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SunOpta, Inc. (STKL)

Q3 2014 Earnings Call

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Chief Executive Officer & Director

Robert McKeracher
Chief Financial Officer & Vice President

Hendrik Jacobs
President & Chief Operating Officer

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to SunOpta, Incorporated Third Quarter Fiscal 2014 Earnings Conference Call.

By now, everyone should have 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 the transcription will be available on the company's website.

As a reminder, please note that 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 third quarter fiscal 2014 quarterly report on Form 10-Q that will be issued at the close of business today, and other filings with the Securities and Exchange Commission, for more detailed discussions on the those factors that could cause actual results to differ materially from those projections in any forward-looking statements.

Finally, we would also 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, note that unless otherwise stated, all figures discussed today are in U.S. dollars and are occasionally rounded up to the nearest million.

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

Steven R. Bromley

Chief Executive Officer & Director

Thanks, and good morning, everyone. On the call with me today are Rob McKeracher, our Vice President and Chief Financial Officer; and Rik Jacobs, our President and Chief Operating Officer.

This morning, I will provide you with a brief overview of our third quarter 2014 financial results and an update on our key strategic initiatives. Then, Rob will discuss our financial performance in more detail and Rik will provide an update on our operations. Finally, I will provide some brief closing remarks and then we'll open up the call to questions.

We remained focused on our core strategies during the third quarter and continued to realize the benefits of our operational realignment and repositioned go-to-market strategy. Our business segments posted solid growth in revenues and we're pleased that each of our core foods operating segments generated higher revenues in the third quarter versus the prior year. This positive revenue growth, combined with our 140 basis point gross margin improvement and operating margin expansion of 80 basis points versus the prior year, helped fuel our earnings performance in the third quarter. We are pleased with our continued execution against our stated objective of growing our top line, while at the same time improving our margin profile. We achieved these results despite additional investments in people and infrastructure to support our future growth opportunities.

Our third quarter and year-to-date revenues were led by higher demand for internationally sourced organic raw materials, both domestically and abroad, and continued growth in consumer packaged categories, including aseptic beverages and retail frozen food products. Consistent with prior quarters, our growth more than offset lower commodity grain pricing and volume.

We continue to experience positive industry trends, and importantly for us momentum is being driven across product categories, customers and geographies. Consumers are increasingly buying natural and organic products, and our product portfolio is well-positioned to capitalize on these opportunities. Many consumer trends, such as clean labeling, eating healthier at home and healthy portable snacking, all support continued growth in the categories we serve.

Our diversified integrated foods platform has enabled us to build a leadership position in the organic and non-GMO industry. This, combined with our management team's consistent focus on our three core strategies of becoming a pure play in natural and organic foods company, growing our value-added consumer products and ingredients portfolio and leveraging our integrated platform, will continue to drive our long-term performance.

So, with that, I'll turn the call over to Rob, who will dive into the numbers. Rob?

Robert McKeracher

Chief Financial Officer & Vice President

Thanks, Steve, and good morning, everyone. I will focus more specifically on our financial results for the third quarter and three quarters ended October 4, 2014. For the third quarter of 2014, we reported record revenues of $319 million, an increase of 5.2% compared to revenues of $303 million during the third quarter last year. Excluding the impact of changes, including commodity prices, foreign exchange rates, and downtime due to aseptic facility expansions, consolidated revenues increased 10.1% and SunOpta Foods revenues increased 11% versus the prior year.

We generated operating income of $12.7 million during the third quarter, up 29% from $9.8 million in the same period last year. The growth in operating income was driven by increased volume and margins on organic raw materials, improved performance in our sunflower operations, and increased contribution from higher margin aseptic beverage and frozen private label retail products.

These positive factors were partially offset by lower margins on specialty corn, increased SG&A in support of the growth of the business and within the Consumer Products segment cost associated with beverage facility expansions, lower plant utilization of our premium juice operation during the retrofit of this facility and increased competitive pressures in the re-sealable pouch market. Opta Minerals also continued to experience pricing pressures predominantly on industrial mineral products.

For the third quarter of 2014, we reported adjusted earnings from continuing operations of $8 million or $0.12 per diluted common share compared to adjusted earnings in the same period last year of $4.8 million or $0.07 per share. A tabular presentation of adjusted earnings from continuing operations can be found in our press release that was issued after the close of business yesterday.

