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PRESENTATION

Operator

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

As a reminder, please note that the prepared remarks, which will follow, contain forward-looking statements, 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 risk factors contained in SunOpta's press release issued this morning, the Company's annual report filed on Form 10-K and other filings with the Securities and Exchange Commission for more detailed discussion of factors that could cause actual results to differ materially from those projections and any forward-looking statements.

Finally, we would like to remind listeners that the Company may refer to certain non-GAAP financial measures during the teleconference. A reconciliation of these non-GAAP financial measures was included with the Company's press release issued earlier today.

Also, please note that, unless otherwise stated, all figures discussed today are in US dollars and are occasionally rounded to the nearest million. And now I would like to turn the conference call over to SunOpta's CEO, Rik Jacobs.

Rik Jacobs - *SunOpta Inc. - President and CEO*

Good morning and thank you for joining us today. With me on the call today is Rob McKeracher, our CFO. We have just completed a transformational year for SunOpta, and I would like to begin by briefly discussing our investment highlights, Q4 and how we reshaped our business during 2015, as well as where we stand strategically today. I will then discuss our operational goals for 2016 as we build upon our investments in our production capabilities, people and processes. After that, Rob will take you through our fourth-quarter results, update you on our expanded financial capacity, and then we look forward to taking your questions.

I would like to remind those on the call that there is an accompanying presentation on the Investor Relations page of our website, which we will reference today in our prepared remarks.

Also note that, unless otherwise noted, all of our financial commentary on this call refers to continuing operations, which is now just our food operations.

So slide 2 is regarding forward-looking statements, which the operator already covered. So if you would kindly turn to slide number 3.

With the pending divestiture of Opta Minerals, we are now truly a pure-play organic and non-GMO food company with a particular focus on private label in healthy beverages, healthy fruit and healthy snacks.

So forging our consumer products segment, we have built the largest supply chain in organic raw materials and ingredients in the world. And what truly sets us apart is our unique fully integrated field to table business model. In fact, roughly 40% of our consumer product offerings, before factoring in Sunrise Growers, are already two [ducts] a day, meaning we source our raw material and package the product for final consumption.

We have leading positions in numerous segments, including non-dairy aseptic beverages, private label frozen fruit, and private label juices.

Finally, we believe we have built a scalable business platform with significant revenue runway investments completed in the last couple of years that we now need to fill. Our strategy is underpinned by changing consumer trends. These trends are based on an awareness of linkage between diet and health, the search for cleaner label products, and evolving demographics, especially millennials. With that, please turn to slide number 4.

In Q4, our revenue grew by 5.5%, which is faster than the growth rate we have experienced for the full year at 4.1%, although still below the rate, I believe, we should be capable of achieving, given the investments in our facilities. The adjusted EBITDA for the quarter came in at $14.2 million, and it is important to note that our latest acquisition, Sunrise Growers, delivered EBITDA in line with our expectations. Our adjusted earnings per share was $0.03.

We anticipated some one-time costs given the Sunrise Growers acquisition closing during the quarter, but several other nonrecurring and operational challenges also impacted the results. We are intensely focused on strengthening operational efficiency and execution, expanding margins, optimizing our portfolio, and business structure and reducing our leverage ratio. To this point, we have reset the management incentive programs around margin improvement goals and leverage reduction targets. We are shaping SunOpta to take advantage of a very attractive market opportunity and look forward to delivering on our 2016 goals for the benefit of all of our shareholders. Please turn to slide 5.

While we did not meet our financial goals for the year, it is fair to say that we have just concluded a transformational year. We completed three strategic acquisitions -- Sunrise Growers, Citrusource, and Niagara Natural -- which, combined, add about $350 million of annualized revenue to our Company.

We continue to achieve a notable growth in international organic ingredients and, although, we will start lapping tougher comps, our international sourcing projects, which have been built up over many years, put us in the position to continue to take advantage of growing end markets. And we finished several significant capital projects, adding capacity to support growing demand in aseptic beverages, healthy portable snacking, and premium private label juices.

