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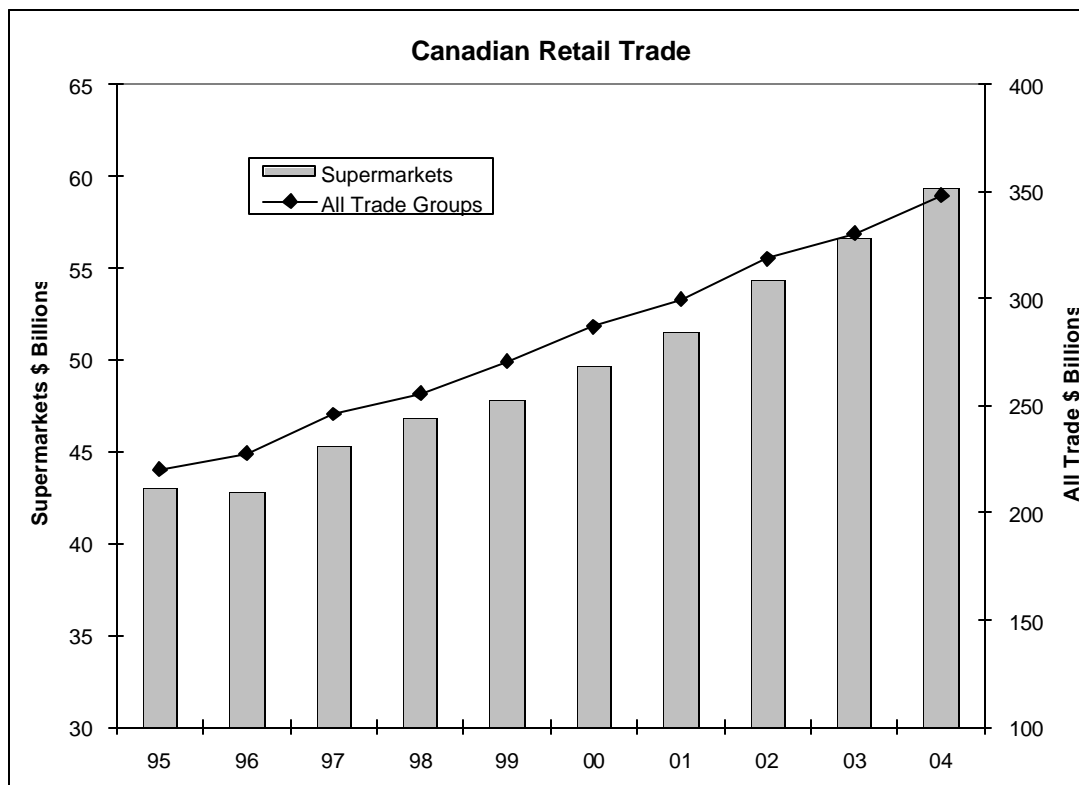
2004 Food Manufacturer and Retail Review

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Food Distribution

Canadian supermarket sales are likely to hit over \$59.3 billion in 2004 according to George Morris Centre estimates based on Statistics Canada surveys.¹ The total for all retail trade in Canada (hardware, furniture, mass merchants, food etc) should amount to around \$348 billion. The following graph shows the annual sales for supermarkets and all trade groups.

