

Billion-dollar ingredients

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It's been 10 years since entrepreneur John Risley approached retail executive Robert Orr about building a health-food supplement empire from ocean substances. Ocean Nutrition Canada has been growing at 30% annually, and they still see upside potential

BY PETER MOREIRA

COMPANY: Ocean Nutrition Canada Limited

REVENUE: \$126,169,210

LOCATION: Dartmouth, N.S.

2009 RANK: 26

Shortly after he joined Ocean Nutrition Canada Ltd. a decade ago, Paul Matheson surprised his family by announcing they would soon be heating their home with fish oil. Matheson had recently joined the Dartmouth, N.S., company that was pioneering the extraction of essential fatty acids from fish oils to be used as health supplements for foods.

The groundbreaking extraction process left a residue of fish oil that could be burned as fuel. The company was offering it to employees at a discount and using it to heat the Mulgrave plant where he worked. Matheson pitched the idea to his family, who were dubious.

After carting the oil home in drums from Mulgrave on the Strait of Canso, he began by combining the fish oil with regular heating oil in a 30–70 mixture, then increased it to 50–50. After adjusting the air mixer on his furnace, he began to burn 100% fish oil to heat his home in Blues Mills, in Cape Breton's Inverness County; he was relieved to learn there was no odour from the burning process.

"I work in a plant where you smell it all day, so there was some concern, but when you burned it, there was nothing like that," says Matheson, now the safety co-ordinator at the Mulgrave plant.

What there has been is a boon for the environment, the company, and its employees. The residue fish oil is an

SANDOR FIZLI



Robert Orr and John Risley

TOP 10 BALANCED SCORECARD

- 1 OCEAN NUTRITION CANADA LIMITED (26)
- 2 The Johnson Corporation (7)
- 3 BioVectra Inc. (71)
- 4 Clearwater Seafoods Limited Partnership (14)
- 5 Nubody's Fitness Centres (63)
- 6 Co-op Atlantic (8)
- 7 Cogsdale Corporation (86)
- 8 Newfoundland and Labrador Credit Union (61)
- 9 CBCL Limited (55)
- 10 Halifax International Airport Authority (42)



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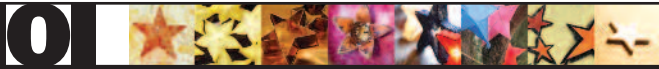
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inexpensive and low-carbon emission source of fuel. It's this type of creative and practical thinking that has made Ocean Nutrition Canada (ONC) one of the most dynamic companies in the Atlantic region—and the top company for balanced scorecard in this year's TOP 101.

It was a little over 10 years ago that Clearwater Fine Foods Inc. founder and chairman John Risley approached retail executive Robert Orr about building a company that could develop health food supplements out of substances found in the ocean. Working with various public sector bodies, including the National Research Council, Nova Scotia Business Inc., and Nova Scotia's mentoring agency, InNOVAcorp, ONC began researching nutritional substances found in marine life. It hit upon something big: the discovery that the diet of most North Americans is deficient in omega-3 essential fatty acids, which are found in salmon and anchovies. The American Health Association recommends that people consume fatty fish oil twice a week because it contains two acids, EPA and DHA, that help prevent heart disease.

Soon the company was developing MEG-3, a tasteless powder that could be cooked into a range of foods, meaning that a loaf of bread or a cup of yogurt could give consumers the omega-3 dose they need. The Dartmouth company, which also has plants in Mulgrave, Aradia, Wis., and Peru, is now the world's largest producer of omega-3s, with a North American market share of 50% and global market share of 35%. Orr says the company is now top dog in a nine-figure-a-year market that is only going to grow.

"Over the next few years, omega-3s will become a billion-dollar market," says Orr. "Not one-tenth of 1% of the food industry has launched omega-3 products, so really it is just in its infancy."

As it celebrates its 10th birthday, ONC is emerging from its infancy and showing a certain maturity. This privately held company—65% owned by Clearwater and 35% by Richardson Capital Ltd. of Winnipeg—is profitable and has logged eight consecutive years of compounded annual revenue growth of 30% or more. In its latest fiscal year, the company recorded revenue of \$126.2

million, a 30% leap from \$97.1 million a year earlier. Assets showed even stronger growth, rising more than 40% to \$144 million from \$102 million. The company has grown from one employee to more than 300 in a decade and expects to do more hiring in the next year.

This is an impressive performance in a recession and exemplifies financial performance that has earned ONC the respect of its business peers. "ONC's success can be tracked back to the forward-looking vision and financial support of John Risley, the passionate management and global perspective of Robert Orr, and their ability to attract world-class talent in every part of their business," says Dan MacDonald, the CEO of InNOVAcorp.

Financial performance alone isn't what marks this as a mature company. There is also its evolving attitude to its employees, its community, its environment and the development of science for the betterment of humanity.

Certainly the program to use surplus fish oil for heating (which also helps heat buildings at St. Francis Xavier University) shows the company has always done well at doing good. And a company that employs 50 people in the research and development of substances to improve people's health would be expected to wear a white hat.

The company is now enhancing many of the features that make it so respected. Orr proudly notes that in the past year, the biggest area of expansion has been in human resources. With the hiring of Charlene McQuaid as HR director in 2008, the company has made a variety of big and small moves to benefit its employees. These range from new management training programs, a pension program, regular on-site yoga classes, and the sale of healthy meals at reasonable prices in the company cafeteria.

ONC has also launched a review of its practices to make sure that its environmental footprint is as small as possible, and is developing an integrated corporate social responsibility strategy. It is also in the middle of a review process with the Peruvian government and ONC's suppliers in Peru, with the goal of receiving a Marine Stewardship Council certification.

Through it all, Orr and his staff are continuing to grow the business



through marketing initiatives and a focus on R&D. The company has 65 patents, but that doesn't mean it's expanding into new food products. The market for omega-3s is too lucrative and growing too fast. Rather, much of the R&D is focused on improving the quality or reducing the expense of MEG-3. Last year, one innovation alone saved the company \$50,000 per month in manufacturing.

"We've got a company that's built on innovative technology," says Orr. "Innovation is not the objective; it's the process through which we get at things. It's something we do in every single aspect of the company."

Although Orr is reluctant to discuss research initiatives given the competition for these products, he did say the company is looking at ways that micro-organisms in the ocean could be used as sources of nutrition.

On the marketing side, ONC works with food companies on packaging, marketing and health promotions. The aim is to make sure that all parties benefit from sales of foods with MEG-3. The



company aims to be the "back shop" of its customers' business. "Our job is to make our customers successful," says Orr. "If they're successful, we'll be OK over time."

These various initiatives are driving the company forward, and Orr refuses

to let up on the vision of growing the company at an annual rate of 30%. However, he does concede that the practices needed to build a company to a \$50 million a year business are different than those needed to grow to \$500 million per year.

ONC has a "ton of production capacity," says Orr, so it likely won't need to raise capital for at least another 24 months. He adds that expanding at a 30% annual rate tends to put a bit of strain on cash flow. The company has managed its cash flow well through the recession, says Orr, adding that its bankers at Bank of Montreal have given ONC a great deal of support.

So the company can mature and evolve, but Orr won't let anyone forget that it has a rare opportunity. His goal: to reach a target of \$300 million in annual revenue within three years. "Billion-dollar ingredients come along about once a decade," says Orr. "We were lucky enough to come across omega-3s and overcome some of the hurdles that were holding it back." 🌍

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