Included in our third quarter 2014 results was a non-cash charge of approximately $8.4 million after-tax or $0.12 per diluted common share, representing a write-down of carrying value of our non-core investment in Mascoma Corporation. On October 31, 2014, Mascoma sold assets related to its yeast business in exchange for cash and royalty rights based on future revenues generated by the purchaser. After assessing the fair value of the remaining business, including the estimated value of the royalty stream, we determined that the carrying value of our investment in Mascoma was impaired. After accounting for this non-cash charge, we realized a GAAP loss from operations for the third quarter of 2014 of $0.4 million or $0.01 per common share.

Also included in our third quarter 2014 results, however, not factored into the adjusted earnings I just mentioned, was $2 million in cost within the Consumer Products segment associated with the aseptic beverage facility expansions and the retrofit of our premium juice facility, partially offset by a gain of approximately $0.9 million, or $0.6 million after minority interest, related to a tax recovery recorded by Opta Minerals.

During the third quarter of 2014, we realized EBITDA of $18.7 million as compared to $15.3 million during the third quarter of 2013.

Turning to our year-to-date performance for a moment, we reported record revenues of $990 million for the first three quarters of 2014, an increase of 10.4% versus revenues of $897 million last year.

Note that fiscal 2014 will be a 53-week year and the extra week fell in the first quarter. Consolidated revenues increased 11.4% and SunOpta Foods revenues increased 13.3% versus the prior year excluding this extra week of sales as well as the impact of changes including commodity prices, foreign exchange rates, and facility down time.

Year-to-date adjusted earnings from continuing operations were $22.8 million or $0.33 per diluted common share compared to adjusted earnings of $17.1 million or $0.25 per share in the first three quarters of 2013. Taking into account the impact of the previously mentioned impairments on our investment in Mascoma, as well as other income of $0.6 million after tax, we realized GAAP earnings from operations of $15 million or $0.22 per common share during the first three quarter of 2014.

On a year-to-date basis, our results include approximately $4.4 million in costs within the Consumer Products segment associated with the retrofit of our premium juice operation and aseptic beverage facility expansions.

EBITDA was $59.3 million in the first three quarters of 2014, compared to $50.2 million in the prior year. The company's balance sheet remains strong, and we continued to generate strong operating cash flows in the third quarter of 2014. Our improved earnings and working capital efficiency led to cash provided from operations of $18 million in the third quarter, and $38.6 million year-to-date.

As a result, total debt has been reduced by $40.1 million over the last three quarters, resulting in net debt of $143.3 million at October 4, 2014. On October 14, 2014, we completed the refinancing of our credit facility, which supports the working capital needs of the international components of our Global Sourcing and Supply segment. The new facility provides for total of €92.5 million in financing via an €80 million revolving credit facility and a €12.5 million facility to be used for three other facilities for currency, commodity and letter-of-credit requirements.

The increased facility size will be used to support the rapid growth within our international sourcing and supply operations. At October 4, 2014, we had approximately $135 million in unused capacity within our debt facilities, and our consolidated net debt is at its lowest levels since the end of fiscal 2010. We are forecasting to generate positive operating cash flows during the fourth quarter of 2014, and the cash generated along with the available capacity I just mentioned, provides the company with sufficient resources to support our various growth projects and potential acquisitions.

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

Hendrik Jacobs

President & Chief Operating Officer

Thanks Rob. Good morning everyone. And, I am going to discuss the performance of the three segments SunOpta Foods, that you already know, Global Sourcing and Supply, Value Added Ingredients and Consumer Products.

So, let's start with Global Sourcing and Supply, the revenue increased 7.4% and that supported both the gross margin and operating margin expansion of 360 basis points. As Rob mentioned, when you strip away the changes in the commodity pricing and foreign exchange, the real growth rate here was 13.6%. The categories that did particularly well where our organic alternative sweeteners, chia, quinoa, fruits, vegetables and feed products, and that was offset to some degree by lower volumes of non-GMO corn and soy.

I mean the margin expansion versus prior year is due to three key factors: one, our factories are operating better, especially the cocoa factory in the Netherlands; two, we've turnaround the sunflower business versus last year, partially as a result of the rightsizing efforts with a shutdown and sale of two locations in the Midwest; and three is, mix, the growth in higher priced organic raw material categories.

In our Value Added Ingredients segment, revenues increased approximately 4%, gross margin expanded 290 basis points and we're pleased with our operating margin expansion of 140 basis point versus the prior year. Top-line performance came from higher volume in food ingredients, which continue on a positive trajectory and higher volumes of oils and grain ingredients. That's partially offset by lower starch and lower [indiscernible] (11:11) manufacturing sales.

