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PRESENTATION

Operator

Welcome to SunOpta's third-quarter 2015 earnings conference call. By now everyone should have access to the earnings press release that was issued last evening. The release as well as the accompanying slides are available on the Investor Relations page of SunOpta's website at www.sunopta.com. This call is being webcast and its transcription will be available on the Company's website.

As a reminder, please note that the prepared remarks, which will follow, contain forward-looking statements. Management may make additional forward-looking statements in response to your questions. These statements do not guarantee future performance and therefore undue reliance should not be placed upon them. We refer you to all risk factors contained in SunOpta's press release issued yesterday.

The Company's annual report filed on Form 10-K and other filings with the Securities and Exchange Commission for more detailed discussion of the factors that could cause actual results to differ materially from those projections and any forward-looking statements. Finally, we would like to remind listeners that the Company may refer to certain non-GAAP financial measures during the teleconference.

A reconciliation of these non-GAAP financial measures was included with the Company's press release issued yesterday. Also please note that, unless otherwise stated, all figures discussed today are in US dollars and are occasionally rounded to the nearest million.

Now, I'd like to turn the conference call over to SunOpta's CEO, Rik Jacobs.

Rik Jacobs - *SunOpta Inc. - CEO*

Thank you. Good morning. Thanks for joining us today. With me on the call here today is Rob McKeracher, our CFO.

As this is my first call as the CEO and we have a lot of new shareholders, I would like to take this opportunity to spend some time discussing our business, our strategies and our transformational acquisition of Sunrise Growers.

I also want to set out some important milestones for the future; goals that will help us deliver on the promise that we've been building with our investments in our production capacity, people and processes. After that, Rob will take you through our third-quarter results. Then we will be happy to take your questions. I'd like to remind those on the call that there is an accompanying presentation on the Investor Relations page on our website. So, referring to that presentation, on slide 2 is regarding the forward-looking statements, which the operator already covered.

So if you could kindly turn to slide number 3. SunOpta has built a leading position in the fast-growing organic and non-GMO markets, markets that are large, deep and growing at double-digit rates. This growth is underpinned by persistent and powerful consumer trends. Increasing awareness of the link between diet and health, think of the stories every day in the newspaper or on the radio about the importance of eating well.

In fact, the New York Times just on Sunday ran an article on what it called a seismic shift in the way people eat, highlighting that food companies will need to go more organic, use more fruit and generally be much more healthy. We are already there. Concerns about food additives, allergens and genetic modification, to my knowledge, there's some form of activism requiring the labeling of GMO foods in more than 20 states at the moment.

Most importantly, the emerging consumer demographics. Baby Boomers like me want to live longer and are increasingly eating organic foods, while Millennials, soon to be the largest buying group, are the most food and health-conscious generation ever. If my daughter is anything to go by Millennials read every label and constantly share food facts and photos with friends.

So please turn to page -- slide number 4. We have a unique vertically integrated platform. Our global ingredients segment has grown to about $600 million in sales, about two-thirds of which is organic. Our buyers and agronomists source ingredients from over 65 countries. Global ingredients primarily supplies the food industry in the USA and Europe, the biggest and richest global markets. The segment also sources most of the ingredients for our own consumer products segments.

Global ingredients is a great business and hugely strategic, as it is the basis for our vertical integration, a key competitive advantage in our minds. Our ability to source organic and non-GMO ingredients from around the world, which are often in short supply and transform these ingredients all the way into a consumer packaged product is what we refer to as our two-touch model.

Of our three main consumer products categories, healthy beverages is the most scaled, especially on non-dairy aseptic business. We've put a lot of time and energy into building a truly national platform with three plants. We have a plant in California. We have a plant in Minnesota. Now we will also have one in Pennsylvania, where we just started producing commercial product a few days ago, on time and on budget, which is exciting for such an important project.

Healthy beverages currently account for over 40% of our consumer product sales. That scale makes it our most profitable category, as well. With our acquisition earlier this year of Citrusource, we now do roughly $50 million of business in the premium juice category. With the retrofit in San Bernardino now complete and production ramping up, this business should turn into a real contributor next year.

Healthy fruit today has two businesses. There's the individually quick-frozen or IQF retail polybag business and a fruit prep and food service business. Each is about $50 million in size today. This is why we're so excited about the addition of Sunrise Growers, because it gives us scale in a second category and creates that vertical integration or two-touch opportunity.

Finally, we have the healthy snack business. It's about $100 million in size. In healthy snacks, we have one business where we primarily pack organic baby food in pouches for brand owners and retailers. We like this business, but we're allocating growth capital to more promising opportunities where we have a better opportunity to make margin. We're really excited about our fruit snack business, where we are the clear market leader, especially after completing the acquisition of Niagara Natural earlier this year. We see great opportunities here for further growth through innovation.

Please turn to slide number 5. So how do we maximize our business? The first leg of our strategy is to drive vertical integration to build competitive advantage around our unique global sourcing capabilities. We always say, we don't own farms and we don't own brands, but we do everything in between. We mainly focus on customized solutions for retailers and food service operators, where we truly leverage our two-touch model.

Today, that's about 60% of our sales in the consumer products segment. We've invested a lot in our platforms and believe that we now have built a significant revenue runway in all three of the categories. It also means that we will continue to divest non-core businesses or ones that don't fit our vertically integrated two-touch model. This is why we're actively trying to sell Opta Minerals and why we sold our fiber business last year.

Secondly, we must continuously add-value to our customers. We do this through category management, key account management and innovation. Innovation is an area where we've really ramped up our abilities. It wasn't a real strength of the old decentralized SunOpta model.