The transformation is also happening in our sales mix as, during the fourth quarter, consumer products accounted for 55% of total sales, the first time in our history that CPG has accounted for the majority of our revenue.

Our acquisitions and capacity expansion solidify our leading positions in the fast-growing organic and non-GMO food markets. We have also built scale in our key consumer products platforms -- healthy fruit, healthy beverage and healthy snacks. Each acquisition and project achieves our strategic goal to build turnkey category solutions for retailers and food service operators by expanding our focus on the fast-growing organic and non-GMO private-label market. In fact, we expect a majority of our growth to come from private label for three key reasons. First, private label, organic, and non-GMO is a high growth segment. Given the lack of dominant organic brands and categories that are rapidly penetrating conventional retailers, the private-label opportunity is significant. Millennials, especially, are looking not only for organic but also for value, which means they are much more inclined to buy private-label brands.

Second, in these emerging categories, it would be extremely rare for retailers or food service operators to invest in physical assets. And the pace of change in consumer preferences, enhanced product innovation almost demands that captive brands be outsourced.

And, third, selling to retail also satisfies our (technical difficulty) strategy where we capture higher value end margin by leveraging our unique vertical integration.

Please turn to the next slide. So let me discuss our 2015 accomplishments in a bit more detail and elaborate on how we have built a stronger foundation for growth and improved financial performance in 2016.

In healthy beverage, first of all, we have enhanced our capacity in both aseptic nondairy beverages and premium juices. The Allentown aseptic operation began producing, late in Q4, and while as expected, it did not favorably impact the quarter, we are beginning to win incremental business. The opening of an East Coast facility has added to our competitive advantage as we can now produce aseptic products for national and regional customers on the East Coast, the Midwest and the West Coast. While we do not disclose specific customers, we have already signed multi-year contracts with two leading national customers, given our enhanced geographical footprint.

In premium juice, we have now fully integrated Citrusource's volume into our San Bernardino facility. Beyond the gross profit enhancement from this move, we believe we have further opportunities on the extraction and ingredient side with the San Bernardino facility that will take some time to materialize.

Second, in healthy fruit, the acquisition of Sunrise Growers immediately puts us into a leading position in private-label organic and conventional frozen fruit. The acquisition, which closed during the fourth quarter, transforms our existing fruit platform.

As mentioned earlier in my remarks, Sunrise delivered EBITDA in line with our expectation during its first quarter as part of the SunOpta family. Despite a double-digit shelf price increase at most retailers early in the quarter, that temporarily impacted velocity.

Integration is progressing well, and we are on track to meet our target of (technical difficulty) of cost synergies.

The first major integration step to achieving our synergies is now underway. We will be closing our Buena Park frozen food processing facility by the end of Q1 and consolidating this volume into Sunrise's Kansas and California facilities. This consolidation alone should achieve the majority of our expected synergy savings for the year, and we further expect to achieve sourcing benefits as the integration progresses.

Third, in our healthy snacks platform, we have fully integrated Niagara Natural and have begun strategically shifting production to match our customers' geographic locations. Niagara is also contributing to our innovation pipeline with our innovative fruit ingredient capabilities.

We are showcasing our turnkey solutions for the private-label nutrition bar category to retailers as we speak. This strategy is an important component of our goal to achieve 10% snack growth in 2016. Our offering is a standardized assortment of products for private label where we can provide category management services and commit to refreshing the offering as innovation in the bar category occurs.

With this, we can ensure that our retail customers will stay ahead of the ever-changing consumer taste in bars.

In global ingredients, we remain well-positioned with our focus on organic and non-GMO sourcing and ingredients. We continue to have strong momentum in the international sourcing of organic ingredients, which was up 33% in Q4, and by the way, this only counts external revenue and not the incremental sourcing base we are doing on behalf of our consumer product segments.

There is a real benefit to bringing materials all the way from the field to the table, especially as growth and demand is expected to continue to outpace growth and supply for the foreseeable future.

