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PARTICIPANTS

Corporate Participants

Steven R. Bromley – Chief Executive Officer & Non-Independent Director, SunOpta, Inc.
Robert McKeracher – Chief Financial Officer & Vice President, SunOpta, Inc.
Hendrik Jacobs – President & Chief Operating Officer, SunOpta, Inc.
John M. Ruelle – Chief Administrative Officer & Vice President, SunOpta, Inc.

Other Participants

Christine Healy – Analyst, Scotiabank
Scott Van Winkle – Analyst, Canaccord Genuity, Inc.
Mitch B. Pinheiro – Analyst, Imperial Capital LLC
Tim J. Tiberio – Analyst, Miller Tabak + Co. LLC
Chris Krueger – Analyst, Lake Street Capital Markets LLC
Reed A. Anderson – Director of Research, Northland Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to SunOpta, Inc. First Quarter Fiscal 2014 Earnings Conference Call. By now, everyone should have had access to the earnings press release that was issued after the close of business yesterday. The release is available on the Investor Relations portion of SunOpta's website at www.sunopta.com. This call is being webcast and a 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, and 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 of the risk factors contained in SunOpta's press release issued yesterday, the company's first quarter fiscal year 2014 Quarterly Report on Form 10-Q that will be issued at the close of business today, and other filings with the Security and Exchange Commission, for more detailed discussions on the factors that could cause actual results to differ materially from those projections in any forward-looking statements. Finally, we would like to remind listeners that the company may refer to the 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 U.S. dollars and are occasionally rounded to the nearest million.

And now, I'd like to turn the call over to SunOpta's CEO, Steve Bromley. You may begin.

Steven R. Bromley, Chief Executive Officer & Non-Independent Director

Great, thanks and good morning, everyone. On the call with me today are Rob McKeracher, our Vice President and Chief Financial Officer; Rik Jacobs, our President and Chief Operating Officer; and John Ruelle, our Chief Administrative Officer and Senior Vice President of Corporate Development. Over the next couple of minutes, I will provide you with a brief overview of our first quarter 2014 financial results and status of our key strategic initiatives. Then, Rob will discuss our financial performance and Rik will provide an update on our operations. Finally, I'll come back with a few closing remarks and then we'll open up the call to questions.

So, we're pleased to report a great start to the year, driven by solid revenue and earnings growth. Both our first quarter revenues and first quarter earnings are a record for our company. All of our core foods operating segments generated increased revenue and increased operating income versus the prior year. This is the largest revenue quarter in our company's history and is indicative of the continued growth in healthy eating categories around the world. These record results are due to a number of factors, including increased sales driven by new customers, new products and product extensions. Our investments in growing our capabilities to address market opportunities and our repositioned go-to-market strategy, combined with our focus on improving operating efficiencies, cost reduction and cost control.

Our realigned organization structure forms the backbone of all these efforts and we're really pleased to see the benefits of this realignment translate into accelerating revenue growth and improved financial results. This was a good quarter and the good news is that we have many opportunities in the pipeline, both from a customer and operational perspective that will drive further improvement, which makes us optimistic for the rest of the year. We are clearly heading in the right direction and we feel we are well positioned to achieve continued top and bottom line growth in fast growing natural and organic foods categories. Demand in these categories continues to grow. Healthy eating and healthy living are not a fad. They're all key long-term global trends.

Many retailers and food manufacturers around the world are continually increasing their focus in this area and we feel this is very positive for us. Recently, you would've heard that the largest retailer in the world is wanting to significantly increase their presence in the space, validating our belief in the growth potential for healthy foods and the recent Natural Products Expo West in Anaheim, California, which was attended by almost 70,000 industry participants, only furthers our conviction in this regard. Combine this with growing interest in non-GMO foods, rising healthcare costs, obesity, allergen awareness, and changing demographics with the boomers aging and becoming much more aware of the linkage between diet and health and the millennials being the most socially aware consumer ever, all of this leaves us excited and confident in the future of our integrated business model.

Before I turn the call over to Rob, I would like to reiterate our three core strategies, which formed the basis of our ongoing initiatives. One, the focus of our development efforts on becoming a pure-play natural and organic foods company; two, to aggressively grow our value-added packaged foods and ingredients portfolio; and three, to leverage our integrated platform. We have made progress on all of these fronts and truly believe we are well positioned for the long-term.

And with that, I'll turn the call over to Rob to discuss our financial performance in more detail. Rob?

Robert McKeracher, Chief Financial Officer & Vice President

Thanks, Steve, and good morning, everyone. I will take the next few minutes to review our financial results for the first quarter ended April 5, 2014.