In our new centralized model, it is a core strength. We recently opened our new innovation center bringing together our R&D resources under a new leader. We're starting to see the benefits of this approach with new launches of products that we've created, as well as technology developments to lower our costs. The third leg of our strategy is all about getting more leverage from the platform we've built.

So please turn to slide number 6. You can clearly understand why we are excited about the addition of Sunrise Growers. This business ticks every strategic box. Sunrise is fully vertically integrated. It has a focus on private label, a great relationship with key retailers, acting as a category captain in a number of them. We see good synergies and sourcing, as well as operations.

Adding Sunrise to our existing healthy fruit category makes it the largest one, with roughly $400 million in sales. As you can see on the right-hand side of the slide, it also means that for the first time in our history, the consumer products segment is now more than 50% of our sales and will be roughly 70% of our profits if we execute on the synergies we've identified.

So when we turn to slide number 7, the acquisition gives us an immediate leadership position in frozen fruit. The segment is growing rapidly and currently 70% of sales are in private label. Sunrise Growers has the leading position in private label and its fastest-growing sub-segment is organic, where SunOpta has more developed sourcing capabilities.

Sunrise Growers has operations located in California, Kansas and Mexico. They have strategically located facilities, which contribute to an efficient supply chain. They freeze more than 160 million pounds of strawberries annually. They also freeze mango and pineapple, two other cornerstone items inside the frozen fruit segments.

Please turn to slide number 8. So, Sunrise was a significant investment, as you would expect for the most transformative acquisition in our history. On this slide, you can see how we paid for it. I'd like to take a moment to walk you through our financing and explain why we're very comfortable with it. We used the combination of equity, new debt and existing credit facilities.

We did not place the bond portion of financing as planned because of market circumstances, but we have a bridge loan from our lenders. Our goal is still to term this out. What is really key here is that we have a cap on our interest rate exposure at 9.5%. Even if we have to go to market at a higher rate, our agreement with our banks limits the rate we pay to 9.5%.

This rate backstop is something that we want to ensure the market appreciates. As far as leverage, we plan to bring that down from our current 5 times EBITDA to about 3 times EBITDA, through a combination of EBITDA growth and cash generation. We believe we can deliver about a turn per year.

SunOpta is significantly undervalued at present, we believe. Accordingly, as you will have read in our press release, the Board has put in place a shareholder rights plan and advance notice bylaw, both of which align with current industry practice and for which we'll be seeking shareholder approval at our next annual general meeting.

This was done to enhance the Board's ability to ensure the fair treatment of shareholders and not in response to any known or anticipated effort to acquire control of the Company. It's just good practice, as we implement our plans to position SunOpta for enhanced growth and profitability.

So, please turn to slide 9. So, now we're at the part of the conversation that I believe is really key. It's about how we deliver on our promises. Strategically, we've had a number of successes in recent years. I count Sunrise, our investment in people and our investment in processes among them. For example, as we transformed to a centralized operating Company from a decentralized holding Company, we've hired new leaders.

As you can see on this slide, 8 of the 12 senior leadership members have been recruited in the past three years. All have worked hard behind the scenes to improve the processes and their areas of expertise. Our team is made up of world-class leaders in their respective areas of expertise and they are a critical part of delivering on what I have coined as, excelution, which stands for excellent execution.

So if you turn to slide number 10, excelution in 2016 centers around improving our revenue and margin growth in the consumer products segment. This is why we've put in place milestones to measure our progress as a team in this area. So in healthy beverage, we have to increase the gross margin in chilled juice by at least $6 million. We have to convert our pipeline in aseptic non-dairy now that we've built and made all the investments. This means, we must achieve double-digit topline growth for healthy beverages.

In healthy fruit, it is obviously paramount that we successfully integrate Sunrise Growers and provide support to the business allowing them to continue growing at their current double-digit rate, while maximizing the returns on their recent strategic investments. At the same time, we must capture the synergies we identified so that we can add an extra $5 million to $7 million to the bottom line.

In healthy snacks, we've identified fruit snacks as a key growth area, so that business must also grow at least 10%. For bars and pouches, we have to fill the available capacity we have with maximum profitability. Especially in bars. Now all three categories have to be supported by increased innovation. We are counting on at least $10 million in new product innovation hitting the market in 2016.

We have to do everything possible to reduce our cost of goods sold now that we've made most of the requisite investments. Every time I walk through our innovation center, I'm excited about the steps we're taking to be a leader in our space.

Finally, from a SG&A perspective, we're committed to stay below our stated goal of 8%. These are some of our short-term goals -- my goals. I look forward to updating you in coming quarters on our progress.

With that, Rob will walk you through the third-quarter numbers. Rob, over to you.

Rob McKeracher - *SunOpta Inc. - CFO*

Thanks, Rik. Good morning, everyone.

Because we're spending a bit more time than usual talking about strategy and execution, I'm going to try to keep this relatively quick. Slide 11 shows our revenue breakdown. Revenues for the third quarter of 2015 were $306 million, a decline of 0.6% from the year-earlier quarter. After adjusting for the impact of changes including commodity prices, foreign exchange rates, product rationalizations and acquired businesses consolidated revenues increased 1.5%, with SunOpta foods revenues increasing 3.5% versus the prior year.

On a normalized basis, revenues in global ingredients grew 4.2%, reflecting stronger demand for organic ingredients in the US and Europe. Focusing just on our internationally sourced organic raw materials, revenues grew 14.7% on a normalized basis. Driven by higher volumes of organic fruits and vegetables, oils, coconut and feed, partially offset by lower volumes of cocoa and certain sweeteners.

On the domestic side of global ingredients, revenues declined 5% on a normalized basis, due mainly to lower volumes of sunflower products, as the strong US dollar put pressure on our export business. Within consumer products, revenues grew $11.1 million, or 9.6% over the third quarter of 2014.