Global commodity declines continue to pressure our reported revenue, but market demand remains robust. We have enhanced our capabilities during 2015 as we acquired the majority ownership of Selet Hulling, a premier supplier of organic sesame, and we were also the first in the United States to achieve the USDA process verified program certification for non-GMO products in our Hope, Minnesota facility, which we have been expanding to other facilities throughout the year. And, further, we are pleased that we were able to announce a definitive agreement for the divestiture of our interest in Opta Minerals.

We also opened the SunOpta Innovation Center, allowing us to deliver more value to our customers via proactive innovation. And, finally, we were recently entered into a new global asset-based (inaudible) facilities at better rates, which gives us more flexibility and enhanced liquidity across the Company.

With that, please turn to slide 7. Last quarter, I laid out our operational goals for 2016, and I would like to reiterate those goals today. We have put in place milestones to measure our progress as a team. In healthy beverage, we believe that we will increase gross margin in chilled juice by at least $6 million, thereby achieving breakeven or better in that business, while also converting our pipeline in aseptic nondairy to achieve double-digit top-line growth. As mentioned earlier, we have already won new multi-year contracts in aseptic as well a result of our enhanced geographic production footprint.

In healthy fruit, we are committed to successfully integrating Sunrise Growers and maintaining its strong growth rate. At the same time, we are on track to capture the cost synergies we identified, which would add an extra $5 million to $7 million to the bottom line in 2016.

As I mentioned, our first step to achieve the synergies is in process with the planned closure of Buena Park facility and consolidating volume into Sunrise facilities. In healthy snacks, we have identified fruit snacks as a key growth area as we look to drive growth of at least 10%.

For bars and pouches, we plan to to fill the available capacity with higher profitability of private-label products, especially in bars. All three categories must be heavily supported by increased innovation, and we are planning on at least $10 million of new product innovation hitting the market in 2016.

We will be launching a new line of nondairy beverages with enhanced taste profiles to help grow the category, and we will be launching a combination of fruit and nut bars in the spring with a national retailer.

We remain committed to reduce our SG&A, targeting to be below our stated goal of 8%. We have taken specific actions during the first quarter to ensure that we deliver upon this goal.

Please turn to slide 8. I also want to reiterate what we discussed at the end of Q3. We must excelute, which stands for excellence in execution, in order to capitalize on the investment we have made during the last few years. We believe we're well-positioned in the right categories with the right assets and the right people. We expect to see steady improvement in profitability throughout 2016 as we leverage our recent investments.

Our execution focus is on customers, costs and employees.

Professional loyalty is up. We measure this each year through an independent third-party, and we improved our score by more than 10% in 2015. This shows that our efforts in key account management are starting to pay off.

On costs, as I mentioned, we are committed to taking actions to tighten our belts further on SG&A costs as a percent of revenue, but our cost focus is primarily in our supply chain. We have opportunities in logistics and warehouse costs, and inside our factories, we must focus on reduction through better planning to reduce downtime as well as improve yields.

Employee engagement is also up. We have made a lot of structural changes over the last two years, but the management team is now largely in place and employees understand more and more what our purpose, core values and strategies are, which is translating into higher engagements for us, which we also measure every year.

So please turn to slide 9. We are off to a good start in Q1. We are executing against the Sunrise synergy plan, and Sunrise sales momentum has sequentially improved over the fourth quarter. In aseptic, we signed contracts with two large customers, reflecting the benefit of our new East Coast production capabilities, and we are launching private-label snacks and beverage innovation.

We expect some modest progress in Q1 from Q4, but we will also continue to see some margin pressure as filling out our new capacity additions takes time. The fruits of our efforts should be more apparent later in the year. Our goal is to demonstrate sequential improvement of EBITDA and CPG margins as the year progresses, which are two of our key measures for 2016.

Now, with that, Rob will walk you through the fourth-quarter numbers. Rob, over to you.