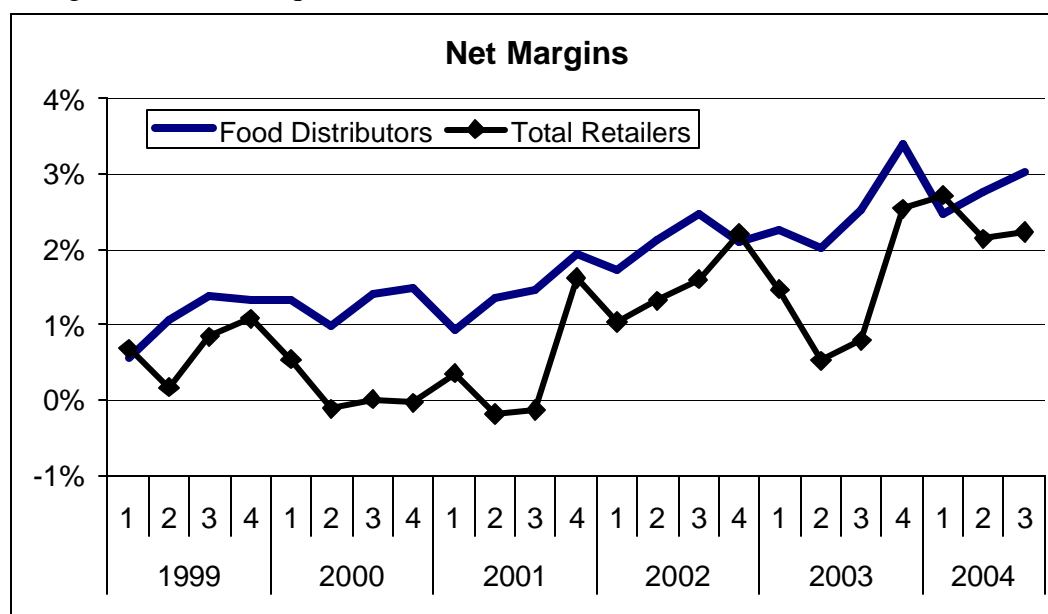


The supermarket total for the year amounts to a sales growth rate of 4.9% over 2003. The growth in 2004 was the third best growth rate in the last 13 years. For its part, the total sales growth for all trade groups grew by 5.4% during 2004. Supermarket sales now comprise about 17% of the all trade group sales volume. That is down from 17.1% the last two years and nearly 21% ten years ago.

¹ All data and estimates are based on Statistics Canada data that is either publicly available or provided for a fee to the George Morris Centre

Part of the loss of total retail share is simply reflective of the fact that Canadians continue to spend less and less of their disposable income on food. Another explanation of the loss in share is more ominous for supermarkets. That is the fact that alternative grocery channels currently account for 15.1% of Canadian grocery sales, and are growing at a combined 13% pace, according to CIBC World Markets. Unchecked, they will absorb almost three-quarters of the industry's growth over the next three years. The largest alternative player is still Costco, but the fastest-growing player is Wal-Mart, which may add almost \$1 billion of grocery sales per year in Canada, and that's without bringing Supercenters to the country. (Alternative Grocery Channels In Canada, CIBC World Markets, April 2004).

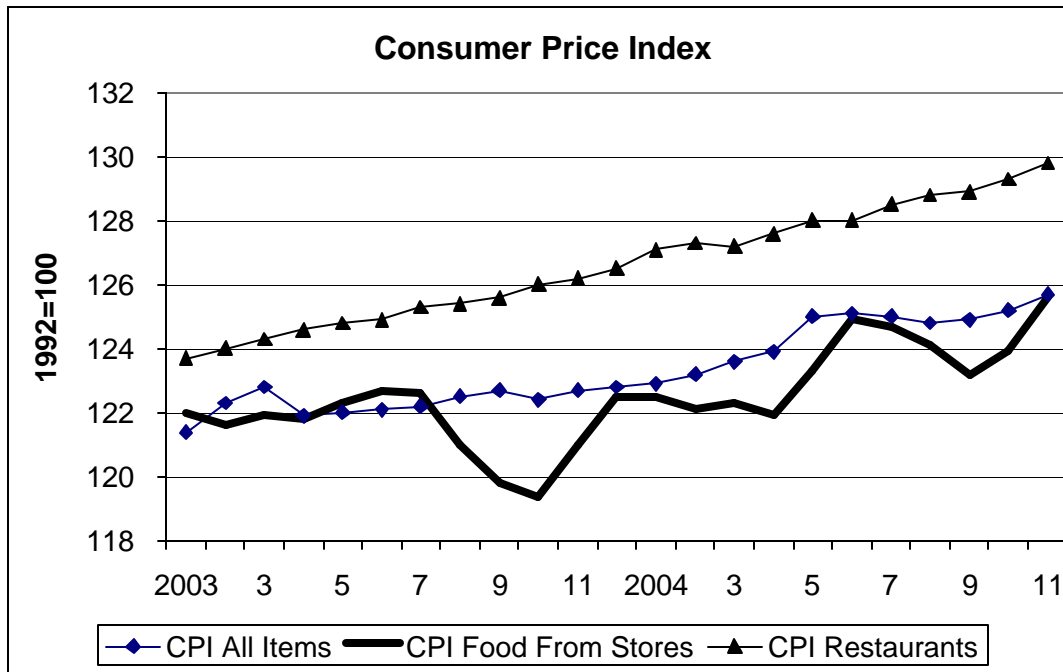
While supermarkets look to be losing retail share, they do appear to be more than holding their own with regards to profits. The following graph shows net margins for all retailers and for food and beverage distributors (retailers plus wholesalers). The graph shows the margins from 1999 through the first three quarters of 2004 (latest StatsCan data).