Our margin performance in the quarter reflects better plant performance across the board and was helped by increased production volume of fruit and grain-based ingredients. In the third quarter, we launched our recently developed OPTASMOOTH in soluble fiber and a nutritional beverage. Initial feedback has been positive, but it's just too early to draw definitive conclusions. And I'm sure you are aware, it takes time for innovation to have an impact in this segment.

So, then our Consumer Product segment, revenues increased 3.6%. However, if you're going to peel back the onion, the real underlying growth rate in this segment was about 10%. As we've indicated for some time, our aseptic facilities are at capacity in the growing market, which is why we're investing in more processing and filling lines using the latest technologies. During the quarter, both Alexandria and the Modesto facilities were impacted by downtime as we prepared these facilities for further growth. This has led to loss revenues of approximately $6 million during the quarter.

Having said that, there is also some sub-segments in our Consumer Products group that are not performing as well as our aseptic and retail frozen businesses. In our fruit snack, one of our customers lost distribution with a large retailer and in our pouch business, the market has excess capacity leading to competitive market dynamics, both from a volume and a margin perspective. So, going forward, we expect to see an improvement in our second margin performance through the growth of our healthy beverage and healthy snack portfolios.

A few things I want to point out which will help generate future, top and bottom-line growth. First, the addition of incremental aseptic capacity, starting with Modesto in early 2015; second, the ramp up of our juice plant in San Bernardino that we are now finally commissioning. And third, our healthy fruit, protein and pouch snack businesses which have a solid innovation pipeline which should translate to higher revenues over the next few quarters.

Our team remains very customer focused and continues to develop new ways to bring innovative value-added packaged products and processes to market, leveraging our global raw material sourcing and supply and value-added ingredient capabilities.

So in closing, we are pleased with the increase in operating margins in our food business we're seeing year-over-year. And as you hopefully already noted the overall growth in operating margins versus prior year are improving at an ever steeper rate and the opportunities we're working on should increase margin going forward.

So, that concludes my segment review. I am going to turn it back over to Steve for some brief closing remarks.

Steven R. Bromley

Chief Executive Officer & Director

Thanks, Rik. In summary, we're pleased with our third quarter and year-to-date financial performance. Our balance sheet is strong and we're generating strong cash flows as Rob mentioned. Our progress stems from our organizational alignments, which are yielding improvements in our performance and we'll continue to drive sales growth and margin expansion. We have solid opportunities for continued expansion and we're very excited that that will contribute to both the top and bottom line.

Going forward, our team remains focused on the growth of our portfolio of natural and organic foods offerings, the further refinement of our cost structure to drive additional operational improvements and the prudent evaluation of potential acquisition opportunities, supported of course by our strong balance sheet and future cash flow generation.

We remain focused on pursuing all options to maximize shareholder value. As Rob mentioned, Mascoma completed the sale of its yeast business. The realization of proceeds on this transaction is consistent with our strategy to divest our non-core assets so we can invest further in our natural and organic foods platform. In addition, a review of strategic alternatives for Opta Minerals continues and we remain committed to bringing this to a successful conclusion.

In closing, our unique market position enables us to benefit from the increasingly growing global healthy foods and beverage industry. This dynamic with solid execution of our core strategies provides us with a strong platform to deliver consistent and sustainable earnings growth and in turn shareholder value.

We continue to realize improvement across our business from our operational realignment and repositioned go-to-market strategy, which we believe will only strengthen our business in 2015 and beyond.

So that concludes our prepared remarks. I'd like to thank you for joining us on the call today. And with that, Rob, Rik and I are will available to take your questions.

So I'll turn it back to the operator.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Scott Van Winkle with Canaccord Genuity. Your line is now open.

Scott Van Winkle
Canaccord Genuity, Inc.
Q

Hi. Good morning, guys.

Steven R. Bromley
Chief Executive Officer & Director
A

Hey. Good morning, Scott.

Scott Van Winkle
Canaccord Genuity, Inc.
Q

So, first on the aseptic expansion, can you give us the magnitude maybe on a percentage basis how much higher capacity will be in February of next year?

Hendrik Jacobs
President & Chief Operating Officer
A

Yeah. We are installing a processer over there and today we have two processors in the facility and this is processor number three. And so, that would basically be an expansion, $20 million, $30 million, at least right away.

Scott Van Winkle
Canaccord Genuity, Inc.
Q

Okay. $20 million to $30 million in sales?