For the first quarter of 2014, we reported record revenues of $334 million, an increase of 17.9% compared to revenues of $283 million during the first quarter last year. Please note that fiscal 2014 will be a 53-week year and the extra week fell in the first quarter, resulting in a 14-week quarter versus 13 weeks in the prior year. Excluding the extra week of sales, as well as the impact of changes in commodity prices and foreign exchange rates, consolidated revenues increased 13.8% and SunOpta Foods revenues increased 16.4% versus the prior year. The increased revenues were led by accelerating sales in our Consumer Products segment, which excluding the extra week, grew 21% over the first quarter of 2013.

We generated operating income of $12.1 million in the first quarter, up 13.2% from $10.7 million in the same period last year. The growth in operating income was driven by increased volume and margins on organic raw materials, increased volume of consumer products as well as higher sales and margins of value added ingredients. This was partially offset by lower organic feed margins, increased corporate spending in areas such as IT and human resources, all of which are intended to drive efficiencies in our operating segments and margin pressure experienced in Opta Minerals. As many of you will know, the winter just passed was a tough one and it should be noted that during the quarter, a number of our operating facilities throughout the Midwest and Eastern regions of the U.S experienced incremental costs associated with the extreme weather such as freight delays, temporary shutdowns and higher utility costs totaling approximately $700,000 before tax and minority interest.

Earnings for the first quarter of 2014 were $6.6 million, or $0.10 per diluted common share, as compared to $5.1 million, or $0.08 per diluted common share, during the first quarter of 2013. The result included approximately $1.2 million in costs related to the retrofit of our premium juice facility, which we have discussed in prior quarters offset by approximately $1.1 million in other income primarily related to a decrease in contingent consideration related to a previous acquisition. During the first quarter of 2014, we realized EBITDA of $17.9 million as compared to $16.1 million during the first quarter of 2013. At April 5, 2014, we had total assets of $720 million and a net book value of $5 per outstanding common share. And our balance sheet remained strong, reflecting a net debt to equity ratio of 0.59 to 1.

As is typical for a first-quarter, we used $12.6 million in cash in operations compared to $6.7 million used during the first quarter of 2013. The increase in cash use reflects higher working capital levels to fund our growth. At April 5, 2014, we had approximately $105 million in unused capacity within our current debt facilities. We're forecasting to generate positive operating cash flow over the course of 2014, and the cash generated, along with the available capacity that I just mentioned, provides the company with sufficient resources to support our various growth projects.

With that, I'll now turn the call over to Rik who will discuss our first quarter operational performance in more detail.

Hendrik Jacobs, President & Chief Operating Officer

Thanks, Rob, and good morning everyone. I will now discuss the performance of the three segments within SunOpta Foods: Global Sourcing and Supply, Value Added Ingredients and Consumer Products. And just as a reminder, the first quarter of 2014 include an extra week of sales. The normalized revenue growth percentages I refer to exclude this extra week as well as commodity and foreign exchange effects.

So, in the Global Sourcing and Supply segment, revenue increased 14.1% on that normalized basis, and we reported an 80-basis-point improvement in operating margin. Revenues were up due to higher sales in fruit, seeds and nuts products as well as a bounce back in our European sales, fruit, sunflower and seed products. As growth was strong in both our European and North American businesses, our expertise in sourcing organic raw materials from all over the world is released is really starting to pay dividends, not just in the sale of these raw materials to customers, but also in securing supply for our Value Added Ingredients and Consumer Products segments.

In our Value Added Ingredients segment, revenues increased approximately 11.3% on a normalized basis, while our operating earnings increased $300,000. However the operating margin basically remained flat versus the prior year at 6.2%. Our food ingredients side of the business again was very strong driven by new customer and product introductions. Fiber and grains ingredients pipeline continues to grow on both current and new products, but on parts of our portfolio, we do have to offer more competitive pricing to gain or maintain the business.

Looking into Q2, we believe our fruit business will continue to be strong, as many of our customers continue to use our capabilities to introduce new products into market. As mentioned above, there is some margin pressure in our fiber and grains ingredient businesses, which we're going to countering through innovation and a continued focus on cost. In our Consumer Products segments, revenues increased 21.4% on a normalized basis and we add an extra $2 million to the operating income line versus last year. Our revenue increase was primarily driven by the sales of our aseptic, frozen, pouch and healthy snack products. Our margin increase was primarily driven by continued strength in our aseptic business.

We continued to see large opportunities and that's why we continue to invest in this business as announced earlier this year. While our pouch business saw significant revenue growth versus prior year, margins here are not yet where we want them to be and we're focused on optimizing our factory performance and launching new products in new categories. Finally, construction is now ongoing at the San Bernardino facility, which has been a significant drag on earnings in this segment over the past year. Unfortunately, we do have some further delays in the start-up due to new permitting limitations based upon us. Net-net though we expect to see continued growth in our Consumer Products segments both top line and bottom line.