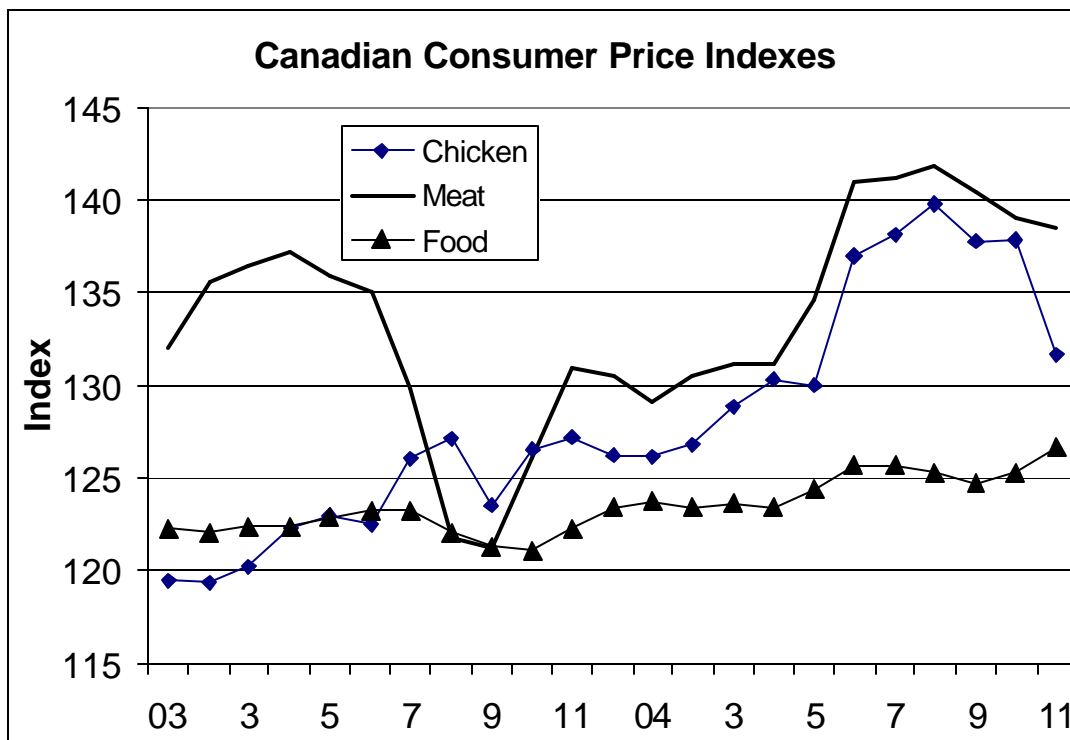
As can be seen, food distributor margins have significantly improved over the last three years. From 1999 through most of 2001, food distribution margins trended in the 1-2% range. From mid 2001 to the third quarter of 2004, margins have trended closer to 3%. The margins have been boosted by extra-ordinary increases in year-over-year quarterly profits. Distributors have generated greater returns on assets and equity over the last two years.

While food distributors continue to enjoy strong margins, the evidence suggests that the margins were not the result of price increases. The following graph shows the Consumer Price Index for food from stores, restaurants and all items.