Hendrik Jacobs
President & Chief Operating Officer
A

Yeah. And then obviously we are now adding more lines as well, Scott. So the processor will unlock the capacity that we have in the facility, [audio gap] (16:32-16:33) add more lines. If think about that a little bit and if I just kind of give a little bit of a bridge on that one. If you take away those one-time costs that we're incurring as we're expanding San Bernardino and the aseptic, the margins from the foods business go basically from four to about five, then you add capacity on the aseptic, you fill up the San Bernardino plants and the cost initiatives that are really starting to take some hold in our factories, they're performing better and better, and we're now really attacking the rest of the supply chain as well if you like, should see solid growth going forward.

Scott Van Winkle
Canaccord Genuity, Inc.

Q

Yeah. And how much volume was going through the San Bernardino facility before you went through the expansion project?

Hendrik Jacobs
President & Chief Operating Officer

A

Yeah. It's about $10 million, $15 million.

Scott Van Winkle
Canaccord Genuity, Inc.

Q

Yeah. And that's on the other end is going to be 2x or 3x that in capacity?

Hendrik Jacobs
President & Chief Operating Officer

A

Yeah. Exactly.

Scott Van Winkle
Canaccord Genuity, Inc.

Q

Perfect. And then on the pouch side, you talk about overcapacity and pricing. I'm wondering, is the overcapacity a function of weaker consumer demand or like the growth has slowed or is it an overbuild on the packaging side?

Hendrik Jacobs
President & Chief Operating Officer

A

Well, I think there are two things going on over there. I mean we have innovated together with some of our customers to basically enter into new product categories, right, these protein filled pouches, et cetera, et cetera, and quite honestly those pouches are not reaching the expectations of us nor those of our customers. So that's a little bit of a slowdown. And what we're really finding out through more and more research that is becoming available and that we're doing ourselves is that these pouches in terms of their appeal to the consumers are kind of limited to be babies and toddlers if you like, that is where about 90% of the usage that you are seeing out there of the pouches that we have today. And then if you look at that, if the capacity that has been installed into the market over the last couple of years has been tremendous. So, now you have a temporary situation where you have some overcapacity in the market. And as I think everybody will appreciate that makes it challenging to increase your margins and your volumes.

Scott Van Winkle
Canaccord Genuity, Inc.

Q

Got you. And then last question, on commodities we think about, you've given the sourcing growth ex-commodity changes was higher than the reported growth. What should we think about for the next 12 months or so about the impact of pricing on raw materials into your sourcing business or commodity prices, volumes are they favorable, unfavorable? How will that flow through the P&L you think?

Hendrik Jacobs
President & Chief Operating Officer

A

Well first of all, as you will recall, at the end of the third quarter of last year, we entered with a long position while the market was going down. The market is going down quite steeply this year as well as everybody that kind of follow the market you can see, and I'm talking more about soy, corn, sunflower, the domestic stuff. We don't have a long position right now, so that should help us out. And as the market goes down, we basically sell it on a certain spread if you like. So, from a dollar perspective, it should be a little bit – pretty much the same. From a percentage perspective, it should be a bit higher. That's kind of on our non-GMO organic domestic portfolio. If you then look internationally, and you look at, sesames, the chias, the coconuts, sugar, the coffee, the cocoa and stuff like that. I mean, that's a very broad portfolio. So, I think it's kind of difficult to say broad brush, whether or not that's going up or going down, I mean, you saw cocoa going up a lot when you had Ebola scares, and now it's starting to come down again, for example right. That's a little bit too difficult to pinpoint, Scott.

Scott Van Winkle
Canaccord Genuity, Inc.

Q

Okay. Great. Thank you.

Steven R. Bromley
Chief Executive Officer & Director

A

Thanks, Scott.

Operator: Our next question comes from the line of Christine Healy with Scotiabank. Your line is open.

Steven R. Bromley
Chief Executive Officer & Director

A

Hi, Christine.

Operator: Your line might be muted.

Christine Healy
Scotia Capital Markets

Q

Hi. Good morning, guys. Sorry about that. I just wanted to follow-up, I guess on the question on the refillable pouches, and maybe I missed it in your opening comments, Rik. So, it seems like the pouch opportunity may not be as good as you once hoped when Allentown came up. Do you plan on still trying to expand the pouch volumes at that lower margin or are there other products that you could possibly process at Allentown to fill the capacity?

Hendrik Jacobs
President & Chief Operating Officer

A

It's both, Christine. I mean, we will be putting or we will be filling up that factory and we will be coming out with a separate announcement on that. I think within the next four weeks or so. So, we're going to fill up that facility with other equipment, but at the same time, the lines that we have both on the West Coast and on the East Coast, we're going to fill those up, one way or the other.