Rob McKeracher - *SunOpta Inc. - VP and CFO*

Thanks, Rik, and good morning, everyone. I recognize that there are lots of moving parts to our financials, given the Sunrise acquisition, one-time costs, and Opta Minerals being reclassified as a discontinued operation held for sale. So I will take you through revenue, margins and earnings, as well as highlight our EBITDA and cash flow performance during the fourth quarter.

Adjusted EBITDA was $14.2 million during the fourth quarter, and we generated cash from continuing operations of $26.1 million before a number of costs that I will explain in a few moments.

Please be advised, unless otherwise noted, I will be referring only to our food operations. Please turn to slide 10.

Slide 10 shows our revenue breakdown by segment. Revenues for the fourth quarter of 2015 were $316 million, an increase of 26% from the year ago period. Much of this growth is driven by the acquisition of Sunrise. After adjusting for the impact of changes, including commodity prices, foreign exchange rates, product rationalizations, and acquired businesses, on a normalized basis, consolidated revenues increased 5.5% compared to the fourth quarter of 2014.

Global Ingredients reported revenues of $143.5 million, growth of 1% over the fourth quarter of 2014. However, on a normalized basis, revenues in global ingredients grew 4.2%. This growth is driven by robust market demand for organic fruits and vegetables, cocoa, seeds and nuts.

Compared to the fourth quarter of 2014, we experienced 33% normalized growth in our Global Ingredients platform that is focused on internationally sourced organic raw materials.

On the domestic side of Global Ingredients, revenue declined 24% in normalized basis, due mainly to the strong US dollar pressuring our export business and lower domestic sales of seed.

During the quarter, Global Ingredients recognized approximately $2 million in costs, primarily related to inventory reserves and low-margin sales in an effort to derisk inventory exposures.

Within Consumer Products, revenues grew 59% over the fourth quarter of 2014 to $172.9 million, reflecting $53 million of incremental sales from Sunrise Growers, which was a partial quarter, as well as the acquisitions of Citrusource and Niagara Natural. Normalized revenue growth inside consumer products is 7%.

In healthy fruit, Sunrise Growers met its EBITDA target for the quarter, despite sales velocity being temporarily impacted by meaningful price increases taken during the quarter to pass along higher fruit costs. The pricing taken and good costs control were key elements in Sunrise achieving its target. It should be noted that Sunrise's fourth-quarter revenues also reflect some seasonality as the business often sees a spike in sales in the first quarter.

In healthy snacks, an equipment failure at the Allentown facility impacted our ability to fill pouch orders, leading to a $2.5 million revenue shortfall. During the quarter, we experienced $2.2 million in costs associated with equipment failures, primarily as a result of this downtime, which lessened lower plant efficiencies, higher spoilage, and price concessions to certain customers.

In healthy beverages, we were able to continue to add new aseptic business to our national network, allowing us to more than compensate for the loss of volume from a major customer that began earlier in 2015.

Focusing on aseptic beverages, we realized sequential quarterly growth of approximately 5% versus the third quarter of 2015 and 9% growth over the fourth quarter of 2014. However, despite the positive revenue development, margins continue to be pressured as a result of the incremental capacity we added in 2015.

Turning to slide 11, you will see that during the fourth quarter we generated gross margin of $25.2 million or 8% of revenues as compared to $23.6 million or 9.4% of revenues a year ago. Gross margin is negatively impacted by $4 million in higher costs as a result of the acquisition accounting adjustment related to the Sunrise inventory that was sold subsequent to the acquisition date; reserves for inventory in addition to realizing low margin sales in an effort to reduce inventory exposures which in total cost $2.4 million; $2.2 million of costs due primarily to downtime and spoilage stemming from the equipment failure of the Allentown pouch facility; and $0.2 million of costs as a result of nonrecurring logistical issues leading to demurrage, tension and other related expenses that was first reported in the third quarter.

Excluding these items, difficulty), gross margin in the fourth quarter would have been approximately 10.7%.

