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## Background

In 2001, Imperial Capital participated in an auction of E.D. Smith and Sons Ltd. (“EDS” or the “Company”). After assessing the opportunity and meeting with the management team, we, along with a number of other bidders, put in a bid which we felt was appropriate for the business given its growth prospects and the industry in which it operated. As a result of the auction process, the vendor decided he was not achieving an adequate value for his business and he subsequently decided to stop selling the company and to continue growing the business. After the process had been terminated, we contacted the intermediary to inform them of our continued interest in the business, which ultimately led to Imperial Capital successfully acquiring the business. The vendor agreed to stay on as the company’s interim Chief Executive Officer (“CEO”) until a successor could be recruited.

## Investment Thesis

The vision was to transform EDS into a leading North American private label manufacturer in high growth food categories serving the higher growth perimeter of grocery stores and away from the slower growth centre of the stores, its traditional focus.

products were sold throughout all major grocery retailers in Canada and select retailers in the US. The Company was an early partner with Loblaws in creating its President’s Choice private label product portfolio in the early 1980’s and continued to innovate with all of its private label customers.

## The Company

At the time of acquisition, EDS was a market leader in private label jams, sauces, ketchup, and pie fillings in Canada. Further, EDS had a strong branded jam and pie filling business as well as a strong foodservice business centered around sauces and ketchup. The Company manufactured all of its products in a single manufacturing facility in Winona, Ontario. The Company had a strong research and development group that was instrumental in keeping the company at the forefront of food trends and innovation at both the branded and private label level. The Company’s

## Value Creation

### *Board of Directors & Strategic Planning*

As a private company, EDS operated with an advisory board comprised of 3 individuals. Under our ownership, a new Board of Directors (“Board”) was established consisting of 4 senior executives from the food industry, 2 representatives from Imperial Capital, the vendor, and a member of our Investment Advisory Committee.

Under the new Board’s direction, the management team was assigned with the task of developing a strategic planning process and strategic plan that would guide the Company’s vision

## CASE HIGHLIGHTS

- Spearheaded acquisition program to enter US marketplace
- Transitioned company from low growth to high growth product categories
- Undertook productivity enhancement initiatives resulting in significant operating improvements
- Hired new senior management
- Enhanced research and development initiatives and instituted culture of innovation

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for the next three year period. As a consequence of the strategic planning process, the Board and the management team decided to focus the Company on products with higher perceived health benefits (less sugar, more fibre). This led to the Company's products being moved away from the centre of the store toward the faster growth perimeter of the store, which was growing due to perceived consumer nutritional benefits associated with fresh food. Accordingly, the Company began a research and development effort to reposition its products by reducing sugar and increasing fibre content of its products. These efforts resulted in products that achieved an 8:1 to 9:1 preference ratio versus popular brands. The product development efforts allowed the Company to secure additional private label business with a major Canadian grocery chain and also formed the basis of a re-launch of the Company's branded jam business.

#### *Acquisitions*

In addition to its product development efforts, the Board and management identified a need to get into the salad dressing category in order to capitalize on consumer trends toward healthier foods. The Company did not have the internal capability to produce oil-based salad dressings, and the strategy had to be undertaken either through an acquisition or a new manufacturing plant. Consequently, Imperial Capital undertook a search process to identify suitable acquisition candidates that would allow the Company to enter the salad dressing segment. Imperial Capital contacted approximately 200 companies over the course of two years and eventually completed the acquisition of North Coast Processing, the "category colonel" for three successive years in private label salad dressing in the United States. The acquisition of North Coast Processing ("NCP") allowed the Company to execute on its strategic plan and added a growth profile to EDS which subsequently assisted with the Company's public offering on the Toronto Stock Exchange.

In addition to NCP, a second acquisition candidate was identified in the salad dressing and mayonnaise category called Seaforth Creamery that was acquired within a year following the initial public offering. This acquisition served to add significant revenue and EBITDA to the Company, making it one of North America's largest private label salad dressing manufacturers.

#### *CEO Search*

Once the Company was acquired, we undertook a process to hire a new CEO as the need had been identified prior to the acquisition. The Board established a committee to undertake the hiring of a new CEO and the vendor was involved in the hiring process. The search committee engaged an executive search firm and commenced the process. The search committee agreed on a candidate that had a combination of branded packaged goods experience as well as private label food experience in the Canadian marketplace. The CEO was hired in 2003 and the business doubled in size during a four year period covering our ownership and its initial years as a public company.

#### *Operational Efficiency – Project PEACH*

During the course of our due diligence, we discovered that the original manufacturing plant would benefit from an operational efficiency program designed to increase throughput of the plant and reduce costs of manufacturing. Imperial Capital and senior management identified potential operational efficiency firms and selected one to identify and execute on improving the operational efficiencies of the plant.

Project "PEACH" (Promoting Efficiency And Changing Habits) was implemented over the course of several months. The engineering team met with senior management and operations employees to create and implement a plan to

reduce costs, improve throughput and productivity while maintaining product quality and to ensure the program was renewed annually as an ongoing continuous improvement initiative. As a result of Project PEACH, the plant operated an average of two eight-hour shifts per day, five days per week, improving from approximately three shifts per day, six days per week prior to Project PEACH. Accordingly, the plant went from operating at full capacity to 57% capacity over an 18 month period. In addition, throughput was expanded and overtime and casual labour expenses were eliminated.

The results of this plan were transformational for the Company, and the plan was extended into the warehouse, distribution and the administrative areas of the business.

#### **Conclusion**

As a result of the efforts described above, our investors saw more than a threefold increase in their investment over a three and a half year period and the management team created significant equity value during the process. The Company transitioned from:

- Low growth to high growth;
- Single plant to multi-plant operations;
- Canadian supplier to a North American supplier;
- Out of capacity to significant capacity for growth;
- High production costs to much more efficient and competitive costs of production;
- Private company to public company; and
- Reactive research and development to proactive R&D and introductions of new products.

All of this was completed while maintaining the historic high quality levels associated with EDS products.