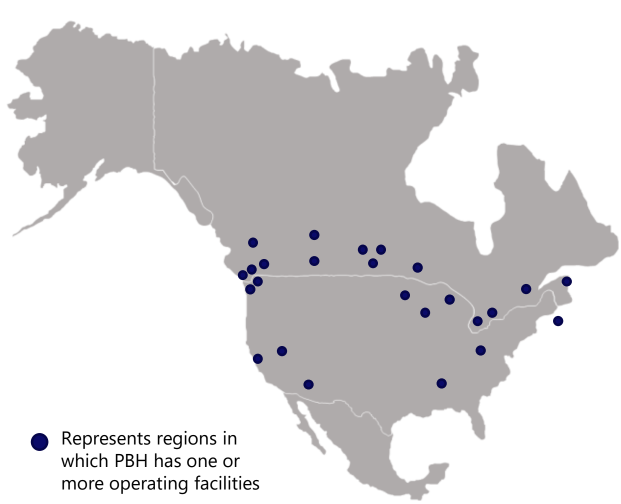
Selection of PBH's proprietary branded products

European Deli Meats	Piller's, Freybe
Premium Processed Meats	Harvest, Isernio's Premium, Fletcher's
Sandwiches	Hygaard, Deli Chef, Oven-Pride Kitchen
Meat Snacks	Piller's, Freybe, Harvest
Baked Goods	Stuyver's, Audrey's Patisserie, Island City
Mediterranean Specialty Products	Duso's
Seafood	Diana's Seafood, C2C

Source: Company Filings

EXHIBIT XIII

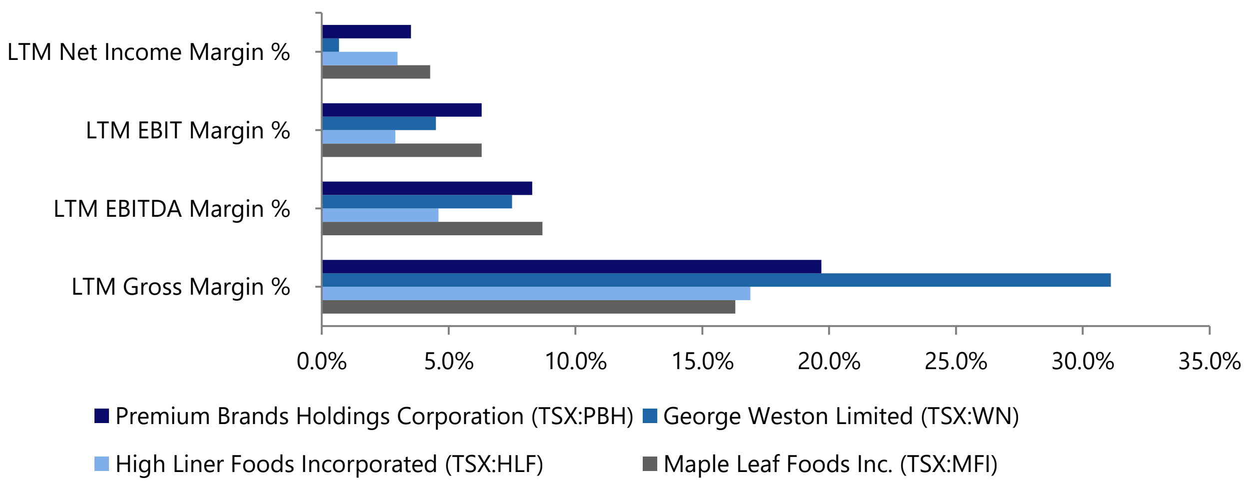
Geographical reach and diversification



Source: Investor Presentation

EXHIBIT XIV

Key Margin Comparison Between PBH and Comparable Companies



Sources: S&P Capital IQ

Competitive Advantage: Market Positioning (Continued)

<u>Food Distribution</u>

Differentiated food distribution and wholesale businesses

A key characteristic of a premium food distribution business offers its customers specialized and unique products and services in addition to logistical solutions. As a result, PBH is able to generate higher and more consistent selling margins relative to the large national and international food distributors that are primarily focused on logistics.