In closing, it's great to see the momentum in Q1 after our organizational alignment efforts last year. Our segment teams are focused on our customers and growing the top line while our newly formed operational teams are focused on improving our supply chain performance. Based on the incremental investment in feet on the street, our ability to get incremental growth especially in the Consumer Products segment is in large part only limited by how effectively and efficiently we can leverage and expand our capacity. On the supply chain side, we have identified a number of significant savings to go after as we get better and better at leveraging our platform, it makes us confident that we will see increased operating margin expansion, sooner rather than later in the foods business.

I'll now turn the call back over to Steve for some brief closing remarks.

Steven R. Bromley, Chief Executive Officer & Non-Independent Director

Great. Thanks, Rik. As realignment is now behind us, we want to thank everyone within SunOpta for their contributions in transforming our business in such a short period of time. With our enhanced strategy, our new structure and everyone focused on their part in improving our top and bottom line, we are confident we will achieve our targets. Looking ahead, we will continue to focus on our portfolio of natural and organic food offerings, refine our cost structure to further drive operational improvements and prudently evaluate potential acquisition and internal growth opportunities. For our non-core holdings, we continue to assess all options to maximize shareholder value, and in doing so create additional capital that can be reinvested in our global integrated natural and organic foods platform.

We believe we are better positioned today than ever before to capitalize on the growth on the exciting natural and organic foods industry. As we noted earlier, there are tremendous growth opportunities both with new unit growth from supermarket retailers and the natural organic and specialty space as well as more organic natural skews being added in conventional and mass retailers at a faster pace than we've historically seen. We believe our integrated model focused on Value Added Ingredients and consumer packaged products is well positioned to capitalize on these opportunities. In closing, we are confident in our business, comfortable with consensus forecasts for this year and feel strongly that we are solidly positioned to take advantage of future growth. We believe in this for two reasons. One, we're in the right position to benefit from the growing healthy food space, and two, we are making good progress on executing on our core strategies.

So thanks for joining us on the call today. And with that, we'd now like to open up the call for questions. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Christine Healy of Scotiabank. Your line is open.

<Q – Christine Healy – Scotiabank>: Hi, guys. Good morning. I guess first just on Whole Foods, they reported weak results last week. They decided that there is increased competitive pressures in this sector and that's really the reason for their lower sales and margins. I'm just curious from the manufacturer's standpoint, are you guys seeing any increased pressure from retailers to reduce your pricing or from your angle is just the same as usual?

<A – Rik Jacobs – SunOpta, Inc.>: For us, Christine – and this is Rik, it's pretty much the same as usual and don't forget that I think in the moment in North America, demand is quickly outstripping supply especially on the organic side. So, therefore leveraging our global platform to prices and check for retailers is much appreciated.

<Q – Christine Healy – Scotiabank>: Okay. And then Rik, just moving on to the Value Added Ingredients' fiber part of the business, can you tell us roughly like what is the plant utilization in the segment and how is that attracting, and I know you guys are focused on trying to win business in the specialty fibers, but would you also consider consolidating some of your plants to boost margins?

<A – Rik Jacobs – SunOpta, Inc.>: Yeah. So I think our current utilization stands at about 65%, and we have been very focused on innovation as you guys are hopefully aware, at least all of you that have visited us, our booth at Expo West. So, we have new insoluble fiber that can be suspended in beverages, which is a huge market for fiber. You're seeing a new dietary guidelines come out, but basically say, we have to consume more fibers, so the opportunities for fiber are there. Having said that, we are not fully utilizing our facilities and while we will continue to focus on the innovation, we have to also be realistic and say we must focus on cost and that means that utilization in our factories must go up even if that leads to not having as many factories.

<Q – Christine Healy – Scotiabank>: Okay. So, it is something that you guys were considering. Okay. And then just lastly, just Opta Minerals, I mean this segment has obviously reported weak results for last year. So, it's been a difficult one to model to just given that its volatile. Right now, it's in their press release this morning, they mentioned that they won some new business that's starting up in Q3. Is there any color at all, Steve that you can provide on the size of this business? Is it enough to move the needle, anything that you can do to help us?

<A – Steve Bromley – SunOpta, Inc.>: Yeah. Sure. So, looking Opta Minerals had a pretty tough first quarter. They were really impacted by weather. All of the operations, our food operations were impacted, but weather was really also a very big issue for Opta Minerals. So, it did meet their results in the first quarter. The good news and if they have their press release out this morning is, yeah, they have won some new business. And I would say it is move the needle kind of business. There are couple of [ph] key plots (16:49) of business that they have been successful in achieving. And they don't start right away because there is equipment that needs to be moved around after customers locations where they'll be doing the business, but if it certainly improves the outlook, a great deal for that business, and when you combine that with improving weather patterns and sort of some of the cyclical trends turning, they've done a really nice job in kind of weathering the storm quite literally, and they got some new business coming on, so it's encouraging for them for sure.

<Q – Christine Healy – Scotiabank>: Okay, great. Thanks so much.

<A – Steve Bromley – SunOpta, Inc.>: All right. Take care.