On a normalized basis, mainly adjusting for the revenue of businesses we acquired in 2015, Citrusource and Niagara Natural, revenues inside consumer products grew 2.7%. In healthy snacks, we experienced higher volumes of both pouch and fruit-based snacks from both new and existing customers, partially offset by lower volumes in bars, as we transitioned away from a contract with unfavorable terms.

In healthy beverages, during the third quarter, we made up for the decline of one of our largest aseptic customers, with increased volume from new customers thanks to our continued focus on filling the new processing and packaging capacity we added earlier this year. As a result, we realized sequential quarterly growth of 6.1% in aseptic beverages, and approximately 9% in consumer products as a whole compared to the second quarter of 2015.

However, this does come at a short-term cost, since every new customer we add requires qualification runs in our factories, which come at a cost instead of immediately adding revenue. In healthy fruit, we realized lower volumes of retail private label frozen food sales as a key customer in your organic and natural space faced increased competition. That was partially offset by increased revenue from fruit toppings and base for food service and industrial customers.

Turning to slide 12, you'll see that during the third quarter, we generated gross margin of $30.6 million, or 10% of revenues, as compared to $36.1 million, or 11.7% of revenues during the third quarter of 2014. Within SunOpta foods, the gross profit percentage was 9.5% compared with 11.3% for the third quarter of 2014. The gross profit percentage within SunOpta foods for the third quarter of 2015 would've been approximately 10.7%, if we exclude the impact of some non-recurring logistics costs, as well as the impact of expansion costs inside of our healthy beverage platform.

During the quarter, we faced approximately $1.9 million in additional logistics costs that stem from capacity constraints at ports on imports and exports of organic raw materials, leading to demurrage, detention and other related expenses in global ingredients. We also had approximately $1.5 million of costs related to the expansion of our East Coast aseptic facility and the ramp up of our premium juice facility to increase production levels we see coming in fourth quarter.

The 0.6% decrease in SunOpta foods gross profit percentage on an adjusted basis, mainly reflected lower capacity utilization and a higher cost base within consumer products facilities, due in part to recent expansion activities. This was partially offset by improved performance in our rationalized sunflower operations and increased margin contribution from higher volumes of organic ingredients.

Operating income for the third quarter of 2015 was $6.2 million, as compared to $12.2 million in the third quarter of 2014. The decrease is primarily due to the decline in gross margin, as well as higher SG&A as a result of the incremental expenses related to the acquisitions of Citrusource and Niagara Natural and costs associated with ongoing litigation. Excluding the factors I just mentioned, operating income for the third quarter would have been approximately 2.7% inside SunOpta foods.

As a percentage of revenue, SG&A expenses were 7.8% on a consolidated basis and 7.4% within SunOpta foods. Excluding other expense, which primarily relates to acquisition and severance costs, expenses related to an ongoing litigation and the previously mentioned logistics and startup costs, adjusted earnings were $5.7 million or $0.08 per diluted share in the third quarter of 2015 on a consolidated basis and $4.7 million or $0.07 per diluted share within SunOpta foods.

We realized EBITDA of $13 million during the third quarter of 2015, as compared to $18.8 million in the third quarter of 2014. After giving effect to the previously mentioned items, adjusted EBITDA for the third quarter of 2015 was $16.8 million.

Turning to slide 13, from a cash flow perspective during the third quarter of 2015, we generated $22.7 million in cash from continuing operations, up $4.4 million from the third quarter of 2014, as a result of decreases in working capital during the period. We used $13.6 million in cash from investing activities during the third quarter, primarily to fund the upfront purchase price of Niagara Natural as well as capital expenditures.

In the prior-year third quarter, we collected $5.7 million in cash proceeds from the sale of certain sunflower facilities, which largely offset the capital spending during that quarter. Also during the quarter, we raise $95.3 million in cash as a result of the issuance of 16.7 million common shares in support of the acquisition of Sunrise Growers, which explains the large increase in cash provided by financing activities.

If you'll please turn to slide 14, you'll see our key balance sheet metrics. Our working capital, which excludes all cash and forms of debt, was $291.7 million at the end of the quarter as compared to $280.4 million at the end of 2014. Total consolidated debt and bank indebtedness for the Company was $148.5 million at the end of Q3 versus $131.3 million at the end of 2014. Total debt for SunOpta foods is $110.2 million, up $27.2 million since the end of 2014.

The increase in SunOpta foods' debt reflects the upfront purchase price of Citrusource and Niagara Natural for $19.8 million in aggregate and capital expenditures of $22.8 million offset by cash generated by operations. In terms of liquidity at October 3, 2015, we had aggregate availability under the two credit facilities that fund SunOpta foods of approximately $111 million.

On October 9, 2015, we entered into a loan agreement with a group of lenders, borrowing $330 million for the acquisition of Sunrise Growers. This is second-lien bank debt that will mature after one year and at that time, if this debt remains outstanding, it will automatically convert into 6-year term debt. Subject to market conditions, it is expected that we will attempt to refinance this debt into 7-year bonds during the first year.

As Rik mentioned, a key feature of our agreement is that our interest rate is capped. Let me explain this in a little more detail. Under the loan agreement that we negotiated, interest on the second-lien bank debt that has been initially set at LIBOR, subject to a 1% floor plus a margin of 6%. The margin will increase by 50 basis points at the end of every three-month period, up to the one-year anniversary.

In all cases, the maximum interest the Company will be subject to on this tranche of debt is 9.5%. Because we negotiated fully-committed financing in order to complete the acquisition of Sunrise Growers, we have certainty of financing on this debt for seven years from the date of execution. This debt, along with the rest of our capital structure, gives us certainty and flexibility to continue to invest in and grow our business.

With that, I'll turn it back to Rik.