PBH's premium food distribution businesses also enable it to generate and sustain additional margin by using these businesses to provide its specialty food businesses with proprietary access to a broad and diversified customer base that includes regional and specialty grocery retailers, restaurants, hotels and institutions. Thus, this strategy allows a competitive advantage over national players.

Semi-autonomous management model

PBH is the owner of a number of specialty food and premium food distribution businesses, each operating on a semi-autonomous basis, meaning they act independently to some degree. This semi-autonomous model allows PBH to maintain a regional/niche market focus while using its overall size to gain competitive advantages over other smaller regional specialty food and food distribution businesses.

These advantages include improved access to capital, stronger purchasing power for a range of products and services, greater product marketing, promotion and development resource, access to proprietary distribution networks, inter-business sharing of best practices, better, more sophisticated information systems, and greater management depth. As a result, PBH has carved out a dominant niche position in food distribution in comparison to regional, niche players.

Commentary on Recent Selloff

Following Q3 2018 earnings, Premium Brands was sold off in the market, incurring a ~25% erosion in its market capitalization in the three days following the announcement. Understanding what contributed to the selloff can help identify important risks to consider when investing in the company.

Financial Results

Premium Brands generated $71M of EBITDA in their most recent quarter. In contrast, the consensus EBITDA for the quarter was $83M, representing a substantial miss for the company. The earnings miss can be categorized into three categories: (1) delay in new sales initiatives; (2) additional promotional spending; and (3) operational inefficiencies.

Delay in Sales Initiatives

Part of Premium Brands' earnings miss is attributable to delaying sales initiatives in the sandwich and meat snacks platforms in the US market. These sales initiatives were worth roughly $40M, and were expected to carry higher margins needed to meet profitability expectations. Ultimately, the sales initiatives had to be delayed into the first half of 2019, primarily resulting from labour shortages in the US market that disrupted the company's supply chain.

Additional Promotional Spending

Another activity in the US that led to the earnings miss was introducing promotional pricing on new products to generate consumer interest. The US market is a key growth initiative, which has a much higher organic growth profile than Canada, so the company introduced such promotional pricing to help ensure the success of its products.

Operational Inefficiencies

The final item management attributed to the earnings miss was production inefficiencies that existed in new production runs. Although not much color exists on the specifics of these inefficiencies, such activity is to be expected with a new launch and is likely immaterial to the long-term prospects of the US expansion.