Operator: Our next question comes from the line of Scott Van Winkle of Canaccord Genuity. Your line is open.

<Q – Scott Van Winkle – Canaccord Genuity, Inc.>: Hi, thanks. Steve, you mentioned obviously Walmart's efforts in adding natural organic products. We're seeing the distribution gains everywhere. How did that materialize when you see every supermarket in North America adding products, is that materialize into more co-packing business for you or more increase in private label. Where do you see that dynamic hitting you?

<A – Steve Bromley – SunOpta, Inc.>: I mean, we actually see that on all sides. As you know, we do a lot of private label and we do a lot of contract manufacturing. So for us, that's if you like, it's a double good whammy. The other thing that now that we have the new organizational structure setup whereby we have one Consumer Products Group that's the focus is on selling our entire consumer products portfolio to all of our customers, there is a ton of whitespace allowed here for us to basically sell more to our current customers as well.

<Q – Scott Van Winkle – Canaccord Genuity, Inc.>: And then in our aseptic, noting the expansion plan for this year, where is the growth coming from in that space. Is it a product category or incremental brands or taking higher share of existing customers, packaging business?

<A – Steve Bromley – SunOpta, Inc.>: Scott, it looks like you know our business inside out, because again I have to say, yes, yes, and yes. I mean on the one hand side, we are entering into new categories. That's exciting for us. So, we're now into dairy category in a fairly significant way. We're entering into the nutritional beverage categories. We're in the food categories. We [ph] brought (19:17) some things like that. Think about cheese as well that you can find into some of your favorite foodservice, coffee restaurants. And then, but in the non-dairy category, which is obviously where we started this whole business, there is also continuous strengths over there. While everybody talks about a very horrible winter, it was actually – for non-dairy, it was not a bad winter. It was one of the best coffee winters we had in years as many people say. So in non-dairy, we're taking share. We're entering into new categories and some of our customers continue to grow as well through expanded distribution.

<Q – Scott Van Winkle – Canaccord Genuity, Inc.>: Okay. And then on the alignment, you clearly see – we've clearly seen that your realigning efforts have really benefited revenue. When you think about that, how much of your efforts kind of go towards margin versus demand creation. And kind of where are you in realizing those benefits?

<A – Steve Bromley – SunOpta, Inc.>: I'm going to let – Scott, it's Steve. I'm going to let Rik to get into what we're doing to improve margins, but there are couple of things that I'd like to point out. One is these are the highest operating margins we've had since Q2 of last year. So, we're certainly seeing the benefit. And the great news which I will let Rik take more time on is that the efforts ongoing on the operating side are starting to pay dividends now and combined with the commercial side. So, we expect to see some nice margin improvement and I am going to let Rik kind of talk about the things that are going on there.

<A – Rik Jacobs – SunOpta, Inc.>: Yeah, as I kind of mentioned in my remarks earlier, the segment teams are focused on the customers and they're focused on the top line. Not just the top line, they are also focused on the contribution margin. And I believe in the short-term where we have a significant opportunity to improve our gross margin is by doing a better job in our factories. We have – we have not done such a fantastic job up until now, I don't think by leveraging the platform, because we got 30 factories basically throughout North America, and once they all get it and start working on the same KPIs et cetera, et cetera there is – I think that that is at least two points gross of margin with a bottom line for us and are relatively short-term.

<Q – Scott Van Winkle – Canaccord Genuity, Inc.>: Great. And if I could take that a little more detail into the pouch side, you said that you're not happy with the margins you're seeing in that business. What's the magnitude of opportunity, we've talked a lot about the pouch segment for a couple years now. What's the opportunity in incremental EBIT profit dollars if you kind of hit your targets?

<A – Steve Bromley – SunOpta, Inc.>: Yeah, I think that has to have something to do with product mix/customer mix in the facility as well as factory performance. So, the magnitude of debts, I can't put a number on that right now off of my head, but it is significant. So product mix what I mean by that is we've been very much focused on the baby food categories like we got to get into other categories as well, very much similar to what we're doing on the aseptic side of it. And when you're talking about factory performance, this is a factory that we started less than 18 months ago I guess, and we still have significant room for improvement over there in terms of utilizing the equipment properly, but also by adding more capacity over there, so we get a better overhead recovery.

<Q – Scott Van Winkle – Canaccord Genuity, Inc.>: Great. Thank you.

<A – Steve Bromley – SunOpta, Inc.>: Thanks Scott.

Operator: Our next question comes from the line of Mitch Pinheiro or Imperial Capital. Your line is open.

<Q – Mitch Pinheiro – Imperial Capital LLC>: Hey good morning.

<A – Steve Bromley – SunOpta, Inc.>: Hi Mitch.

<Q – Mitch Pinheiro – Imperial Capital LLC>: So couple of sort of some housekeeping questions to start. The tax rate, if I did my calculations a little higher than it's been, I mean is that in the 40% area, is that the level we should use for the remaining part of year and sort of coinciding with sort of your view of guidance – not guidance, of consensus?

