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CANADIAN
INSTITUTIONAL FOODSERVICE MARKET REPORT

2017

ABRIDGED SAMPLE ONLY

April 2017

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1 Introduction

1.1 About *fs*STRATEGY

*fs*STRATEGY Inc. ("*fs*STRATEGY") is an alliance of senior consultants specializing in providing strategic support and customized research to the foodservice industry. *fs*STRATEGY provides business consulting services to all segments of the foodservice Industry, from producers to operators, with substantial focus on the Institutional Foodservice Sector. We have provided advisory services to hospitals, universities and colleges, art galleries, museums, attractions, convention and trade facilities, remote sites, correctional facilities as well as public and private sector employee dining facilities.

All of *fs*STRATEGY's Principals are members of the International Society of Hospitality Consultants ("ISHC") and, as such, subscribe to the ISHC's stringent code of ethics for consulting services.

*fs*STRATEGY's knowledge of institutional foodservice trends and operating practices make our company a leader in operational reviews, foodservice master planning and business strategy development for institutions across Canada.

1.2 About the Canadian Institutional Foodservice Market Report

1.2.1 History

The Canadian Institutional Foodservice Market Report (the "Report") is an annual estimate of size and scope of institutional foodservice sales in Canada. Geoff Wilson and *fs*STRATEGY have prepared the Report since 1999. The Report is used by Restaurants Canada as part of its annual Foodservice Sales Forecast. The Report is also used by a variety of food processors, foodservice operators, foodservice distributors and government agencies for which a comprehensive understanding of industry trends is critical to setting strategic direction.

1.2.2 Methodology

*fs*STRATEGY's sales estimate model combines statistical data from sources such as Restaurants Canada and Statistics Canada with data and opinions gleaned from leading institutions; contract caterers; group purchasing organizations; industry associations; municipal, provincial and federal governments; and other sources.

The institutional foodservice sales estimate excludes sales for branded concepts in order to avoid overstating the size of the total foodservice market. Branded foodservice sales from outlets in institutions are included in the Restaurants Canada estimate for Commercial Foodservice (e.g., a Tim Hortons outlet operating in a hospital).

Sales estimates are presented in millions or billions depending on the size of each segment or sub-segment. Care should be used when comparing segments and sub-segments.

*fs*STRATEGY strives to provide the most accurate data possible. All data is subject to adjustment in subsequent reports as forecasted data is replaced with actual sales, additional data becomes available or third-party data sources are adjusted.

The Report contains value-added information supplied by The NPD Group/CREST OnSite®. *fs*STRATEGY wishes to express our appreciation to NPD for the opportunity to collaborate on this project. As *fs*STRATEGY and NPD source their data in different ways, care should be used in aligning the respective data points.

*fs*STRATEGY also wishes to acknowledge the support of Restaurants Canada and its provision of supporting data for this report.

1.2.3 Structure and Contents of the Report

The Report is structured in a top-down format starting with an overview of the institutional market as a whole, then branching into segments and sub-segments as appropriate.

Most segment and sub-segment contents include the following exhibits and information:

- a definition of the segment/sub-segment;
- *Quick Facts* for the most current year – highlighting key segment sales statistics;
- the segment's share of Institutional Foodservice market;
- five-year sales trend by type of operator;
- distribution of sales by region:
  - West (including Manitoba, Saskatchewan, Alberta, British Columbia, and Territories);
  - Ontario;
  - Quebec;
  - Atlantic (including New Brunswick, Newfoundland and Labrador, Nova Scotia and Prince Edward Island); and
- a summary of qualitative trends.

Where revisions were made to historical estimates, these changes have been noted.

1.3 Limitations of Use of the Report

By purchasing the Report, the buyer acknowledges that the Report may not be copied or shared with any other party. The Report is for the express use of the buyer and team members within the buyer's immediate organization only. The buyer may not quote data or analysis from the Report in any public or private release without *fs*STRATEGY's written permission.

1.4 Additional Services

*fs*STRATEGY provides a wide variety of services to the institutional foodservice market including, but not limited to:

- customization and interpretation of the data contained herein;
- foodservice operational reviews;
- foodservice master plans for institutions and contract caterer sites;
- menu and servery optimization;
- foodservice management options analyses;
- request for proposal development and process support (if applicable); and
- presentations and speaking engagements.