During the fourth quarter, we also incurred approximately $1.9 million of costs related to the expansion of our East Coast aseptic facility and the ramp-up of our premium juice facility to increase production levels. For the fourth quarter, we reported an operating loss of $1.7 million or 0.6% of revenues compared to operating income of $4.2 million or 1.7% of revenues in the fourth quarter of 2014. The fourth-quarter performance was impacted by a number of items that are not reflective of normal operations, including the $10.6 million in costs impacting gross margin I just mentioned.

In addition, during the fourth quarter, we continue to incur costs associated with an ongoing litigation for $0.5 million, which is offset by a $0.6 million gain due to reversal of performance-based stock compensation expense. Excluding all of these items, operating income during the fourth quarter would have been approximately $8.8 million or 2.8% of revenues.

For the fourth quarter of 2015, we reported a loss from continuing operations of $13.6 million or $0.16 per diluted common share compared to earnings from continuing operations of $5.1 million or $0.07 per diluted common share during the fourth quarter of 2014. Excluding the after-tax impact of all the items not reflected of normal operations and $17.2 million in other expenses related primarily to business acquisitions, severance and asset disposal charges, offset by a $0.9 million gain related to previously unrecognized tax benefits, adjusted earnings were $2.4 million or $0.03 per diluted share compared to adjusted earnings of $5 million or $0.07 per diluted share in the fourth quarter of 2014.

We realized adjusted EBITDA of $14.2 million during the fourth quarter as compared to $9.6 million in the prior year.

I would like to remind listeners that adjusted EBITDA and adjusted earnings are non-GAAP measures, and a reconciliation of these measures to GAAP can be found towards the back of the press release we issued earlier this morning.

Turning to slide 12, from a cash flow perspective during the fourth quarter of 2015, we generated $26.1 million in cash from continuing operations versus cash used in continuing operations of $15 million a year ago. The improvement in cash from operations reflects cash generated from reductions in working capital in the fourth quarter of 2015, whereas in the prior year, we were adding working capital, in particular, inside Global Ingredients, to help fuel the growth of that segment.

We use $481 million of cash and investing activities from continuing operations during the quarter, primarily to fund the purchase of Sunrise, as well as $9.2 million of net capital expenditures.

Finally, from a financing perspective, we generated cash of $360 million from continuing operations during the fourth quarter, primarily as a result of $330 million of second lien debt borrowed to fund part of the purchase price of Sunrise Growers in addition to borrowings on our line of credit facilities.

Excluding the after-tax cash impact of approximately $6.2 million of costs not reflective of normal operations, cash flows from continuing operations would have been approximately $32.3 million.

In addition, during the fourth quarter, the Company incurred cash financing costs of $13.8 million related primarily to the acquisition of Sunrise Growers.

If you will please turn to slide 13, you will see our key balance sheet metrics. At January 2, 2016, our balance sheet reflected total assets, excluding assets held for sale, of $1,155,000,000, total debt of $482.8 million, and total debt to equity ratio of 1.15 to 1. For the year, adjusted EBITDA was $62.2 million, which includes the results of businesses acquired in 2015 from the date of acquisition.

At January 2, 2016, our leverage is approximately 5 times pro forma adjusted EBITDA after factoring in the 2015 run rate EBITDA of acquired businesses and cost synergies expected to be realized in 2016. We believe we will delever 1 to 1.5 times over the next 12 to 18 months through a combination of EBITDA growth and positive cash flow resulting in debt reduction.

Included in total debt is $322 million in the form of a second lien loan, which has been classified as long-term debt. On October 9, 2015, SunOpta borrowed $330 million of second lien debt to fund a part of the purchase price of Sunrise Growers. This debt matures on October 9, 2016, and if not life financed refinanced prior to maturity date, any amount of this debt still outstanding will automatically convert into term loans that would mature in October 2022.

Under the terms of our financing arrangements, our lenders may demand that we enter into alternative long-term financing to replace the second lien debt prior to October 9, 2016. However, in either case, the interest rate on this tranche of debt is capped at a maximum of 9.5%.

I would also like to note that subject to certain covenants that exist within our first lien credit facilities, we have the ability to repay second lien debt, and during the fourth quarter, we repaid $10 million principal amount of the second lien loan.