<A – Rob McKeracher – SunOpta, Inc.>: Hey Mitch, it's Rob.

<A – Steve Bromley – SunOpta, Inc.>: Rob, will take that.

<A – Rob McKeracher – SunOpta, Inc.>: Yeah. It was a little higher in the quarter and what really that is, we've kind of guided before it being the 38% to 39% range. That would be sort of the normal effective rates that I would expect to use. But in the quarter, the one thing that caused the rates go a little higher was some changes in foreign exchange on a Canadian dollar and just the non-cash impact that has on some of the tax assets we have. So, the 40.2% is a couple of points higher than I had expected.

<Q – Mitch Pinheiro – Imperial Capital LLC>: So, for the remainder of the year, where do you think we should be at this point?

<A – Rob McKeracher – SunOpta, Inc.>: I'd expect to kind to be in that 39%-ish range, I'd go with that as a safe guess based on the mix of our earnings. I mean, we have a high propensity for [ph] taxable earnings (24:34) in the U.S. jurisdiction; that explains the high rate.

<Q – Mitch Pinheiro – Imperial Capital LLC>: Okay. Thanks. And then on the – the accounts receivable is up a little ahead of sales, is that mix and if there is any detail around that, it would be appreciated?

<A – Rob McKeracher – SunOpta, Inc.>: Yeah, sure. It's part mix, but the bigger part to be honest is the higher sales levels. So, you can see the normalized basis 16.4% revenue growth coming through in the food business, that's perhaps not more of that, [indiscernible] (25:07) just really supporting the growth in the business and the other half is customer mix especially on the Global Sourcing and Supply side where there is a greater mix of some longer-term higher specialty product sales in there this year versus last, so that would explain that, but from my perspective, there is nothing really out of the ordinary there. The first quarter is typically a use of working capital as it was this quarter.

<Q – Mitch Pinheiro – Imperial Capital LLC>: Okay. And then looking at commodities, it's like a mixed bag. I mean, you're getting a little more into dairy and dairy is going up. How should we think about commodity costs across your three segments this year?

<A – Steve Bromley – SunOpta, Inc.>: Yeah, I think if you look at Consumer Products, and you look at Value Added Ingredients, I really think that most of those are either flat or on a pass-through basis. And when it comes to the Global Sourcing and Supply, I mean that's where we've actually – the commodity price have gone down quite a bit on the domestic side, right? So, if you look at corn and soy at least, some of the international commodities, the organic commodities that we trade in of course, they are all over the board. I mean cocoa as we know has stayed at near all-time highs, coffee has rebounded tremendously. But with all of those, we feel that we're well positioned to actually take advantage of what's going on in the markets. That's kind of our business.

<Q – Mitch Pinheiro – Imperial Capital LLC>: So, as we...

<A – Steve Bromley – SunOpta, Inc.>: [indiscernible] (26:38) right, but we think we got it right now.

<Q – Mitch Pinheiro – Imperial Capital LLC>: Yeah, so as we model this out, I mean on corn and soy for instance, you're making the same penny profit I presume. Therefore on a lower revenue, it would be a higher margin. Is that higher gross margin in the global sourcing side or net-net, is there things netting that out that make it flattish?

<A – Steve Bromley – SunOpta, Inc.>: Well, I mean yes, in principle you're correct. Having said that and we refer to that in our Q4 presentation, we did guess last year cost into a bit of long position, right, and when the markets went down. So obviously when markets go down, you want to be short. When markets go up, you want to be long and what you are seeing right now is that markets are all trending back up again. So the long position while the market was going down caught us a little bit last year and had a little bit of a carryover into the first quarter, but net-net as the penny profits should stay flat and then your percentage margin would be higher.

<Q – Mitch Pinheiro – Imperial Capital LLC>: Okay. And just last question. It gets back to some of the comments you've made regarding the factory and factory efficiency. I mean you've done a lot of adding in the last two years, I mean pouch, aseptic, cocoa, you're working on San Bernardino. Is there just a long tail of inefficiency in the other 25 facilities and why wouldn't there be some sort of continuous improvements at these manufacturing and processing areas? Is it all volume or I mean has...?

<A – Steve Bromley – SunOpta, Inc.>: You know why? I think what I was trying to make clear is in the past when we had all of our divisional leaders before the organizational realignment, they had to focus basically on the factories and they had to focus on the customers, and they had to focus all over the board. What we're really doing right now is, we're taking our continuous improvement journey, if you like, to the next level by having our segment leaders focused on contribution in revenue and their sales teams, and by having our operational teams focus not just on the factories but on the entire supply chain. I mean one of the key areas for us to focus on is actually outside of the factories, which is in freight and logistics, which, as many of you may know, has been fairly challenging over the last six months or so. So that's in the area where we think, okay, we also need to create that leverage where in our old structure we weren't necessarily looking across all 30 plants on all of the divisions and in our new structure having people that are squarely focused against that is going to take our continuous improvement to the next level.