Rik Jacobs - *SunOpta Inc. - CEO*

Thanks, Rob. If I can leave you all with four key takeaways as we look ahead, it would be the ones laid out on slide 15. We operate in great markets. We have a well-defined strategy to drive our business to higher margin. Sunrise Growers' acquisition makes sense both strategically and financially. Excelution has to be paramount, especially in our consumer products segment.

With that, I'd ask the operator to please open up the floor for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Scott Van Winkle, Canaccord Genuity.

Scott Van Winkle - *Canaccord Genuity - Analyst*

Rob, can you go deeper into that port capacity issue? What was it? Why doesn't it repeat going forward?

Rob McKeracher - *SunOpta Inc. - CFO*

Sure. It's really a combination of two things, Scott, import and export, all organic soy and corn. You might recall back earlier this year mainly on the West Coast, there were issues at the ports regarding labor, which certainly from our perspective slowed down some of our exports. We did get them to their eventual destination, but as you can appreciate, not all in time. Now, at this quarter, what we're seeing is some of the penalizing effect of that. Meaning, we are losing some of the performance bonds that we have to put up in order to do that business. That hit us now. It's really -- the real impact or the real catalyst for that was certainly earlier in the year.

But then on the flipside on the import side mainly on the East Coast, we encountered issues this quarter really with availability in the arrangement of timely freight to move the products that we were importing through the East Coast ports out of the port. So from that perspective, we are incurring more demurrage and detention costs there that we don't see now reoccurring going forward, because we are mapping out the timing of those receipts a little better to make sure we can avoid those as best we can.

Scott Van Winkle - *Canaccord Genuity - Analyst*

Okay, great. Then on the ingredient side, can you talk about where we should expect margins? Over the last 12 months, you've had deflating commodities. That's impacted the dollar revenue growth but you picked up a little bit on the margin percent. Where do we stand today going into the next crop cycle. Are we more normalized in pricing what does that margin look like? Anything you have in that regard.

Rob McKeracher - *SunOpta Inc. - CFO*

Sure. I think what you've seen even bigger picture, and certainly with the commodities are down right now. They're are hitting lows from a -- if you look back to the 3- to 5-year period, we're certainly at the bottom end right now. So we do expect this to be the bottom of the commodity prices. But I think when you look back in time, what you really see in our global ingredients business is a steady step up to more predictable and more acceptable margins.

We think with our shift to having a bigger proportion of that business being more tied into the international organic side, we are going to continue to see this level of predictability and stability in our margin rates going forward. So really I look at it as much as anything, as the mix, Scott, commodity still does influence us a bit. As prices go up, we could see compression but I do think that with the mix towards more of the organic and leveraging that business more and more for our internal sourcing. We should see good stability inside of global ingredients.

Scott Van Winkle - *Canaccord Genuity - Analyst*

Great. Then on the consumer products, nice to see some recovery in the volume on the aseptic non-dairy side. You mentioned that was new customers. What we think about the roster of new business for the Allentown facility, you had the expansion in Modesto. Are you going to see expanded business with existing customers or a lot of new customers coming through? I'm wondering you think about qualification costs and the time to start-up a new customer relative to adding capacity from an existing customers, how that will play out because you are looking for a lot of new volume obviously on aseptic non-dairy.

Rik Jacobs - *SunOpta Inc. - CEO*

Yes. Scott, this is Rik. We are obviously looking for new customers as well as to increase business with our current customers, now that we have that national footprint in place. We will be able to provide the lowest land of cost across the country. That should benefit us with our existing customers but as we laid out last quarter, we have really had a high concentration with a few customers in our aseptic business.

So that's why we need to grow our existing but also definitely add in new customers and also go into new categories with those news customers. You're absolutely right as we bring those new customers on, which we did a lot of in the third quarter, there are costs associated with that because every single time we will need to do qualification runs, which eats into capacity; right?

Scott Van Winkle - *Canaccord Genuity - Analyst*

So you'd expect to see more of that in Q4, I would assume. Both, as you do your last ramp-up on the juice side, as well as now on dairy. When we think about looking at the real earnings power of the healthy beverage portfolio, is that a Q1 2016 event timing-wise?

Rik Jacobs - *SunOpta Inc. - CEO*

Yes. I would say that sequentially, we should continue to see growth in our healthy beverages, both top-line as well as bottom-line. I've laid out in my remarks that next year basically, the chilled juice must be margin positive, which it hasn't been for the last two years, as we all know. The aseptic is -- our expectation is that's going to grow at double-digit rates from the top-line. Obviously, that's going to really help our bottom-line because we're going to fill up to capacity more and more.

Scott Van Winkle - *Canaccord Genuity - Analyst*

Great. Thank you.

Operator

Amit Sharma, BMO Capital Markets.

Amit Sharma - *BMO Capital Markets - Analyst*

Rob, a quick question for you. First, you called out $1.5 million of planned expansion expenses in the quarter. Could you please help us understand overall the last 12 months, what were some of the expansion and start-up costs? When do we start to lap those?

Rob McKeracher - *SunOpta Inc. - CFO*

Sure. So this quarter is really two facilities to which those relate. Of the $1.5 million, roughly $900,000 to $1.0 million is starting up the East Coast, aseptic operation at Allentown, with the balance being a ramp-up inside San Bernardino now that we are at a spot where we're going to be significantly increasing the capacity in the volumes -- not the capacity, sorry -- the volumes that we're running through that capacity there that San Bernardino.

In terms of looking back over, let's just say, even year-to-date this year, that same plant expansion start-up costs is about $2.2 million. The delta between the $2.2 million and the $1.5 million is really all East Coast related. So it's really in earnest this quarter that we've been really doing the ramp-up cost activity at San Bernardino. That would be kind of this year, painting that picture, Amit. Then as we forward to next -- well, not even next year. This quarter there will be the kind of completion if you will of the ramp-up of costs in Allentown of course where only now just starting to make the commercial products revenues will follow shortly after that. Biggest piece of the start-up if you will in Allentown should come this quarter and then start to evaporate as we get to Q1 of 2016.