Finally, on February 11, 2016, we entered into a new committed five-year asset-based credit facility that replaced our previous North America and European operating credit facilities. This new facility is $350 million in size, provided by a syndicate of leading global banks and provides increased borrowing capacity, lower interest rates, and enhanced global operating flexibility. This gives us sufficient liquidity to continue to execute on our strategy of maximizing our unique field to table or two-touch business model.

With that, I will turn it back over to Rik who will conclude our prepared remarks.

Rik Jacobs - *SunOpta Inc. - President and CEO*

Thanks, Rob. And if I can leave you all with five key takeaways as we look ahead, it would be the ones laid out on slide 14.

We continue to operate in strong and growing markets that are on trend with consumers' focus on healthier lifestyle. We have a well-defined strategy to drive our business to higher margins. The Sunrise Growers acquisitions make sense, both strategically and financially, and it is performing to plan. We have committed financing on our second lien debt through 2022 at a capped rate, and our new ABL has a five-year term through 2021 giving us ample capital with flexibility. Excelution continues to be paramount, especially in our Consumer Products segment, and we have work to do in this regard.

With that, I would ask the operator to please open up the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Amit Sharma, BMO Capital Markets.

Amit Sharma - *BMO Capital Markets - Analyst*

Rik, you talked about getting to a multi-year contract in the aseptic beverage segment. Can you just help us understand where are we with capacity utilization, and in terms of, as you win these contracts, should we expect you to have a little bit more consistent margin for improvement in this business?

Rik Jacobs - *SunOpta Inc. - President and CEO*

Yes. So breaking down your -- I mean, there are significant contracts. They are with a few of our largest customers today. With that, our asset utilization and given the capacity expansions is about at 60%, and we think we have still about north of $100 million revenue run rate build in this platform.

So we obviously have more work to do. I am excited about some of our proactive innovations coming to market, and that should already start happening in the first quarter. Obviously, that volume should help drive utilization in the facility.

Amit Sharma - *BMO Capital Markets - Analyst*

And what about the margin structure? When do we expect to return to historical margins in this segment?

Rik Jacobs - *SunOpta Inc. - President and CEO*

Yes. You know, as 2016 progresses and we fill up this revenue runway, we have every confidence that it should return to historical margin rates. As you can imagine, it is not the best if you have a 60% utilization, but, again, I would like to remind everybody that a little bit over a year ago we were completely tapped, and we have decided to make a big move in terms of adding capacity. You cannot just add a third off a processor for example. You have to add a full processor.

So, as a result, we have some underutilization. Asset underutilization is even up. We will get back to historical margins.

Amit Sharma - *BMO Capital Markets - Analyst*

And then, one more, Rik -- and you talked about a number of initiatives within the organization in terms of the cost structure, in terms of maybe more efficient (inaudible). And then, we look at the aseptic beverage maybe a little bit more visibility from customer pipeline. Sunrise, it appears to be on track, and the Global Ingredients more focus on the (inaudible) organic business as well.

If you combine all this, should we expect a little bit more consistent -- a little bit more predictable operating performance in SunOpta going forward?

Rik Jacobs - *SunOpta Inc. - President and CEO*

You know, that is obviously always our goal. We have had some (inaudible) unfortunate operational events in the fourth quarter. If you look at our growth rate, overall 5.5% in the fourth quarter and higher than what we've achieved on a full-year basis. If you look at consumer products, growing at 7%, I think that is one of the highest that we have had in the year. And, obviously, in global ingredients, as you rightfully pointed out, organic or raw materials that we source from all over the world, grow again at an incredible base. And that is somewhat offset by domestic, which is the soy, the sunflower and the corn products.

So yes, predictability is what we want and, obviously, is also what our investors want. And I think with all the actions that we are putting in place, when it comes to the strategy, when it comes to the people, and when it comes to the processes, that is what we are driving towards. And it should become more and more apparent as we progress through 2016. Again, what the three key things that we are bonusing, if you like, our management team on is improve the CPG margins, grow the EBITDA, and reduce the leverage. Those are the three key metrics that we are focused on in 2016.