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2 The Canadian Institutional Foodservice Market

2.1 Breakdown of the Institutional Foodservice Market

The institutional foodservice market captures foodservice sales and expenditures related to establishments where food is provided as a core requirement or benefit to a population, but is not a direct component of that establishment's core mandate. In the context of this Report, institutional foodservice specifically refers to foodservice sales and expenditures in:

- Healthcare:
  - Retirement Homes,
  - Long-Term Care Facilities, and
  - Hospitals;
- Remote Camps for utilities and resources and summer camps for children;
- Correctional Facilities (Federal and Provincial);
- Transportation;
- Business Dining in offices and factories; and
- Education:
  - Private Schools,
  - High Schools,
  - Colleges, and
  - Universities.

For the purposes of this Report, Institutional Foodservice includes foodservices provided by contract caterers (included in Caterer sales in Commercial Foodservice data available from Restaurants Canada) and foodservices provided by staff employed directly by institutions (defined as Institutional Foodservice sales in Non-Commercial Foodservice data available from Restaurants Canada). The following table highlights sales for these two segments as part of total foodservice sales in Canada.

Restaurant Canada's 2016 Preliminary Industry Sales Estimate	Sales (Billions)	Percentage of Total	
Commercial Foodservice			
Quick-Service Restaurants	$ 30.126	36%	
Full-Service Restaurants	29.269	35%	
Contract Caterers [1]	*3.870*	*5%*	*Contracted Foodservice*
Social Caterers [1]	*1.398*	*2%*	
Drinking Places	2.180	3%	
Total Commercial Foodservice	$ 66.844	81%	
Non-Commercial Foodservice			
Accommodation Foodservice	$ 6.678	8%	
Institutional Foodservice	*4.618*	*6%*	*Self-Operated Foodservice*
Retail Foodservice	2.137	3%	
Other Foodservice	2.738	3%	
Total Non-Commercial Foodservice	$ 16.171	19%	
Total Canadian Foodservice	$ 83.015	100%	

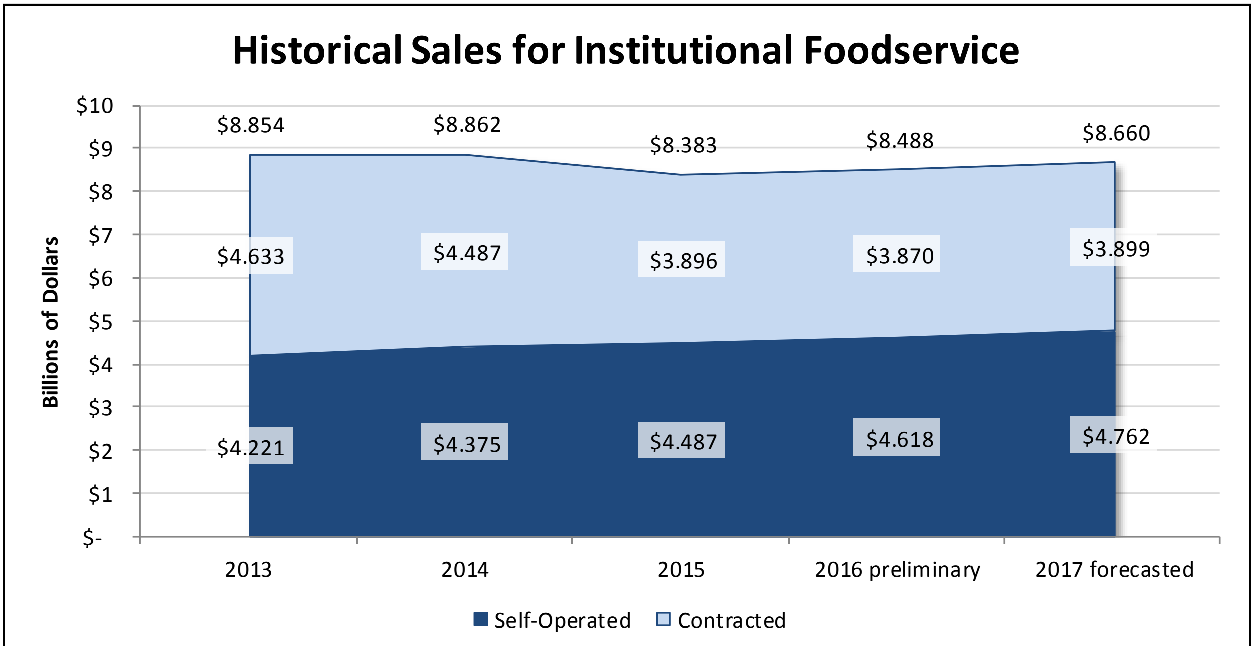
Total Contracted and Self-Operated Institutional Foodservice	**$ 8.488**	**10%**