EXHIBIT XV

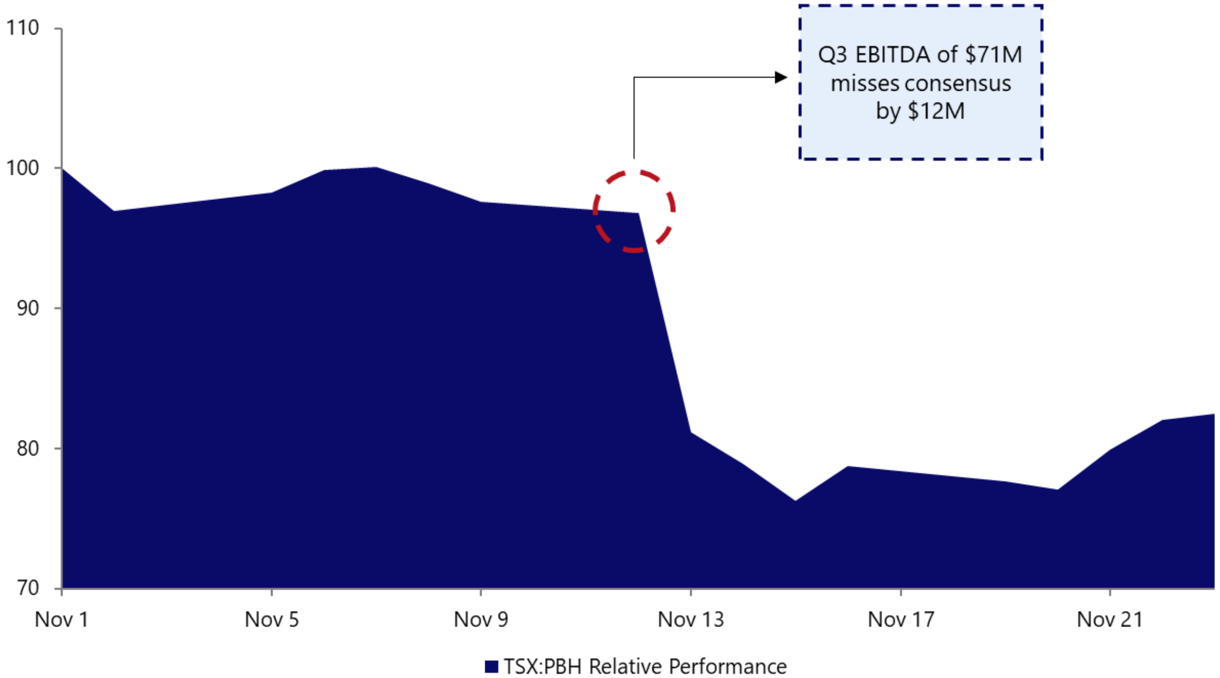
Q3 2018 Earnings Financial Summary

	Q3 2018			FY 2019		
	Street	Actual	Delta	Prior Street	Rev. Guidance	Delta
Revenue	$828MM	$836MM	$8MM	$3,590MM	$3,690MM	$100MM
EBITDA	$83MM	$71MM	($11MM)	$342MM	$330MM	($12MM)
Margin	*10.0%*	*8.5%*	*(1.4%)*	*9.5%*	*8.9%*	*(0.6%)*

Source(s): National Bank Financial

EXHIBIT XVI

Premium Brands Stock Price Index (November 2018)



Source(s): National Bank Financial, S&P Capital IQ

Key Risks to Consider

Labour Shortages in the US

As mentioned in the earnings release commentary, labour shortages in the US constrained growth in a number of their platforms – ultimately forcing delayed initiatives. Management has indicated the issue is focused around their suppliers that they rely on not being able to find sufficient labor to satisfy PBH's growth. The company's management team has proactively addressed this risk with a three-pronged approach.

First, Canadian capacity is being expanded to serve the US market. Management is comfortable with this decision given the apparent abatement of Canada-US free trade concerns.

Second, the company is partnering with suppliers in Europe to produce for the Canadian market to fill the void of Canadian capacity used to serve the US market.

Finally, Premium Brands is making investments in automation to make themselves less reliant on the labour market overall.

Although these changes are justified given the tight labour market in the US, they introduce a variety of complexities into the company's supply chain that leads each country's environment to have implications on other involved countries.

Erosion in Pricing Power

As part of managements growth initiatives in the US expansion, promotional pricing was introduced in Q3 2018. Although this contributed to organic growth of 20% in the US over the past year and 100% growth including acquisitions, the use of such tactics must be monitored in the future. One of the key aspects that differentiates Premium Brands from other food companies is their ability to compete less on price by offering artisan products and serving niche markets, so any deviation from their ability to compete on more than price will be uncovered if management continuously relies on such promotional pricing tactics.

Reliance on Smooth M&A Integration

Management indicated a contributor to the lower EBITDA margins in the most recent quarter was because of acquired businesses that carried lower margins, but are expected to improve in the future. Given the much higher risk invovled with executing successful M&A transactions in comparison to organic growth, a substantial risk is the possibility of expected margin expansion in acquired business not coming to fruition. This risk is magnified in light of the recent downward trend in EBITDA margins, which leads investors to be more sensitive to the company's margins.