Operator

(Operator Instructions) Mark Sigal, Canaccord Genuity.

Mark Sigal - *Canaccord Genuity - Analyst*

Rik, can you talk a little bit more on aseptic, not so much the customers that you announced today, but progress you are making on filling the capacity with new customers to SunOpta? And then, can you also provide us an update on the premium juice facility and what timeframe you believe is a fair one in terms of assessing progress towards reaching breakeven in that operation?

Rik Jacobs - *SunOpta Inc. - President and CEO*

Yes. So, on the aseptic business, we have traditionally very much been focused on nondairy beverages, and what we are now doing is we are expanding the product categories in which we operate. Think about broth, for example, which is a large category and is growing. Think about nutritional beverages and even think about dairy. We are packing all of those today. And so that is part of what we believe is going to fill our capacity.

The next part of that is, as you go into new product categories, and as we have a new geographic location, both of those put us in a good position to attract new customers. And, in fact, again, we are not in a position to discuss specific customer names, but our aseptic facility, later this year, in Allentown, we will be backing a significant amount of other than nondairy products with a customer -- a new customer that we have never packed for before.

Mark Sigal - *Canaccord Genuity - Analyst*

Okay. That's helpful. And then, just (multiple speakers) juice side. Yes?

Rik Jacobs - *SunOpta Inc. - President and CEO*

Yes. When it comes to the premium juice side, we have been very clear. This business needs to be about above breakeven in 2016. On the bottling side, I am very confident with the addition of Citrusource, by the way, who are also the people that have 30 years of juice experience that we have managing our facility, that we are doing all the right things in the bottling facility. The bottling facility is now 75% filled, and that should be the major driver of improved profitability in 2016.

Where we are only about 30% filled today is in our -- what we have renamed Fresh Pressed Industries, which is really the juice extraction that we sell in tankers to leading manufacturers around the United States. And the reason for that, Mark, is quite simple. We have been out of that -- out of sourcing oranges and sourcing lemons for about three years as we have been rebuilding this facility. And we just have to basically get ourselves back into that market, and that just takes time, building the relation -- rebuilding the relationship with all the California citrus growers.

Mark Sigal - *Canaccord Genuity - Analyst*

Okay. That's helpful. And then, we have heard some instances of quality issues in produce, including berries in California early this year. Is there any -- does that impact Sunrise or your legacy fruit business, or does the diversification -- the geographic diversification at Sunrise brings really into (inaudible) from this?

Rik Jacobs - *SunOpta Inc. - President and CEO*

Yes. I mean, I think what you are referring to is mostly on the fresh produce side. We obviously are on the operating in the frozen produce side, and they have been investing. In fact, what we're going to be getting in terms of berries out of Mexico will double versus what we were able to do last year. They have already installed a second line there to be able to freeze berries. So that is very much on track. And, of course, with our international Global Ingredients platform, we are expanding to other areas of the world. That same strawberry is being grown in Morocco and in Spain as well, and we already have feet on the ground over there.

So should there be a shortage developing on strawberries, specifically, which is still by far the number one product in the frozen fruit category, we believe that we have ample ability to fulfill the demands of our retailers.

Mark Sigal - *Canaccord Genuity - Analyst*

Okay. Great. And then I think you called out a number -- a revenue number for Sunrise. I believe it was $53 million or $54 million in the quarter. Do you have an EBIT or EBITDA contribution?

Rik Jacobs - *SunOpta Inc. - President and CEO*

Rob?

Rob McKeracher - *SunOpta Inc. - VP and CFO*

Yes. I mean, Mark, what we have disclosed is that they are on target. So I think what you can see if you were to go back to the filings is that their revenues -- certainly, we commented on the pricing that they took at market, and that did have a temporary velocity impact. But the important thing is that their margin rate has expanded back to really more traditional levels. So on target and I would say in line with what the previous guidance was for Sunrise.