<Q – Mitch Pinheiro – Imperial Capital LLC>: I said last question, so I lied I guess, but just as a follow up to that. Rik, can you just provide a couple of examples as to what you're attacking on the supply chain that would be sort of meaningful?

<A – Rik Jacobs – SunOpta, Inc.>: Well, I mean, just think about it. If you look at our foods business, if you just look at our freight cost and warehousing cost and I'm just talking about the cost from us going to the customer, that's about 4% of our revenues, that's $40 million. If you can save 5% of that, that's a meaningful number.

<Q – Mitch Pinheiro – Imperial Capital LLC>: Okay. That's helpful. Thank you very much. Really appreciate it.

<A – Steve Bromley – SunOpta, Inc.>: Okay.

Operator: Our next question comes from the line of Tim Tiberio of Miller Tabak. Your line is open.

<Q – Tim Tiberio – Miller Tabak + Co. LLC>: Good morning. Congratulations on a great quarter.

<A – Steve Bromley – SunOpta, Inc.>: Thanks, Tim.

<Q – Tim Tiberio – Miller Tabak + Co. LLC>: I guess, my question is a little bit more strategic in nature. With one of the largest box retailers suggesting that they're planning to move in this space, I guess, I mean, most of the conversation has been around how this is going to impact pricing and the margin structure longer-term. But when I think about SunOpta, it's not just only a value-added consumer product company, you really have built out a substantial global sourcing capabilities over last 10 years to 15 years. And it seems to me, as demand increasingly is outstripping supply, and you're seeing someone who's more volume-oriented really stressing the supply chain, that this really accentuates the inherent value, not only in your Consumer Products Group, but also within your supply chain. So I guess, my question is, in light of this announcement, what can SunOpta do from a growth standpoint in expanding the supply chain to be prepared for this? Are there opportunities potentially to lock in long-term contracts to really position yourself potentially for the volume opportunity, which may be able to mute some of the margin impact over time?

<A – Rik Jacobs – SunOpta, Inc.>: Yeah. And obviously that is exactly what we are working on, on the one hand side when it comes to the customers that we're dealing with. So, we are getting more and more strategically aligned with it, rather than just tactically aligned, meaning longer-term contracts which have impacts on both parties I would say, both good and where we have to improve. I think the other thing that we've been working hard on while we always say, yes, we want to continue to go up the value chain, what we truly believe in is in our integrated vertical model, and we're making continuous improvements and continuous investments also in our global supply chain. I mean just as a reminder, we just started up with a Crown of Holland. So, as opposed to just buying the raw cocoa beans and having [indiscernible] (33:23) process somewhere else, we are now doing that here. We are doing the same with sesame seeds in Ethiopia. We're doing...

<A – Steve Bromley – SunOpta, Inc.>: Coconut...

<A – Rik Jacobs – SunOpta, Inc.>: ...the coconut sugar that's coming out of Indonesia, the projects that we got going on in Vietnam. I mean we got these things going on all over the world. So, one of the key focus areas for us is making sure that we stay an extremely relevant party in the supply chain and bringing that added value even if it is only selling an organic raw material to a customer.

<Q – Tim Tiberio – Miller Tabak + Co. LLC>: So, I mean, would that make sense for SunOpta to start thinking about trying to lock in some of your larger suppliers?

<A – Steve Bromley – SunOpta, Inc.>: You know what Tim, there is a number of different types of suppliers we have and many suppliers don't want to lock in and there are going to be an annual contract. And some of them can't provide you with product every year, because if it's a grain, then you may go in and out of their rotation, and they may be growing something that isn't really a fit with the portfolio of products that we're streaming to market. But we also have – and Rik talked about a number of these global sourcing and supply sources. Those are projects that we've developed with small growers, small holders, and we prepay them and so we do have longer-term commitments. And so long-term commitments always have to be variable enough that as the price of commodities go up and down, one party or the other isn't losing it. So, I don't want to leave you with the impression that we don't have longer-term arrangements, we do, and also at times we don't want them to be longer-term and those relationships are year-to-year. But we have very little churn, if you will, in the grower base that we have.

<A – Rik Jacobs – SunOpta, Inc.>: [inaudible] (35:18) on the organic side.

<A – Steve Bromley – SunOpta, Inc.>: ...especially on the organic side. And so we don't see a lot of churn here and we're continuing to develop and build that out. I've said for a long time and I'm on record, that I think one of the most strategically significant parts of our company is our global supply base and while we get the lowest margins, if all we do as is sell the raw material, the reality is that that I think it's what's strategically differentiates us and so as we move up our value chain and the value-added ingredients where the margins are getting higher and we're more significant and relevant to our customer and then [ph] moving through with the (35:51) Consumer Products where again we're adding more value. It's really important and so that supply base is essential and we're continuing to grow it and we've more and more growers every year that are growers or suppliers that are part of that chain and it is strategically very important for us.