Christine Healy
Scotia Capital Markets

Q

Okay. So, the existing lines that you have dedicated to pouches will remain dedicated to pouches and you'll fill them up, but the rest of the capacity at Allentown you'll announce that you're doing something different, different products there?

Hendrik Jacobs
President & Chief Operating Officer

A

Yeah. I mean look if you have a situation where you have overcapacity in the market, it doesn't make a lot of sense for us to then put more pouch lines in, right, of the same. But there are other alternatives that would work very, very well in the Allentown facility. And as everybody will realize, we've just yesterday had our board meeting and have gotten approvals on go ahead on what else we're going to do. So, we'll come out with some announcements on that.

Christine Healy
Scotia Capital Markets

Q

Okay. Make sense. Thanks. I just wanted to confirm. And then turning to the Consumer Products segment, margins in that segment on my calculations are tracking about 8% when you strip out the plant upgrade costs. So it's still quite a bit below the targeted 12% to 14%, but Rik in your comments you still seem confident that you can increase the margins in that segment with Modesto and the juice plant. Do you believe you can fully close the margin gap through organic means, gradual plant expansions, top line growth or do you think you'll require acquisitions to really move the needle for that segment?

Hendrik Jacobs
President & Chief Operating Officer

A

Well, look, I think we are really looking at the overall food business, right and how that margin is going to fall between the different segments that might be a little bit different as we source more and more of our stuff for example through our own Global Sourcing and Supply group. But if you are just saying in the overall foods business we've basically said, look we want to reach at the end of next year about an 8% operating margin, and if you didn't bridge from where we are today to where we want to be in the overall foods business at 8%, today without these one-time costs our operating margins are about 5% already right and those one-time costs are now going to go away. Then we just talked about the capacity expansion in aseptic that's starting in Modesto in February. That is a significant uptick because that is a very good segment for us as everybody realizes.

Then you are going to have the ramp up of San Bernardino. And we are commissioning San Bernardino, right now. Obviously, that facility has been out of the air for a year and half. So, it's going to take a little bit time to fill that plant up, I wouldn't expect miracles overnight over there, but by the end of next year, we should have a full San Bernardino. Then if you look at the cost initiatives that we are taking in our operations, plus the innovation pipeline, I mean it makes me confident that we remain on track on the overall foods business. Does that mean 12% Consumer Products or 11% of Consumer Products? That I think is the range I guess that you're talking about. It should be our highest margin product, because this is where we add the most value to our customers, but we remain committed to overall foods at 8% operating.

Christine Healy
Scotia Capital Markets

Q

Okay. And just a last one for Rob. Can you talk to us about your capital projects? CapEx today is only $12.5 million, so it's well below. I guess your guidance was $30 million to $35 million. Have some projects been pushed out or is Q4 going to be a big CapEx quarter, can you just talk about that?

Robert McKeracher
Chief Financial Officer & Vice President

A

Yeah. Sure thing. There is a little bit of a push out. As Rik mentioned, some of the new expansions, the big dollars that we spend in Modesto are more into the first quarter of 2015. As well, there is some elements of financing that have taken some of the capital out of cash flow so to speak. So the spend in the overall commitment of building and increasing capacity is still pretty much there, but yeah, the overall out-of-pocket, if you will, cash flow is lower. So when we add operating leases, Christine, that [indiscernible] (25:33) our balance sheet

Christine Healy
Scotia Capital Markets

Q

Okay. Great. Thanks so much, guys.

Steven R. Bromley
Chief Executive Officer & Director

A

Thanks, Christine.

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

Tim J. Tiberio
Miller Tabak + Co. LLC

Q

Good morning, guys.

Robert McKeracher
Chief Financial Officer & Vice President

A

Hey, Tim.

Tim J. Tiberio
Miller Tabak + Co. LLC

Q

I just wanted to follow back on the aseptic beverage category. It is clear that, obviously you are capacity constraint, but can you maybe just speak to what you're seeing as from an overall industry perspective? Are you seeing the overall industry as constrained as well? Maybe you can just give us a sense of how you see that developing over the next 12 months? And maybe you can also just give us a better sense of what the barriers to the entry are in aseptic beverage versus some of your other Consumer Product groups?

