

Make Informed Decisions

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## Trying to keep up with Olymel

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At the end of June, Olymel announced the acquisition of all assets of Triomphe Foods, a processor of deli meats and specialty hams. Triomphe Foods employs more than 250 people. The transaction includes three production facilities, located in Laval, Blainville and Québec City, as well as two distribution centres in Blainville and St-Léonard. The price of this transaction was not disclosed.

That was the second major acquisition for Olymel in June. Earlier that month the company announced the purchase of all the shares of Pinty's Delicious Foods Inc., an Ontario poultry slaughtering and processing company specializing in fully cooked and other related products, subject to Competition Bureau approval.

Olymel, with sales of about \$3.5 billion, says that since 2015, Olymel has invested more than \$800 million in its growth. Of course the purchase of a further processor or pork is interesting, but what the company has done in the production and packing end of the business is even more interesting.

In the west, most of its recent activities have been centered around the acquisition of hog production operations and assets. That started with its 2013 purchase of Big Sky but it continued through 2016 with its purchase of Pinnacle Farms in Alberta.

In Quebec the company has also been expanding its production presence but in a different manner. I have discussed here often its new sow facilities that it has built and is building in the far north of Quebec. In Quebec it has also been focused on its packing assets and future production growth.

In Quebec for example the following packing related activities have occurred since 2015:

- 02/2015 – Olymel and ATRAHAN first announced their partnership agreement and then shortly after Olymel and Lucyporc (that belongs to Groupe Robitaille) announced their partnership agreement.
- 06/2016 – Olymel invested \$25 million to expand its Saint-Esprit slaughterhouse. This boosted the capacity, going from 30 000 to 40 000 pigs/week.
- 08/2016 – Olymel+Groupe Robitaille invested \$80 million to expand the ATRAHAN slaughterhouse in Yamachiche. This was done to bring all Lucyporc plant activities to the ATRAHAN plant. The plant doubled in size and the capacity went from 18 500 pigs/week to 36 000 pigs/week. Work started in May 2017 and is scheduled to end by April 2019. In December, another \$30 million was added to the cost of this expansion.

Each of these actions are different and done for different purposes. I of course don't know why the company takes any action, but I believe that the Atrahan move was done for different reasons than the Lucyporc.

### **Access to Hog Supplies**

ATRAHAN Transformation is a family-owned business under the direction of Denis and René Trahan, founded almost 60 years ago, and now has over 350 employees. I expect that the Atrahan partnership was done in large measure in order to access the hog supply to that plant. In Quebec under the marketing protocol with the marketing board, plants are allocated a supply of hogs. With regard to hog supplies, if Olymel was to build a plant from scratch, they would be starting with zero hogs. Furthermore under that protocol they would be restricted in competing with other packers for their supplies.

In one move Olymel acquired a partner with a 18,000 head per week plant but maybe just as importantly, the hogs that go to that plant. There is also a degree of vertical integration at the plant, perhaps a quarter of throughput. In addition the plant, as noted here before, was a preferred destination for producers that favored dealing with the Trahan brothers rather than the larger Olymel.

Atrahan in Yamachiche was also a good location from a geographic and growth potential perspective. It allows for both growth and plant improvements in a rural, isolated area. In addition of course the plant is already staffed with experienced workers. By contrast, Olymel's main plant over the years has been Vallée-Jonction. That 37,000 head per week location has no room for growth. On one side it abuts against a big hill and across the street is a parking lot next to a river.

### **Lucyporc is a Different Business**

For its part Lucyporc, also located in Yamachiche is a totally different business and thus a different rationale for Olymel. Not only is the 7,000 head per week plant much smaller but it is

focused on niche markets. In fact Lucyporc has a major focus on the Japanese market. From Olymel's perspective the Lucyporc partnership immediately gave them a niche market or specialty pork presence, which they did not have under their own portfolio. Now they can meet different needs of their Japanese customers.

The plant, with 430 employees, was tired and in need of renovation which, of course, is very expensive. The logistics of expansion and renovation are challenging for a plant that size. That might have been a good motivation for partnership from Robitaille's perspective. Another motivation is the expertise and global sales experience of Olymel

In addition, Olymel along with the Robitailles were likely thinking ahead to the fact that with the Lucyporc hogs, they would have more hogs to help them build a bigger plant. That of course is what they did or are doing now. Another \$110 million is being invested to expand the Atrahan plant. The Lucyporc employees will work in the new plant, on the other side of Yamachiche.

### **Exceptional Growth**

The relationships between Trahan and Olymel as well as Robitaille and Olymel are partnerships. From my perspective I look at the new plant as an Olymel plant with partners. As such by the middle of next year Olymel in Quebec will have the following Quebec operations:

Princeville, 16,000 per week

Vallée-Jonction, 37,000 per week

St-Esprit, 40,000 per week

Yamachiche, 36,000 per week

Total Quebec slaughter capacity will be up to 130,000 per week. That compares to 82,000 in the province at the start of 2017. I am not going to say that the Princeville plant is vulnerable to closure because I have been saying that for years. I have been wrong for years.

In any event, the company's record of investment and commitment to the hog and pork industry in both the east and the west is indisputable.

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