<Q – Tim Tiberio – Miller Tabak + Co. LLC>: Right and just...

<A – Steve Bromley – SunOpta, Inc.>: By the way, especially when you see people want to move into the space. I've also been on record for a long time that one of the key challenges of our industry over the next 30 years will be around supply at the pace required here and so we're very busy in that regard.

<Q – Tim Tiberio – Miller Tabak + Co. LLC>: Great. And just one last question. When we're thinking about growth in the Consumer Products Group, you obviously announced an expansion project at Modesto again on the aseptic beverage lines. Should we still think about your growth philosophy as primarily organic or is SunOpta at some point thinking about becoming more aggressive on the M&A side?

<A – Steve Bromley – SunOpta, Inc.>: Sure. Well, we've obviously had good internal growth and we have a little saying around here that we've been drinking through a fire hose, which means there has been a lot to swallow, and so most of those efforts have been around internal growth projects. I can assure you that we're active and interested in acquisition opportunities. We've been involved – we're also quite disciplined and we're not believers in diluting yourself as you acquire based on future synergies that are on. So net-net, we are not going to overpay and the markets are pretty heated, but we are involved and you should expect us to be acquisitors but responsible acquisitors and I'm not – I don't want to suggest that anybody in our space that's been acquiring hasn't been responsible but got to be able to make these work. The good news for us is that irrespective of acquisitions, we had a 16.4% internal growth rate in our foods business and so there is lots of growth opportunities and we'll continue to seize on those and look for those acquisitions that make the most sense for us and they are out there and we have discussions going with a number of different parties. But again I emphasize, we're going to be disciplined about this and when the EBITDA multiples get up into the double digits, one needs to be quite careful not to regret what you did.

<A – Rob McKeracher – SunOpta, Inc.>: Overpay.

<A – Steve Bromley – SunOpta, Inc.>: Yeah.

<Q – Tim Tiberio – Miller Tabak + Co. LLC>: Great. Thanks for your time.

<A – Steve Bromley – SunOpta, Inc.>: Thanks a lot, Tim. Take care.

Operator: Our next question comes from the line of Chris Krueger of Lake Street Capital. Your line is open.

<Q – Chris Krueger – Lake Street Capital Markets LLC>: Hi, good morning.

<A – Steve Bromley – SunOpta, Inc.>: Good morning, Chris.

<Q – Chris Krueger – Lake Street Capital Markets LLC>: Hi. Kind of following up on the last question about sourcing, what are you seeing as far as at the farmer level? Are more farmers joining your organic trend and converting or, I know the last few years when commodities got high, it was tougher to get them to convert. Just wondering what your thoughts are there?

<A – Steve Bromley – SunOpta, Inc.>: So I am going to turn that over to John Ruelle.

<A – John Ruelle – SunOpta, Inc.>: Yeah, so I guess the first thing to become organic and convert is a three-year journey, you can't just one year plant the conventional crop and then next year plant organic. For the acreage to get certified organic, it's a three-year transition. So when we look at the macroeconomics of some retailer's announcements of late, the journey to get a significant move in the supply side is a three-year journey. So in the near-term, we are seeing some positive in that as far as non-GMO goes with core bouncing off historic highs and settling back to reasonable levels in the last 12 months. Our phone is ringing a lot more from folks that are interested in specialty crops, but the journey to get a significant move in the North American supply side on organic is a three-year journey.

<A – Rik Jacobs – SunOpta, Inc.>: I'd say as well, Chris, is we're having more success internationally. And that's why having that global footprint becomes so important.

<Q – Chris Krueger – Lake Street Capital Markets LLC>: Great. The weather impact, I know [indiscernible] (40:36) minerals investment was impacted by the weather in the first quarter, was there much of an impact on the food business?

<A – John Ruelle – SunOpta, Inc.>: Yeah, I'd say it's about 50/50. 50% of the number that we disclosed would be on the minerals side and about 50% on the food side. The big food impacts were, well other than the fact that trucks were supposed to arrive on a Tuesday and they'd show up on Thursday, because they just went through the largest day storm or blizzard that they've been in in a long time. That was one of the impacts. Natural gas was a major impact. There was a pipeline problem in Manitoba, which really impacted a lot of the Midwest and we have facilities that were curtailed. And so, we had an option. One was to flip over to propane, which went up about massively, so it was very inefficient and costly and for those facilities where we had no choice and we had to get our customers served and there was no wiggle room, then we went on propane and ATS for tasks. Other times, we shut plants down for a couple of days. So, it was about 50/50.