1. *Restaurants Canada tracks contract and social catering as a single segment using data from Statistics Canada. fsSTRATEGY has estimated social caterers' share of contract and social catering sales based on ratios obtained when Statistics Canada tracked these market segments separately. The combined totals of social catering and contract catering sales estimated in this model differs slightly from the Statistics Canada figure for contract and social catering due to variances in methodologies and definitions of market segments included in the model.*

Combined, self-operated and contracted institutional foodservice sales totalled approximately $8.5 billion, representing 10% of the 2016 total foodservice industry sales in Canada.

2.2 Institutional Foodservice Sales Summary

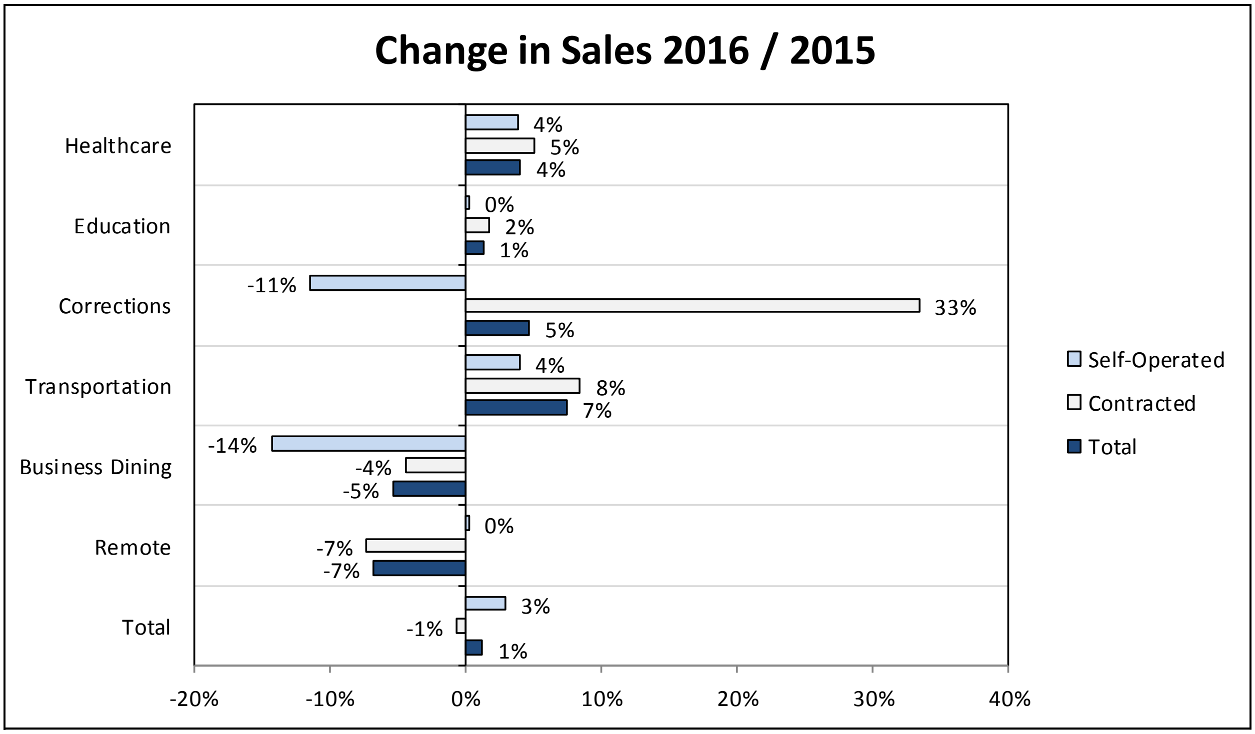
The following chart and table summarize *fs*STRATEGY's estimate of the size of the institutional foodservice market in Canada broken down by contracted and self-operated foodservices from 2013 to 2017.