For 2004, the prices of food purchased from stores will have increased at a slower rate than the overall inflation rate and far slower than the rate of food purchased from restaurants. Sluggish price increases in the face of increasing net profits suggest that supermarkets are succeeding in selling more value added, higher margin products.

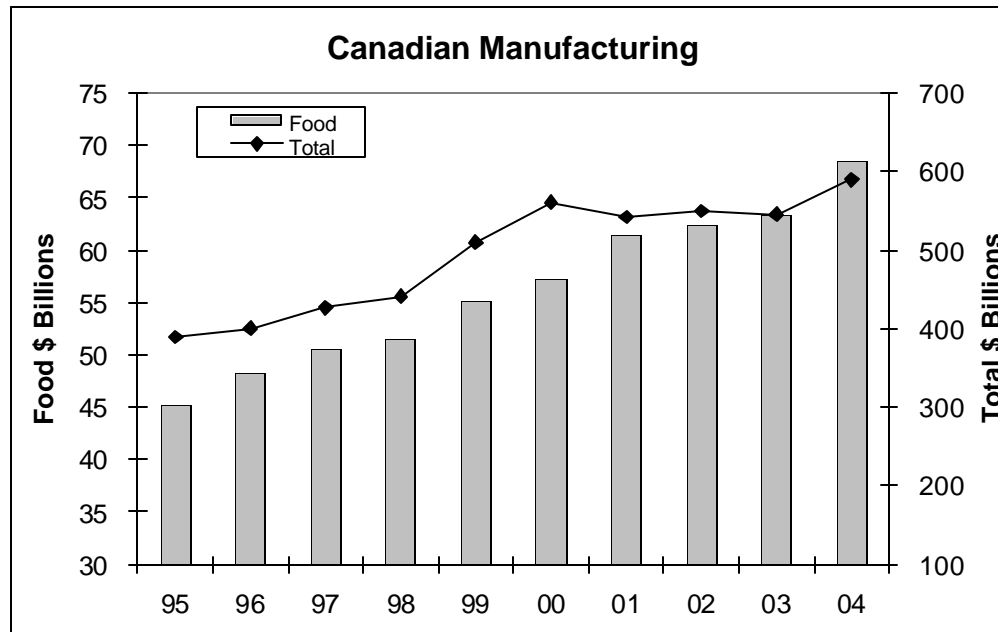


Further evidence of the fact that supermarkets are adding value is the fact that even the moderate increase in price was largely driven by meat and poultry. The following graph shows the CPI for all food, poultry and red meat. As can be seen, meat and poultry prices led the increase in total food prices. These prices are largely driven by market conditions. This suggests that the prices that are more controlled by supermarkets were tightly restricted in 2004.