Amit Sharma - *BMO Capital Markets - Analyst*

San Bernardino?

Rob McKeracher - *SunOpta Inc. - CFO*

San Bernardino, we are there now. We've repatriated essentially all of our bottling volume into that facility as of today. The bottling facility is running at a good level the next step is to and the ramp-up is really to a great extent in relation to our extraction side which of course is the ingredient side of that facility in bringing more fresh citrus to the facility, so we can start generating greater volumes there.

Amit Sharma - *BMO Capital Markets - Analyst*

Got it. Any sense of what is the excess costs associated with starting new customers, in the aseptic beverage segment?

Rik Jacobs - *SunOpta Inc. - CEO*

The way we look at it, Amit, is like every day or every shift, I should say that we don't produced enough factories, but we use that for bringing a customer online, it's costing us about $30,000. So, that's kind of your cost of goods that you have to replace then; right? So, we brought on a lot, so we had at least, I would say, a seven or eight qualification runs in the quarter. You can do the math on that. That's more than $200,000, which by the way, we didn't adjust for.

Amit Sharma - *BMO Capital Markets - Analyst*

Got it. But those will go away as you establish these new customers?

Rik Jacobs - *SunOpta Inc. - CEO*

Yes. They will go away to some degree. Having said that, I think we need to continuously innovate, innovate, innovate and continuously launch new products. Hopefully more and more of those are the ones that we help create because that obviously gives us a lot more intellectual property protection.

Amit Sharma - *BMO Capital Markets - Analyst*

Sure. Then just on the same line, you talked about double-digit growth in aseptic beverages next year. When we look at the category, it leaves a measured channel data that we are tracking is still growing by low to mid-teens. Do you feel pretty confident with that double-digit number going into next year from a capacity -- not a capacity, but a volume expansion perspective?

Rik Jacobs - *SunOpta Inc. - CEO*

I think what's important to note is that, even though we always call it our aseptic non-dairy platform, we do a lot more than just non-dairy. Right. So non-dairy we are continuing to expand, with coconut, almonds, now we're even getting into oat and others. So that's -- I expect some growth from. But we are also in the food category, we are doing broth now. We're doing nutritional beverages now. We are doing dairy now in single-serve packages. Our growth rates should exceed what is growing in -- the growth rate of aseptic non-dairy.

Amit Sharma - *BMO Capital Markets - Analyst*

You are margin agnostic when you go from non-based dairy to other juices or nutrition drinks or dairy, are you?

Rik Jacobs - *SunOpta Inc. - CEO*

What we'd really like is, we like working with retailers and the food service operators because of our two-touch model over there; right. We are margin agnostic as long as we are offering customized turnkey solutions. We are not margin agnostic when we switch between turnkey customized solutions and [towing] business. So our key is really and our focus for the future continues to be working on the private label in food service side of the business.

Amit Sharma - *BMO Capital Markets - Analyst*

Rik, last question for me. You touched on that in the presentation about the new centralized model and also the new management that you're putting in place. Could you just help us a little bit understand, what's happening within the organization that should give us more confidence that this is going to lead to a faster realization of the underlying value of the portfolio and the platform going forward?

Rik Jacobs - *SunOpta Inc. - CEO*

Look, I mean -- I think it's important to note that most of the new leaders have now been in place for about two years, as you can see on the slide. Over the last couple of years, they've worked very hard on streamlining all the processes, making sure that all the organizations are set.

I have to be honest as well, it hasn't yet resulted in the bottom-line growth that I have put forward now for 2016. That's what that is going to be all about. So while I think in the -- over last two years, we have improved all the individual functions. What it is really all about now is as one team improved bottom-line performance of the business.

Amit Sharma - *BMO Capital Markets - Analyst*

Okay. Thank you very much.

Rik Jacobs - *SunOpta Inc. - CEO*

Thanks.

Operator

Jon Andersen, William Blair.

Jon Andersen - *William Blair & Company - Analyst*

I wanted to ask about Sunrise Growers. First, on the synergies that you've defined for 2016 of $5 million to $7 million. Can you talk a little bit about your level of confidence, visibility into those specific synergies? Then are there opportunities beyond the $5 million to $7 million that could materialize in 2016 or beyond?

Rik Jacobs - *SunOpta Inc. - CEO*

Sure. Yes, what we pointed out in our initial press release is that by the end of 2017, we wanted to realize $10 million versus synergies. We now have basically work streams going on that are being populated by people from Sunrise as well as from SunOpta in the area of logistics and operations, in the areas of sourcing, in the areas of human resources, you name it, commercial, et cetera.

So all the synergies that we've pointed out were really cost based synergies because those are the only ones we wanted to count on. But we really see as the next opportunity, is revenue based synergies, because we have a much more developed organic platform, which is about 10% of the frozen fruit category today.

For us, as previous SunOpta, it was more like 50% of our sales. It is the fastest-growing sub-segment. That's where we see revenue opportunities that we haven't yet counted as our synergies. We are confident in the numbers that I've given. We have opportunity for more. We don't want to count those as synergies until they land, basically, when it comes to the revenue side.

Jon Andersen - *William Blair & Company - Analyst*

Fair point. Let me ask you on the top-line though. So, because you haven't really commented on growth expectations for Sunrise I guess over and above the $300 million that was announced as the annual revenue at the acquisition timeframe. How should we think about the opportunity to grow that business top-line over the next 2 to 3 years. I know revenue synergies are often a -- they're a longer time coming, but can you talk about some of the opportunities? You mentioned organic. Where you expect to kind of place your bets or grow that business in specific segments?