Hendrik Jacobs
President & Chief Operating Officer

A

Yeah. So if you look at the overall industry dynamics, let's first – we are in non-dairy and also, now in dairy and we are in nutritional. If you look at those categories overall, we should see 10% to 12% growth rates on non-dairy, nutritional is growing 15% to 20%, something to that. I mean we have made tremendous investments. If you look at the investments that we're making in Modesto right now, that's going to be more than $20 million right there. A processing unit that we're putting in to be able to process these – sorry we paired up with filling lines that we're putting in, a processing unit like that is going to run close to $10 million and that's just a unit, you're not talking about a building. And then, on top of that, there is a heck of a lot of knowhow that we've built up as a company. And I would argue with you that we are the highest quality, most reliable aseptic contract manufacturer out there. And that's not only because I'm saying, you also see that. So if you look at Modesto two years ago, we did about 10 SKUs maybe. Right now our factory is doing 45. And couple of years ago it was three customers, now it's more than 10 customers.

Tim J. Tiberio Q
Miller Tabak + Co. LLC

Perfect. And I guess going back to the question of organic versus M&A growth, even with these additional lines that are being added, based on the growth numbers that you're talking about, is this a scenario where you may even have to look at M&A to really keep up with the growth? And are there any attractive potential assets even out there in the market?

Hendrik Jacobs A
President & Chief Operating Officer

Yeah. You know what, we evaluate targets like on an ongoing basis and I think we have about three of them right now that we are trying to get across the finish line, but as Steve already commented in his prepared remarks, we have to also be prudent. When we find something that is strategically very, very appealing to us – and what do we mean by that, that those goes into our core of healthy beverages and healthy snacks, we are prepared to pay a high multiple for that, but not to the degree where we can't make it accretive anymore in year two. It doesn't have to be accretive in year one for us, it has to be accretive in a fairly short period of time, right, if it's truly strategic and right in the core of our business. But I think everybody on the line knows how high the multiples have been for some of the companies in the organic space. I think one of the more recent ones was I think Annie's at four times their annual sales. well, at those kind of levels it becomes little bit challenging to make that accretive for us.

Tim J. Tiberio Q
Miller Tabak + Co. LLC

Great. And just one last question. I think several quarters back you had talked about potentially looking at further rationalization in the fiber ingredient plant network, but we've seen very strong operating trends in the quarter. Can you kind of just frame that up for us at this point. Has anything changed significantly within the fiber ingredients business that would maybe give you cause to pursue further rationalization at this point?

Hendrik Jacobs A
President & Chief Operating Officer

If you look at the value added ingredients, it's obviously bigger than fiber alone right and the real driver of the growth in the revenue as well as on the margin is really our fruit business, so the fruit ingredient business, that is really performing very, very strong. The fiber is fairly flat right now. So, if it is fairly flat, and we have excess capacity, we need to continue to look at what is the right way forward with that business and that definitely includes looking at potential rationalizations as well.

Tim J. Tiberio Q
Miller Tabak + Co. LLC

Great. Thanks for your time.

Steven R. Bromley
Chief Executive Officer & Director

A

Thanks Tim.

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

Chris Krueger
Lake Street Capital Markets LLC

Q

Hi, good morning.

Steven R. Bromley
Chief Executive Officer & Director

A

Hey Chris.

Chris Krueger
Lake Street Capital Markets LLC

Q

Hi. Another question on the aseptic beverage business. What has been your actual growth rate in that business the last say two years, if you can give that?

Steven R. Bromley
Chief Executive Officer & Director

A

We've never disclosed that publicly, but it's as fast as we've been able to keep up with capacity.

Robert McKeracher
Chief Financial Officer & Vice President

A

This is sort of a roundhouse number, but it's well over 30%, 35% CAGR.

Chris Krueger
Lake Street Capital Markets LLC

Q

Okay.

Steven R. Bromley
Chief Executive Officer & Director

A

Just in the last year. I think we've probably will have added something like $50 million worth of business.

Chris Krueger
Lake Street Capital Markets LLC

Q

How much of a percentage your consumer products business has grown to become?

Robert McKeracher
Chief Financial Officer & Vice President

A

Half.

Steven R. Bromley
Chief Executive Officer & Director

A

Yeah. Little bit more than half.

Chris Krueger
Lake Street Capital Markets LLC

Q

Okay. Moving on from that, on your segmented breakdown, your corporate services, your expenses there were $3.3 million, it seems to have kind of accelerated this year versus last year, what's driving that, and how should we look at that going forward?

Steven R. Bromley
Chief Executive Officer & Director

A

Well, Chris one of the good news stories in that line is year-over-year because of the improved performance in the business, we're accruing much higher level of incentives, bonus incentives given our results versus where we're targeting internally and where those are things are, so that is well over half of the jump in that line. The balance of the jump in that line are related to our realignment and additional professional resources that we've added to really position the company to go through this next growth phase and I'm talking about operations personnel, and R&D innovation personnel, M&A personnel that have been added over the last year. So, it's professional personnel combined with just a higher incentive being accrued this year versus the prior year, when our results were obviously not up to what we were expecting internally and thus the accruals were different.