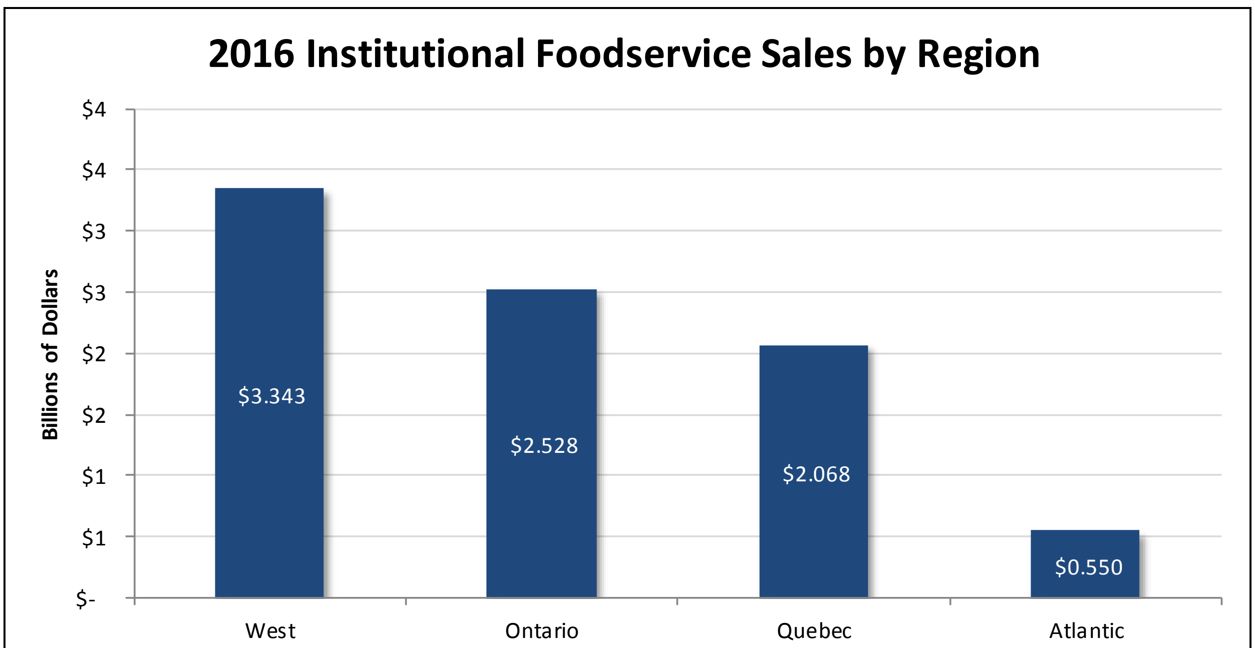


	Sales (Billions)			Percentage of Total Sales	
	Self-Operated	Contracted	Total	Self-Operated	Contracted
2013	$ 4.221	$ 4.633	$ 8.854	48%	52%
2014	$ 4.375	$ 4.487	$ 8.862	49%	51%
2015	$ 4.487	$ 3.896	$ 8.383	54%	46%
2016 preliminary	$ 4.618	$ 3.870	$ 8.488	54%	46%
2017 forecasted	$ 4.762	$ 3.899	$ 8.660	55%	45%

Based on *fs*STRATEGY's forecast, in 2017, institutional foodservice sales will have declined by 2.2% in five years from $8.85 billion in 2013 to a forecasted $8.66 billion. As discussed later in this report, declines observed in 2015 and 2016 are driven largely by reduction of sales in the remote segment in the West that have had significant impacts on contract caterer sales. Less than one half of the institutional foodservice market (46%) is contracted, down from 52% in 2013, again largely due to declines in contract caterer sales in the Remote segment.

The following charts summarize the estimated change in contracted and self-operated foodservice sales by segment from 2015 to 2016 and provide an estimate of the size of the institutional foodservice market (contracted and self-operated combined) in Canada by region for 2016.