Rik Jacobs - *SunOpta Inc. - CEO*

Yes. Look, the Sunrise Growers business -- first of all, they are totally vertically integrated; right? So they buy the strawberries from the growers. They freeze them themselves. That's -- they do that at a scale that nobody else can match in North America. That's what gives them the real competitive advantage. Now, by freezing all of these berries, we need to recognize that two-thirds of their business is retail business. They have the largest retailers in the country are their customers because of that scale that they offer.

In the retail side of the business, we really continue to see this frozen fruit segment growing at double-digit rates especially on the organic side. One-third of their business, because when you freeze all of these berries, you don't only get the nice large ones that you put in poly bags, you also get the small ones that you can puree or do whatever and sell them to food service. That's one-third of their business that's not growing at double-digit rates. So you've got to think about that mix a little bit. Overall growth rates are probably around the 10% mark.

Jon Andersen - *William Blair & Company - Analyst*

Okay. That's helpful. Thanks. My last question is just on the balance sheet and leverage. Rob, you talked about being at about 5 times pro forma today and bringing that level down I think in the press release 1 to 1.5 turns a year. Is that primarily driven by EBITDA growth? At least as you look out over the next 12 to 18 months, as opposed to free cash flow generation and debt pay down? Thank you.

Rob McKeracher - *SunOpta Inc. - CFO*

Yes. It is a combination, you're right that we are sitting for a run rate perspective today, obviously post-acquisition around 5 times. The acquisition itself of Sunrise is cash flow accretive immediately for us. So there will be an element of debt reduction that leans towards the deleveraging, but I suggest that in the first 12 to 18 months EBITDA will be the bigger catalyst towards the decrease in leverage. T

hen in the following 12 months, you are kind of now balanced more between a combination of the EBITDA growth and debt reduction still. So what you see is really an opportunity, where both Sunrise in SunOpta. You heard in some of Rik's prepared remarks, we've done a lot of investments into our platforms and into capacity, which we're now executing on filling. So of course, as we fill that, EBITDA will accelerate here over the first 12 months.

Jon Andersen - *William Blair & Company - Analyst*

Thanks, guys. Rob, I will look forward to seeing you at PLMA next week.

Rob McKeracher - *SunOpta Inc. - CFO*

Yes, look forward to it. Thanks.

Operator

Eric Gottlieb, Davidson.

Eric Gottlieb - *D.A. Davidson & Co. - Analyst*

I want to talk a little bit more about aseptic beverages and almond milk. I believe the last couple times we spoke there was a shelf -- a difference in pricing on shelf due to a sourcing disadvantage. I'm wondering has that changed at all? When that will drill off?

Rik Jacobs - *SunOpta Inc. - CEO*

No, that has not changed. What has changed is that we now have capacity that we can fill with new customers. At the time that significant decrease happened, we did not have that pipeline of new customers. The almond milk is still not growing versus prior year; still declining.

Eric Gottlieb - *D.A. Davidson & Co. - Analyst*

When will we lap the cost disadvantage? When does the new crop coming?

Rik Jacobs - *SunOpta Inc. - CEO*

On what? On the almond milk?

Eric Gottlieb - *D.A. Davidson & Co. - Analyst*

Yes.

Rik Jacobs - *SunOpta Inc. - CEO*

The crops has already happened. I think it is more about the quantity of the crop has really gone down in California because these things are grown in the Valley and almonds are very thirsty. Those two things didn't go well together in 2014/2015 crop here. So that is why almond prices have been going up. But you have got to remember, we are not the ones buying these almonds; right? This is one of those businesses that is more of a tolling basis, routed in on the turnkey basis. Our customer buys the almonds, we just make them into almond milk for them.

Eric Gottlieb - *D.A. Davidson & Co. - Analyst*

Right. I got it. As far as utilization at the aseptic facilities, what is the utilization rate right now? Given the new customers coming on and expectations for them ramping up, where do you see that going?

Rik Jacobs - *SunOpta Inc. - CEO*

Look when we were -- if I just take you guys back to the second quarter of last year, we had 80% plus utilization in our facilities and fantastic profitability as a result. Right now, we are not yet at an 80%. I would say we are more between a 50% and 60%. So that's what -- we have really done now, we've got about a $250 million business in aseptic beverage. We built about $120 million runway. That runway needs to start getting fill. If I say I need to get double-digit growth rates next year, that means I've got to grow somewhere between $30 million, $40 million in terms of top-line revenue that still will leave the runway to go. But that will get us into much more acceptable profitability levels as well.

Eric Gottlieb - *D.A. Davidson & Co. - Analyst*

Okay, great. Moving on to the premium juice. So real contributions next year. Then also $10 million in new product sales. All these targets that you've listed, SG&A at/below 8%. Can we consider these guidance or more targets?

Rob McKeracher - *SunOpta Inc. - CFO*

These are all targets for ourselves.

Rik Jacobs - *SunOpta Inc. - CEO*

These are goals. These are what I've set out for the team to achieve. There are goals on our way to reaching our overall goal obviously; right? So we -- as you know, we don't give guidance. But I wanted to give all of our investors and you guys, a better view of -- for me, 2016 is all about, we've got to focus on consumer products because ultimately as we add more value for our customers, we should be able to retain more value for ourselves.

Right now, we -- because of all the investments we've made in our platforms and some factors outside of our control, I'll be the first to say that a lot of factors inside of our control that we didn't [execelute] on but because of that, right now we're seeing a situation where actually consumer products is at a margin -- gross margin level that's below our ingredients level. That's -- as far as I'm concerned, that's an upside-down world.