Chris Krueger
Lake Street Capital Markets LLC

Q

Okay. And then one last question back to the value added ingredients. I think I've asked this before, but I know a couple of years ago you announced the rice fiber product, has that really made much progress?

Steven R. Bromley
Chief Executive Officer & Director

A

Yeah. We're selling the rice fiber now more than what we have before. It's basically a gluten-free fiber, right. So, that makes it attractive to people. So yes, we're selling it. Yeah, I don't think we can divulge company names, but there are some very interesting names that we're selling into. So it's more and more.

Chris Krueger
Lake Street Capital Markets LLC

Q

Okay. Good to know. That's all I got. Thanks.

Operator: Our next question comes from the line of Ron Reuven with Reuven Capital Investments. Your line is open.

Yaron Reuven
Reuven Capital Investments

Q

Hey guys. How are you?

Steven R. Bromley
Chief Executive Officer & Director

A

Good Ron. How are you?

Yaron Reuven
Reuven Capital Investments

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All right. So in regards to the Mascoma write-down, I guess last year you took a write-down, and I know it's a non-cash item, but it was about $21.5 million if I remember correctly and then today it's another $8.5 million. What's the remaining value or is there any remaining value for your holding?

Robert McKeracher
Chief Financial Officer & Vice President

A

So a little bit of history there first Ron, just you are probably aware of this. When we sold SunOpta BioProcess in 2010, because we decided -- we realized that where our core business is natural and organic foods and being in a biomass processing business that's focused on cellulosic ethanol didn't fit with the company. So we sold our interest to Mascoma and took back – we had no book value on the business and we took back stock in Mascoma, no cash and at that time we recorded a large gain, the value accreted under accounting was around $33 million to the company, non-cash and when we set that up in our results, immediately said to everyone, backed that out of our results, it's a noncash gain, and there is nothing gained until we actually get cash proceeds. Then last year, based on the market dynamics, in 2010 we got good value for the business, because cellulosic ethanol was hot, hot, hot. I think most people are aware that the roll out of cellulosic ethanol has been much slower and much more difficult and kudos to the management team at Mascoma who really changed their business model to adapt from being a very high asset business model to an asset light model and out selling their bioengineered yeast products into both corn to ethanol and then into cellulosic ethanol, but of course cellulosic ethanol has not done well. When you take a look at cellulosic ethanol companies, a public company that was involved in cellulosic ethanol KiOR went bankrupt yesterday.

So we took a write-down last year to really mark that investment back to what would be a fair market value at that time, based on the market. So what has happened now is that Mascoma have sold their yeast business for cash and royalties, et cetera. The business is then left with a number of assets and cash as well. And so you'll see on our balance – so we've written it down, we have on our balance sheet what the estimated cash proceeds will be and that's $4.8 million.

Yaron Reuven
Reuven Capital Investments

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And that's the cash proceeds [indiscernible] (37:18)...

Robert McKeracher
Chief Financial Officer & Vice President

A

And some of the cash proceeds will start before the end of November.

Yaron Reuven
Reuven Capital Investments

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Okay. And wait, so the carrying value of what you have is $4.8 million or what you're getting out of this?

Robert McKeracher
Chief Financial Officer & Vice President

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Carrying value is $4.8 million, and Ron that's the estimated cash that comes initially as well as the estimated revenue streams that come from royalties over the next years.

Yaron Reuven
Reuven Capital Investments
Q

And in regards to the acquisitions, I guess we've talked about it a couple of times during the conference. As far as you mentioned you had three targets, but I mean generally what size companies are you looking at I mean is there a specific size that you're looking for because I know in the past you mentioned you're looking for relatively larger transactions than in the past, is that still the same, is there a range of sizes of companies that you're looking at?

Steven R. Bromley
Chief Executive Officer & Director
A

Yeah. So you know what Ron, I can tell you that there is big ones and little ones. And some of the smaller ones if they strategically fit and by smaller, you know $25 million to $50 million revenue type companies that are a nice strategic fit, we're not against looking at those. I think as you and I've chatted in the past, we'd like to do more meaningful larger acquisitions and so we're certainly involved in processes for those as well. The balance sheet is strong, we have $135 million, we can just turnaround and borrow it, to whatnot. It's available within the facilities that we have and of course when you're acquiring businesses, they come with assets as well that you can borrow against, so we're in a good position to do larger deals. And as Rik has said, we've got a number that are in our pipeline and being evaluated. We are quite disciplined and by disciplined, I mean we want businesses that strategically fit within the core of what we're doing, and that the valuation is reasonable so that we can build value off it. We haven't done a lot of acquisitions over the last couple of years, and quite frankly, one of those reasons was, we've been so darn busy, we've expanded six facilities over the last two years and so, we've had a lot of resources expanding internally. But we are quite confident in our ability to grow and do some of those acquisitions and so we are working hard to hopefully complete some of those.