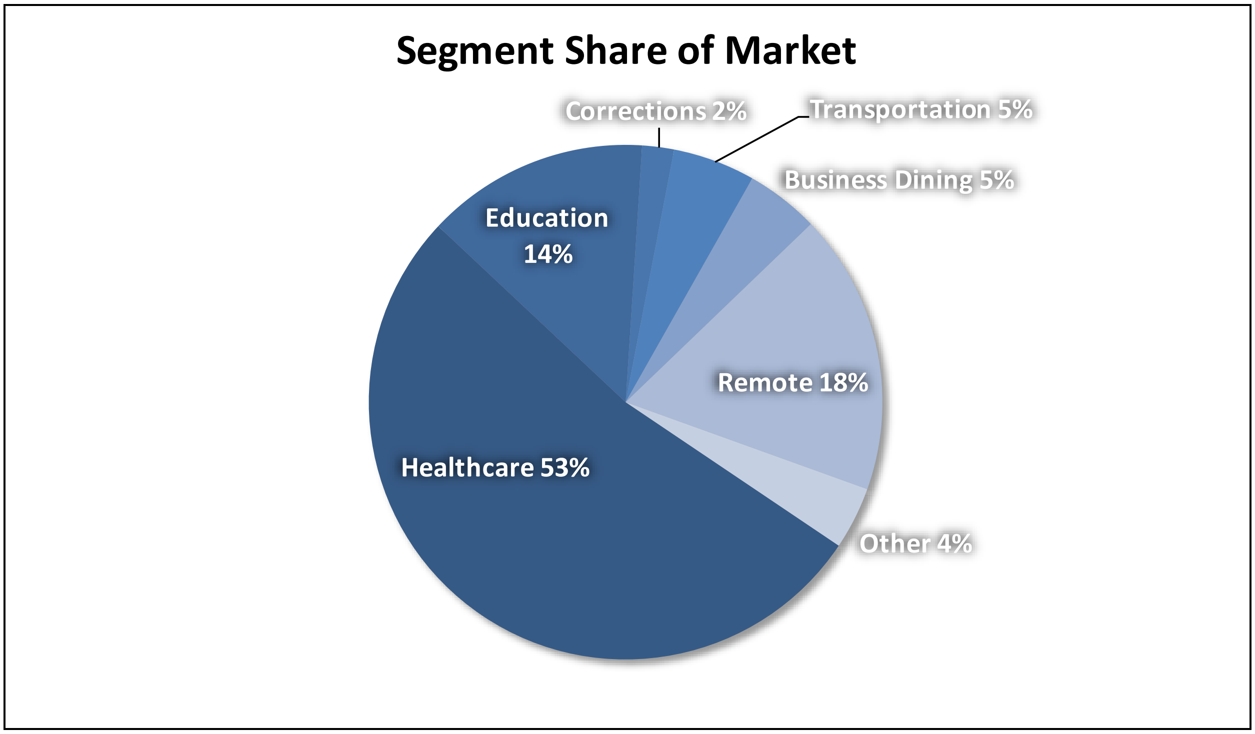




	Sales (Billions)				
	West	Ontario	Quebec	Atlantic	Total
All Segments	$ 3.343	$ 2.528	$ 2.068	$ 0.550	$ 8.488
Percentage Share of Sales	39%	30%	24%	6%	100%
Population (Thousands)	11,476.9	13,850.1	8,284.7	2,374.2	35,985.8
Percentage Share of Population	32%	38%	23%	7%	100%
Institutional Sales per Resident	$ 291.24	$ 182.52	$ 249.58	$ 231.80	$ 235.88

The significant change in the extent of contracting in the Corrections segment is due to the outsourcing of foodservice management by correctional services in the province of Saskatchewan in 2016.

The following chart graphically depicts the segments' 2016 shares of total institutional foodservice sales in Canada.



Detailed descriptions of each segment may be found in Section 3 of this Report and in Appendix 2 – Data Tables.

3 Institutional Foodservice Sales and Trends by Segment

In this section we detail estimates sales and key trends in each segment and sub-segment of the Canadian institutional foodservice market. **Sales estimates are presented in millions or billions depending on the size of each segment or sub-segment. Care should be used when comparing segments and sub-segments.**