Eric Gottlieb - *D.A. Davidson & Co. - Analyst*

Right. That makes sense. Then, just housekeeping lastly, the tax rate. Could you go over if there's anything in there to make it so low? Then expectations going forward?

Rob McKeracher - *SunOpta Inc. - CFO*

Sure. Let me start backwards. The expectation going forward, I would suggest would be in the 34% to 35%-ish range. What you really see this quarter is the effect of having a net pretax income of such a low level off. When that happens and you're looking at the jurisdictional mix of where we are earning our profits, the tax rate becomes a little bit -- it's tough to recognize it as a rate.

There's a little bit in there a benefit. You go to your normal third-quarter true-ups as the tax returns are done. But net-net what you see is the effect of not having any meaningful pretax number and what that can do to your overall tax. You are talking about $411,000 recovery on what is a pretax number of $253,000. So, it wouldn't be fair to just apply a rating at $253,000 because there's a big mix effect inside of that.

Eric Gottlieb - *D.A. Davidson & Co. - Analyst*

Great. Thank you for the clarification. Okay. I'll pass it on. Thank you very much.

Rob McKeracher - *SunOpta Inc. - CFO*

Thank you.

Operator

Chris Krueger, Lake Street Capital.

Chris Krueger - *Lake Street Capital - Analyst*

Just a question on your aseptic expansions and your Allentown expansion as well as the San Bernardino juice facility. If you look out the next, call it, 15 months or throughout the end of FY16, is the shift focusing away from the start-up expenses and more towards just driving higher sales growth and capacity utilization and ultimately margins? Or is it going to be more -- do you anticipate more expansion activity in the next -- in 2016?

Rik Jacobs - *SunOpta Inc. - CEO*

No. I think you're absolutely right. 2016 is about getting juice margin positive and growing the top-line now that we've built the revenue runway inside of aseptic. We have obviously, the capacity now to basically add some more filling lines as and when we need them in the Allentown facility. We started with one high-speed line over there. We have laid the groundwork for adding more lines as and when we need. But for me and for the team, it's really all about, let's fill that revenue runway.

Chris Krueger - *Lake Street Capital - Analyst*

Okay. Then a quick question on the soybean crop this year. Has that seemed to be a fairly normal year? How does that look?

Rik Jacobs - *SunOpta Inc. - CEO*

I think this year, we were actually in one of the better spots in the nation, inside of where we grow most of our non-GMO beans. We don't grow them, our farmers do obviously, but -- well, not our farmers (laughter) where the contract farmers. I think Minnesota was -- we had a very good planting. We had the right amount of rain. The crop came off the field later than normal because the frost stayed away. So net-net, we had a good crop.

Chris Krueger - *Lake Street Capital - Analyst*

Okay, good. My last question is on the Sunrise acquisition, which I believe closed in kind of mid-October. Can you refresh our memory as far as the seasonality of that business? How the fourth quarter is compared to the rest of the year?

Rik Jacobs - *SunOpta Inc. - CEO*

Look, today in the frozen fruit category, which is why we are so excited about it, you've got less than 30% household penetration; right? So who are the ones that are using it the most? It is all the Millennials that are making their smoothies on their kitchen counters, like my daughter does every day. That's really the users.

It will basically -- they have national programs year-round. What really is going to drive the growth of that category further is, I think it is a very nice profitable category for retailers as they start to merchandise these frozen fruits more and more next to categories that have a higher household penetration. That's where frozen fruit is going to benefit the most.

It is year-round programs, gives us some seasonality, do people make more smoothies at Christmas? Maybe. I would say that their probably -- I'm just saying this out of my own intuition right now, the most smoothies would be made in the New Year, after New Year's resolutions take effect. (laughter)

Chris Krueger - *Lake Street Capital - Analyst*

Okay. Thank you.

Operator

(Operator Instructions)

Scott Van Winkle, Canaccord Genuity.

Scott Van Winkle - *Canaccord Genuity - Analyst*

We talked about Sunrise earlier, growth expectations. Can we talk a little bit about margins? One of the things that investors saw in the prospectus when you went into the equity deal was that Sunrise had some challenged margins in the first half of this year relative to prior-year run rates because of that fruit crop yield.

Can you give us an idea of where it stands today? When you would expect to see more normal margins? Then, I know some companies have been talking about a bad berry harvest in the Pacific Northwest, can you talk a little bit about cost expectations on those inputs?

Rik Jacobs - *SunOpta Inc. - CEO*

Yes. You are right, Scott, they did buy a lot of fruit externally because 2014 crop was not as good as 2015. So they frozen a lot more berries themselves than they have last year. That really impacted margins in the first half of 2015. Because, of course, they get a cost advantage when they freeze it themselves versus when they have to purchase it on the outside market. That is an issue that will not be recurring this year. I think from an overall margin perspective, it's mid to high to teens is what should be expected over there. That is very consistent with other platforms where we have scale.

Scott Van Winkle - *Canaccord Genuity - Analyst*

Got you. That's the type of result we should see when that Company gets consolidated here in the fourth quarter?

Rob McKeracher - *SunOpta Inc. - CFO*

Yes.

Scott Van Winkle - *Canaccord Genuity - Analyst*

Great. Then, Rob, the 8% SG&A target, it really doesn't sound like that much of a hurdle. You haven't had an 8% SG&A number in a couple of years. I'm wondering why that target? Is there opportunity to come in a little more meaningfully below on our SG&A run rate?

Rik Jacobs - *SunOpta Inc. - CEO*

As we ramp-up, obviously, our revenue, all I wanted to get clear is that, we are not going to grow our SG&A in line with our revenue. So we want to be below 8%. We've looked around the industry, especially at those people who serve as the retailers and food service operators. We believe that below 8%, we probably have the lowest SG&A -- look at people in our space on the beverages side that does private label or somebody who just made a very large acquisition that does private label, their SG&A is higher.