Yaron Reuven
Reuven Capital Investments
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Okay.

Steven R. Bromley
Chief Executive Officer & Director
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And as you know, Ronnie, nothing is cheap these days.

Yaron Reuven
Reuven Capital Investments
Q

Yeah. Yeah. I think with the way the market is right now, everything has gone up in value, but, I guess, if it will make sense, you know, it's...

Steven R. Bromley
Chief Executive Officer & Director
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Absolutely.

Yaron Reuven
Reuven Capital Investments
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...strategic to our goals.

Steven R. Bromley
Chief Executive Officer & Director
A

Yeah.

Yaron Reuven
Reuven Capital Investments

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Wait. So, I think just going back to the Mascoma, so I guess, the overall valuation that you are putting on the entire company is somewhere around $25 million, after this recent sales they've made if your carrying value is about $4.8 million?

Steven R. Bromley
Chief Executive Officer & Director

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What's the answer?

Robert McKeracher
Chief Financial Officer & Vice President

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Yeah. You can look – if you're trying to look at from what our percentage of the ownership is and back into it.

Yaron Reuven
Reuven Capital Investments

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Yeah.

Robert McKeracher
Chief Financial Officer & Vice President

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I mean, you'd be in the zone, I guess, but really the approach towards how did we land on $4.8 million as an estimated carrying value, it's really more based on the residual assets, and what we think SunOpta will receive in proceeds as those are liquidated. So, it's a little bit of a different approach in terms of valuation for that remaining business.

Steven R. Bromley
Chief Executive Officer & Director

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Ron, the enterprise value would be higher because keep in mind that they have to discharge the debt that they have, right. There is debt that was there as well that needed to be discharged. So, I guess that's more of the market cap.

Yaron Reuven
Reuven Capital Investments

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Right. Right. No, I guess, I'm just trying to figure out, I mean, as far as if they sold these assets that they recently have and they are still – the core business is still [indiscernible] (41:19) and so, if the business itself is still the same as it has been in the past, I guess I'm trying to figure out why it's gone down in value so much and why is it the – I guess the big need of lowering the value of it so much in the last year or so, last year by $21 million and another $8 million now, so...

Robert McKeracher
Chief Financial Officer & Vice President

A

Look, you know what, Ron, in all fairness to them, the markets are tough, it's tough to raise money in those markets now. So, companies like Mascoma, look there's only so much that I can say about Mascoma, but they are like a lot of companies that are in that space right now who are wondering where their next fundraise is going to come from and that sort of thing. So, personally I think what Mascoma did was extremely prudent, and you know there's still assets, there's still a business there that can be managed and liquidated or they can do as they please, but we're very pleased with what they did.

Yaron Reuven
Reuven Capital Investments

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All right. And last question, in regards to the Opta Mineral. I know you've mentioned in the release that it's still being evaluated in regards to timing. Is it still something that you expect to happen I guess within the next 45 days, before the end of the year or is that something you think is probably going to carry into the first or maybe in the second quarter of 2015?

Robert McKeracher
Chief Financial Officer & Vice President

A

You know what Ron, that's a really hard one to put my finger on, and I'd be sort of guessing if I was to try and put a timing on it. I mean, look at the results in the third quarter were tougher, but they've got some really good things happening with new business et cetera. And, we remain committed to moving forward in the process, and I mean, we're just moving forward and continuing in the process, and can it be done? It's just not real practical for me to try and predict the timing.

Yaron Reuven
Reuven Capital Investments

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All right, cool. Good quarter, guys.

Steven R. Bromley
Chief Executive Officer & Director

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All right. Thanks a lot.

Robert McKeracher
Chief Financial Officer & Vice President

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Thanks, Ron. Take care. Bye, bye.

Operator: And I'm not showing any further questions in the queue at this time. I'd like to turn the call back over to management for closing remarks.

Steven R. Bromley
Chief Executive Officer & Director

Well, great. Listen, thanks everyone for joining the call, and thanks for the questions. We appreciate you taking the time today. We're excited about our company and where we're going. And we look forward to chatting with everyone again soon. So, thanks for joining the call and we'll talk to you 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 good day.