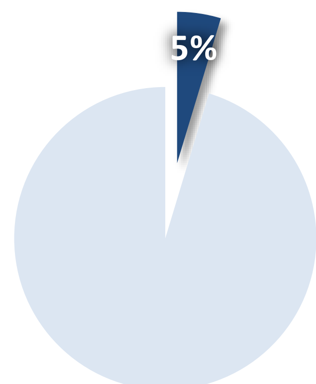
3.1 Business Dining

2016 BUSINESS DINING QUICK FACTS

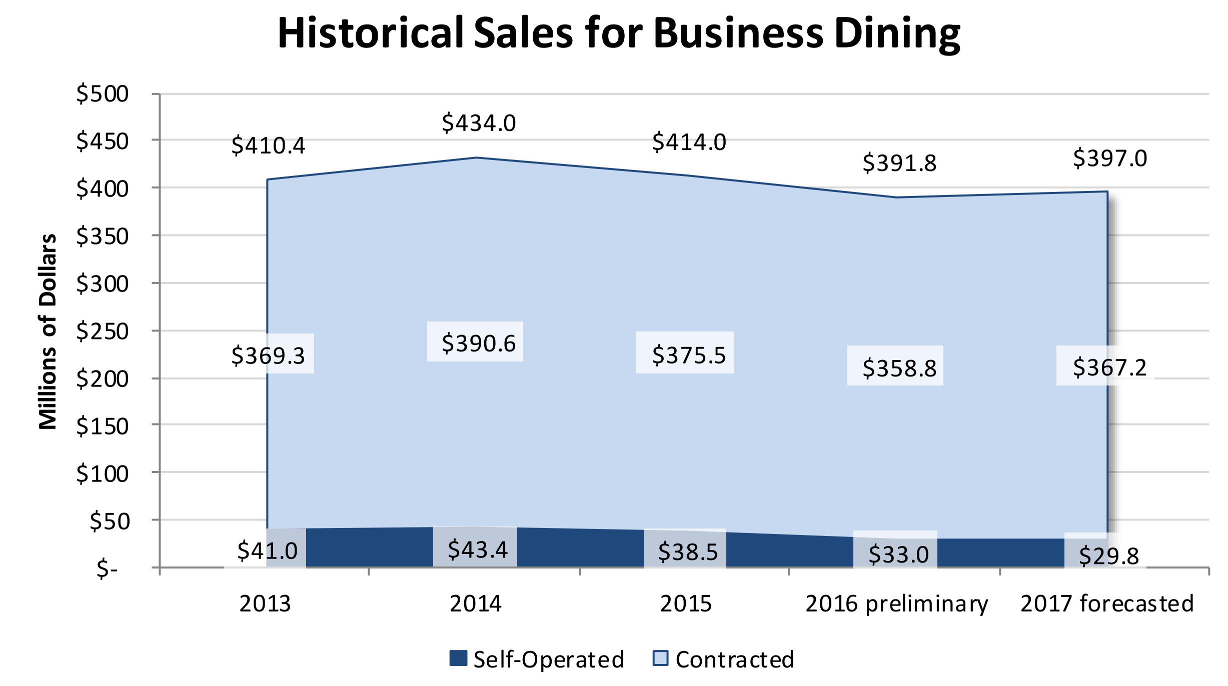
Total Sales: $ 391.8 Million	Change From Previous Year: -5.3%
Percentage Contracted: 91.6%	Share of Institutional Foodservice: 4.7%

The Business dining segment includes foodservice for private- and public-sector employees in offices and plants.