<Q – Chris Krueger – Lake Street Capital Markets LLC>: Okay. Last question, I think it was about two years ago that you introduced rice fiber and the thought was it to be used in gluten-free products. Just wondering has there been much progress with the rice fiber and are there any other areas of gluten-free that you're able to try to go after?

<A – Steve Bromley – SunOpta, Inc.>: Yeah. There has been progress. Rik will [indiscernible] (42:06).

<A – Rik Jacobs – SunOpta, Inc.>: I mean, we are. Our rice fiber is now on a number of products that are out in the markets. Some of them being – I don't really feel comfortable talking about the brands that have taken this rice fiber, but there are brands that are definitely buying our rice fibers.

<A – Steve Bromley – SunOpta, Inc.>: And known brands.

<A – Rik Jacobs – SunOpta, Inc.>: Known brands, yes, and big brands. So, we're happy with the launch of that one, and there's more and more people interested in that.

Even our oat fibers are kind of starting to make a pretty good bounce back. There's some pretty big dairy company that announced something yesterday, that was interesting for us as well. So, yeah, we're seeing good progress on organic oat fiber, rice fiber, and we're very excited about our latest product, which is this OPTASMOOTH product, because it actually provides a health benefit as well as a cost benefit to switch from the soluble fiber solution that many people use right now in bars and in beverages, the insoluble one, that we are offering.

<Q – Chris Krueger – Lake Street Capital Markets LLC>: All right, thanks, that's all I got.

<A – Steve Bromley – SunOpta, Inc.>: Thank you, Chris.

Operator: Our next question comes from Reed Anderson of Northland. Your line is open.

<Q – Reed Anderson – Northland Securities, Inc.>: Good morning and let me also add my congratulations on a nice start to the year.

<A – Steve Bromley – SunOpta, Inc.>: Good morning and thanks.

<Q – Reed Anderson – Northland Securities, Inc.>: Just a couple of follow-ups mainly but first before, Rob, just curious, what was the rough impact of that extra week on the quarter in terms of sales and profit ballpark, what would you think that would be?

<A – Rob McKeracher – SunOpta, Inc.>: Yes, I mean and of course it is a ballpark guess because we don't know, the timing kind of fell both at the front-end and the back-end of the quarter, but the easiest math to do would be to take one-fourteenth of all food sales, so which would be roughly $21 million.

<Q – Reed Anderson – Northland Securities, Inc.>: Okay, good. That's helpful. Thank you. And then, Rik you had commented about margins in pouch, and there was a question on that and you add some commentary. My follow-up to that is simply from a timing standpoint, to get to what you today might consider to be more or less optimal margins and obviously it's always a moving target, but to get to something that's reasonable. What is the rough timeframe for that, and what are you thinking today? Is that a several year process, can you get there in 18 months or quicker. Just give us a frame for how to kind of look at that please?

<A – Rik Jacobs – SunOpta, Inc.>: I mean, I'll go back to our three strategies, right, and I basically say if I start with the leverage of the platform, for me that is the shortest term opportunity to make some meaningful impact into our operating margins, and when I mean a meaningful impact then in the shorter term I think that should be within a 12 months' timeframe. Of course, it won't be finished within 12 months, but that's when you should start seeing the timeframe, so in this calendar year. The second strategy being going up the value chain, I think we are starting to see the effects of that; that's a little bit longer term, [ph] so it will fold at (45:06) 12 months to 18 months and the last strategy, which is actually our first one, which is becoming a pure financial and we're getting food company, which is not only about selling our non-core assets, but it's also allowed us, Steve has already alluded to, making the right investments for internal growth, but also the right mergers and acquisitions that will be accretive I guess with a longer timeframe.

<Q – Reed Anderson – Northland Securities, Inc.>: Good. That's helpful too. Thank you. And then Steve more of a high level kind of question just around the sourcing discussion, but if you look at your sourcing today in the current year, I mean ballpark, what is the non-North America portion of sourcing today, well what do you think it'll be this year? What does it look like versus a year ago?

<A – Steve Bromley – SunOpta, Inc.>: Well, I mean the non-North American product is representing probably about 50% of it at least and it is growing the most rapidly. So I think they've been on a tear, non-North American part is probably growing upwards of 30% in the quarter.

<Q – Reed Anderson – Northland Securities, Inc.>: Thank you. Exactly what I needed. I think that's it from me. I'll let somebody else jump in. Best of luck guys.

<A – Rik Jacobs – SunOpta, Inc.>: Thanks a lot.

<A – Steve Bromley – SunOpta, Inc.>: Thank you.

Operator: And I'm showing no further questions in the queue at this time. I would like to turn the call back over to Steve Bromley for closing remarks.

Steven R. Bromley, Chief Executive Officer & Non-Independent Director

Well, great, thanks very much. It was nice to chat with everybody this morning. We appreciate you joining us for the call and as always we look forward to keeping in touch. Have a great day and we'll talk to everyone soon.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone, have a wonderful day.