Mitigating this risk is the decentralized approach management has toward M&A. Acquisition targets generally retain their management teams, which provides downside protection to PBH's acquisitions because there is not as much transformation that could go wrong.

Commodity Exposure

Premium Brands' business model substantially exposes itself to commodity prices. In the most recent quarter, management expected pork and beef prices to deflate more than they actually did, which was noted as a secondary cause for why margins compressed.

From a forward-looking standpoint, management has modelled a stable commodity market into their guidance, which is based on their outlook. As such, there is an associated risk as commodity price variances could significantly introduce variance in the profitability of the Specialty Foods segment.

Valuation

We value PBH by projecting the company's organic growth as well as their M&A activity. We apply a 10% discount rate and 2.5% terminal growth rate. Since PBH is a much smaller business and is less established than our US holdings, we require a higher rate of return on our investment. For reference, we require an 8% return on our BKNG investment, which is currently valued by the market at roughly US$80B.

Existing Business

With some exceptions, we expect the existing business to grow at 6.5% for roughly 10 years before declining to a terminal rate of 2.5%.

Upon resolving this year's setbacks, we expect margins to improve slightly as well. Over the projected period, we expect EBITDA margins to increase from 9.2% in 2018 to almost 11%.

As a result, we value the existing business at roughly $86 per share.

Acquisitions

To value acquisitions, we analyze PBH's past performance to determine that the company can realize a 15% IRR.

We model these acquisitions by assuming PBH pays a 6.6x EBITDA multiple with a target of increasing margins from 10% to 12%, implying that the multiple falls to 5.5x. These acquisitions are modeled similarly to how we model the existing business, and the results are tied into the financial statements.

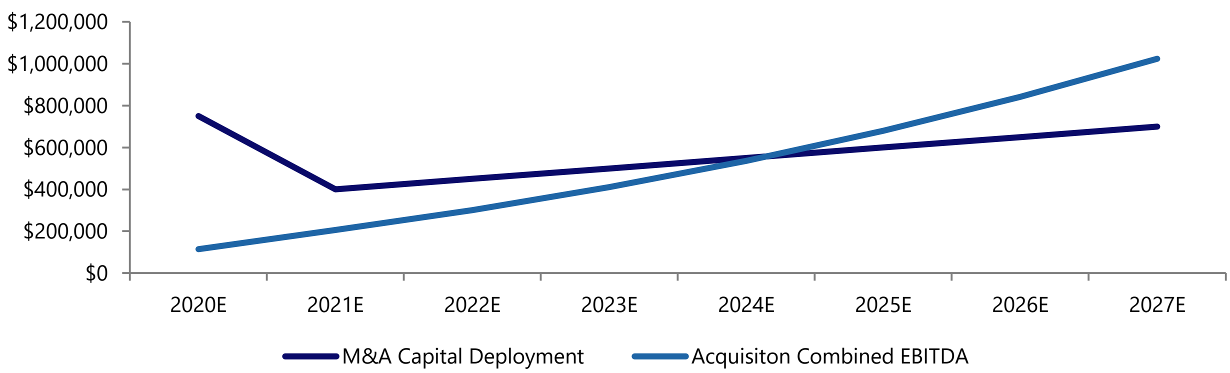
We begin modelling acquisitions in 2020 with a spend of $750M, a high number to reflect acquisitions in 2018 and 2019, but with less value due to the uncertainty of timing/execution.

The value of acquisitions is determined to be roughly $60 per share.

Combined, PBH is worth roughly $146 per share. The substantial upside is likely due to short-term problems and the market's unwillingness to value future acquisitions, even when they are a clear focus and competency for the company. PBH traded over $120 per share in April '18.

EXHIBIT XVII

Acquisition Assumptions



Source: QUIC Estimates

References

1. Company Filings
2. National Bank Financial
3. S&P Capital IQ
4. The Financial Post
5. The Globe and Mail