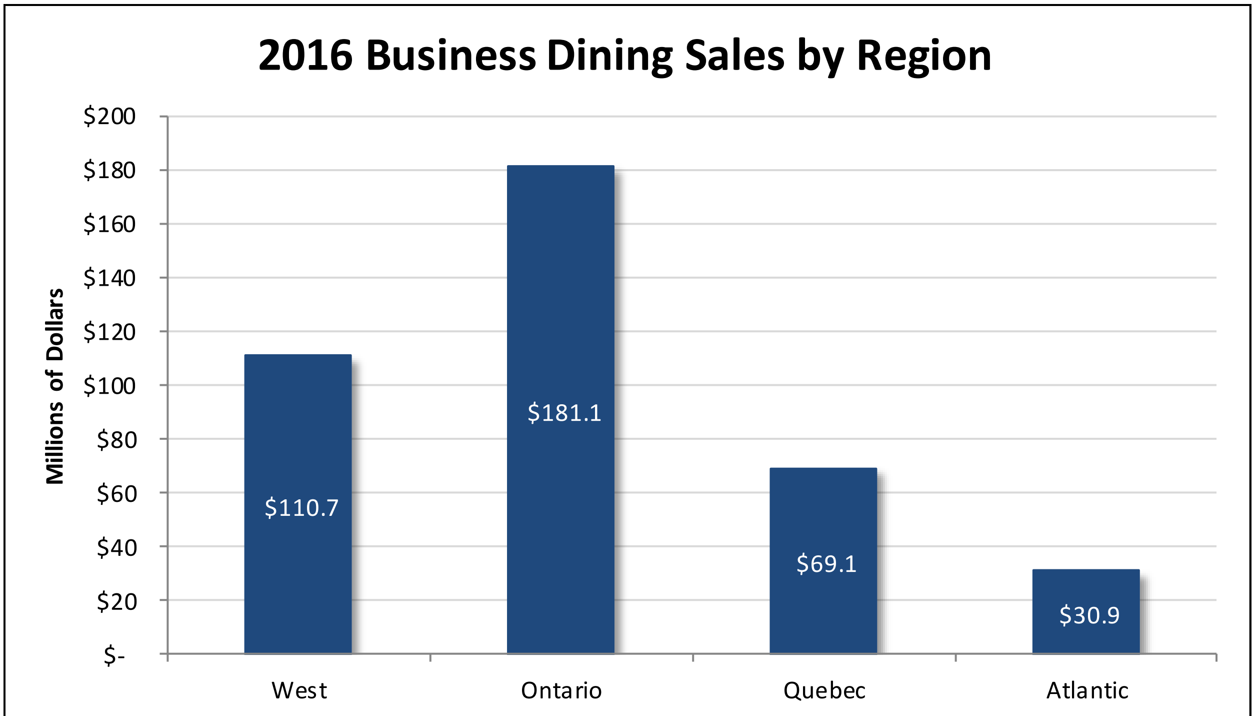
2016 Business Dining Share of Institutional Foodservice Market



Business dining sales represent 5% of total Canadian institutional foodservice sales.



	Sales (Millions)			Percentage of Total Sales	
	Self-Operated	Contracted	Total	Self-Operated	Contracted
2013	$ 41.0	$ 369.3	$ 410.4	10%	90%
2014	$ 43.4	$ 390.6	$ 434.0	10%	90%
2015	$ 38.5	$ 375.5	$ 414.0	9%	91%
2016 preliminary	$ 33.0	$ 358.8	$ 391.8	8%	92%
2017 forecasted	$ 29.8	$ 367.2	$ 397.0	8%	92%



	Sales (Millions)				
	West	Ontario	Quebec	Atlantic	Total
Total Business Dining Sales	$ 110.7	$ 181.1	$ 69.1	$ 30.9	$ 391.8

Size of the Market

For the purposes of this analysis, *fs*STRATEGY has assumed that most business offices and plants with greater than 250 employees have some sort of foodservice operation. Business dining revenues are estimated to have declined by 5.3% in 2016 compared to 2015 despite a 1.2% increase in the number of businesses in Canada and inflationary increases to the average national daily per capita spend (estimated at $3.78 in private-sector sites and $2.79 in public sector sites in 2016). Based on interviews with operators, the decline in total sales is due to a 5% decline in the estimated average number of employees per location and a decline in the percentage of businesses offering foodservice to their employees from 93% in 2015 to 91.5% in 2016. Institutional sales in this sector are further impacted by an approximate 11% increase in the share of branded foodservice that represents 24.4% of sales in 2016 compared to 22.1% in 2015. Branded sales are excluded from the institutional foodservice estimate to avoid double counting sales that are captured by Restaurants Canada's commercial foodservice estimate. As such, significant changes the branded share of total sales affects total business dining sales.

Key Trends

Operators indicate that business dining revenue growth varies from industry to industry. High-tech and pharmaceutical companies are experiencing foodservice growth while foodservice revenues in the manufacturing sector are declining. Sectors such as high-tech and pharmaceuticals are seeing returns to subsidized management fee accounts for foodservices, offering higher quality of services to attract the best employees.

Business dining is experiencing increased demand for use of technology for ordering and paying for food to improve speed of service and convenience for guests. Menu planning and facilities design are key facilitating factors in making order and pay technologies work.

Demand for fresh, locally-sourced, scratch-produced food is continuing to grow in business dining. Guests are also looking for authentic recipes, especially in ethnic foods.