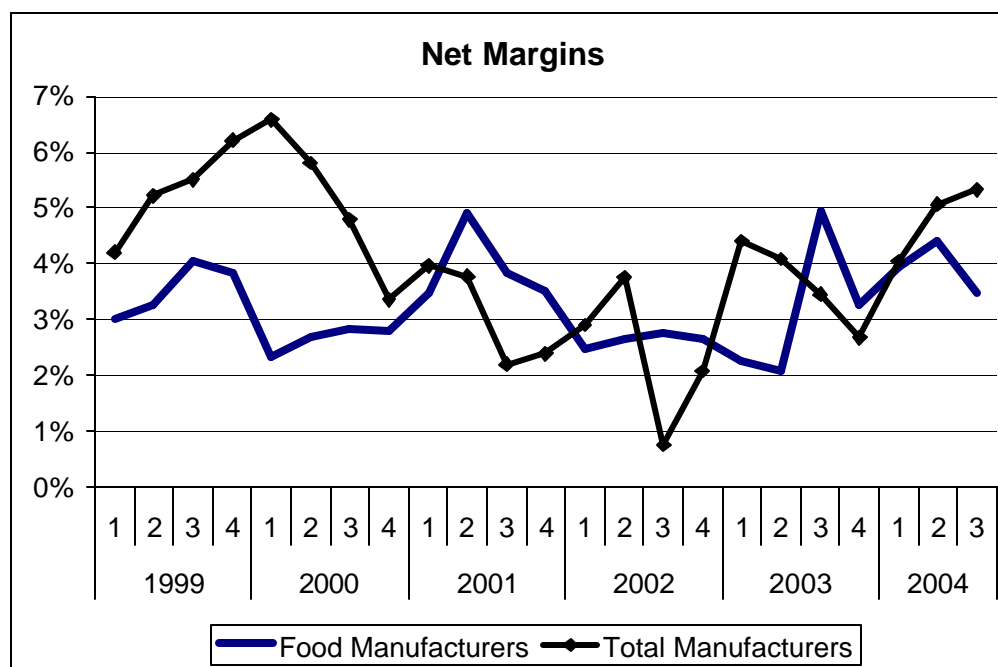


Food Manufacturing

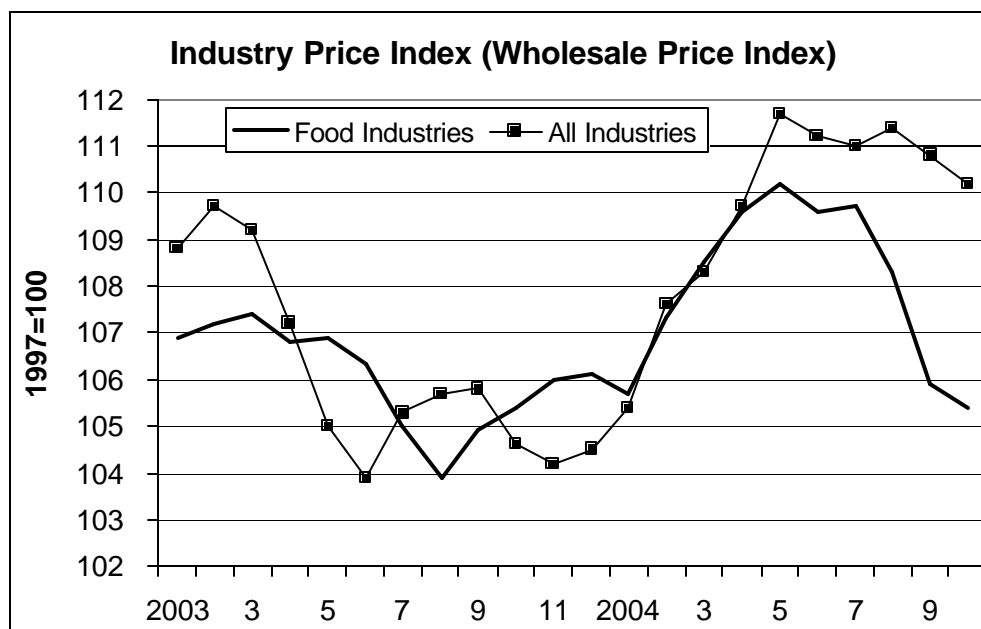
Food manufacturer sales should exceed \$68.4 billion in 2004, an increase of nearly 8%. The sales for all manufacturing industries in Canada were also likely up by about 8% during 2004. The rate of increase for food manufacturing was the highest in the last ten years. The solid rate of increase kept food manufacturers at a steady 12% share of total manufacturing in Canada. The following graph shows food manufacturing sales compared to total manufacturing sales.



In addition to strong sales gains, food manufacturer margins look to be steady to slightly stronger for 2004. The following graph shows food manufacturer margins compared to total manufacturer margins in Canada. While the margins were lower than manufacturing as a whole, it appears that overall profits were exceptionally strong during 2004. During the first three quarters of 2004, food manufacturer profits were about 40% higher than the same period in 2003.



Unlike food distributors, the strong profit picture for manufacturers, at least during the first half of the year could be attributed to price increases at the wholesale level. The following graph shows the Industry Price Index for food manufacturers and all manufacturers. These indices show price changes at the wholesale or manufacturer level.



As can be seen food manufacturer prices were sharply higher during the first half of the year before falling sharply from July through October. As such, the strong profit picture of the first three quarters of 2004 may end up being at least partially dulled with the fourth quarter results.

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