Okay, the fair point there is their margins are also higher. I just want to be on record to say that we need to be the most efficient Company out there when it comes to SG&A as a percentage of revenue. So that's really -- you're right. Our internal targets are sharper than below 8%, I just want to give everybody the message that we will continue to be as efficient as need be.

Scott Van Winkle - *Canaccord Genuity - Analyst*

Perfect. Then, Rik, on the juice margins, the $6 million juice margin goal for next year, that also seems relatively easy to achieve given the acquisition of Citrusource. Am I missing something there? I would assume that Citrusource brought more than $6 million of gross profit with it.

Rik Jacobs - *SunOpta Inc. - CEO*

Yes. For me again is key, is margin positive; that is what we need to achieve there. You've got to remember, Scott, two things, that business consists of two elements. It consists on the one hand side of the bottling. You're absolutely right, that is where we bring in Citrusource's bottling and all of that.

So, that alone should already drive us to positive. What is really the key for the sustainable future, longer-term profitability there, is we have got to fill up the extraction side. So the more we are able to start with oranges, make those into orange juice, as opposed to starting with field oranges, it is going to be beneficial.

Rob McKeracher - *SunOpta Inc. - CFO*

Scott, keep in mind that as we set these objectives out, we are kind of keeping an eye to the year-over-year change. So I think we brought Citrusource back, March 2, so there's 10 out of 12 months of them in there. Of course, we're going to lap a lot of the burden that was our juice facility on its own. So, we set that $6 million to really return that to profitability and continue to grow Citrusource.

Scott Van Winkle - *Canaccord Genuity - Analyst*

Got you. Thank you very much.

Rik Jacobs - *SunOpta Inc. - CEO*

Thanks.

Operator

Amit Sharma, BMO Capital Markets.

Amit Sharma - *BMO Capital Markets - Analyst*

Two questions here. One, I just wanted to quickly go back to the Sunrise. You talked about difficulties in sourcing, its impact in margin earlier this year. Is there anything you can do structurally to the business to avoid this type of shortfalls in the future? Is it from hedging perspective? Or how you source? Or how you price? Is there anything else that you could do separately, differently that may lessen the volatility enlargements in that business.

Rik Jacobs - *SunOpta Inc. - CEO*

Look, they've already been doing it. They traditionally they source all of their berries -- strawberries out of California. They have invested in the facility in the Jacona Valley in Mexico, where we are -- they have been expanding in capacity. We will be continuing that. So more and more of the berries will be coming from Mexico -- by the way, they are exactly the same berries, it's called a Camarosa strawberry. Having said that, so that's one thing. They have invested in more. There's other areas in the world where they grow that same strawberry.

That is where SunOpta then comes into play, because from an international perspective, where also -- by the way, almost all of the organic fruit that is being sold in the United States is sourced internationally. That is where we have boots on the ground on every single continent; whether you are talking berries out of Serbia or Chile or out of the Pacific Northwest or out of Canada, that is where the organization -- the vertical integrated organization, SunOpta has built comes into play to basically diversify away from any kind of a crop risk in a certain geographic area.

Amit Sharma - *BMO Capital Markets - Analyst*

So we should expect less volatility in margins going forward, in the Sunrise business? Is that fair or reasonable to expect?

Rik Jacobs - *SunOpta Inc. - CEO*

That's fair.

Rob McKeracher - *SunOpta Inc. - CFO*

Important to keep in mind, Amit, that Sunrise has been growing at north of 20% internal growth, like an organic growth CAGR. So part of that short -- shortness, if you will, in having to buy more outside fruit was one of those nice to have problems in their eyes, I guess you could say in that their growth require them to go outside more than they otherwise would have. That's why they've been so ahead of the curve here in adding more capacity to do their own freezing.

Amit Sharma - *BMO Capital Markets - Analyst*

That's fair. Then last one on the global ingredients side of the business, Rik, you talk about shifting more of your mix to its organic fruits, sweeteners, all the other nuts. You talked about how that might be a margin enhancement as well. Could you talk about that a little bit more? Is that simply a greater advantage? Or is it a commoditized grains and flour or corn here? Is that the play here? Or is there anything else that you'd like to highlight?

Rik Jacobs - *SunOpta Inc. - CEO*

That is definitely, look, $400 million out of the roughly $600 million platform is organic. From that $600 million -- that is $400 million, that's probably more than $300 million of that $400 million is what we sourced internationally, where we have built up supply chains, where we have the organic export certificates, et cetera, et cetera, et cetera. That has indeed a higher-margin potential for us than the corn, the soy and the sunflower, whether that be non-GMO or organic.

Amit Sharma - *BMO Capital Markets - Analyst*

Are you able to quantify what the differential is in margin between those two different type of businesses?

Rik Jacobs - *SunOpta Inc. - CEO*

I think it's probably about 4 or 5 points of margin.

Amit Sharma - *BMO Capital Markets - Analyst*

All right. Thank you very much.

Rik Jacobs - *SunOpta Inc. - CEO*

Okay. So thanks, everyone --

Operator

I'm showing no further questions in queue at this time.

Rik Jacobs - *SunOpta Inc. - CEO*

Okay. Thanks for joining us this morning. Just as a reminder, I think somebody already pointed it out, if you happen to be in the Chicago area next week, please stop by our booth that we have over there. There is a Sunrise booth and a SunOpta booth. By the way, that will be the last time you will see two booths. That's one of those synergies that we're going after. It's at the Private-Label Manufacturer's Association show, which is from the 15 through the 17. So, look forward to seeing you there, if you're in the area. Bye-bye.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may now disconnect. Everyone, have a great day.