Rik Jacobs - *SunOpta Inc. - President and CEO*

So remember, it was not a full quarter for us, so you have to adjust for that. But net net, about the same revenue as last year, higher EBITDA margins than last year as a result of passing through the fruit costs.

Mark Sigal - *Canaccord Genuity - Analyst*

Okay. Great. And then, just lastly for me, obviously you called out the kind of one timers in the quarter around inventory downtime at Allentown, startup costs, etc. Can you talk about which of those truly go away? I mean I think Allentown is obviously up and running, but just -- we have kind of dealt with these through 2015, and I think part of the thesis for margin improving is that a lot of these kind of near-term transitory issues don't continue into 2016.

Can you comment on that?

Rik Jacobs - *SunOpta Inc. - President and CEO*

Yes, we can. I mean, look, I think we have had more than our fair share of what I call unfortunate operational events. I call them unfortunate because I think they shouldn't have happened in the first place. Quite frankly, the equipment failure was obviously a significant impact, not only when it comes to you don't get the absorption if you don't produce and you don't get the margin if you don't produce, or you also don't get the revenue when you don't produce. So that is truly a one-time event that should not occur again.

And when it comes to the inventory, we have been selling through a lot of the product into Q4 inside of Global Ingredients. And this is not necessarily on the organic raw materials. This is more on the byproduct streams where we have some long positions. And we just wanted to make sure that we didn't carry those long positions too long because commodity prices are not bouncing back as everybody knows.

Rob McKeracher - *SunOpta Inc. - VP and CFO*

And then, the other one, Mark, just to point out, it was grouped in as the adjustments as part of the cost-related business acquisitions. When you acquire companies, I commented about a $4 million non-cash cost related to the inventory that we acquire. That is $4 million out of essentially $19 million. So there is another $15 million of that cost. It really is a purchase accounting matter to, let's just say, come through our P&L in 2016 and most likely in the first three quarters.

Operator

Eric Gottlieb, D. A. Davidson.

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

I am looking at the Sunrise Growers synergies. $5 million to $7 million, that is what we have stated before, but what is the variability in there that would make it go at the lower high-end?

Rik Jacobs - *SunOpta Inc. - President and CEO*

You know, I don't believe in a lot of variability, especially -- we have announced this, by the way, internally at the end of January already that we will be closing the facility by the end of March. The teams are hard at work making sure that there is no hiccups when it comes to customer service or operations. That is a vast majority of the $5 million to $7 million. Because not only are, of course, are we reducing the fixed cost that we have to incur, we are also getting a lot of logistics benefit, especially as we transfer the volume to the Kansas City -- part of the volume to the Kansas City facility, which is a lot more efficient when you ship to the East Coast.

So that in its own already is -- should get us 90% of the way there, and there are other things that we are working on. So I am confident that we will be more to the high-end as opposed to the low end of that $5 million to $7 million.

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

And looking out to 2017, is it any indications one way or the other as to how that is shaping up? I know it is far away off.

Rik Jacobs - *SunOpta Inc. - President and CEO*

Well, look, I mean, we have been -- since the acquisition, we have said that there should be a minimum of $10 million worth of total synergies. In fact, when we said that, we stated that we should see about $3 million out of reducing our fixed cost and $7 million out of sourcing. We are getting more than the $3 million out of the closure of the facility, and in 2017 is when we are really going to start realizing a lot more of the sourcing. Because, quite frankly, by the time we were finally able to acquire Sunrise Growers on 9 October, most of the contracting had already been done for 2016. So you should expect a similar or larger number than what we are going to be able to achieve in 2016 for 2017.

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

Okay. Moving on for leverage reduction, how much is debt paydown versus EBITDA growth?

Rob McKeracher - *SunOpta Inc. - VP and CFO*

So for 2016, Eric, I think the majority of the leverage reduction will come from EBITDA growth. If I was to range that, I would suggest that three quarters EBITDA growth and maybe one quarter through debt reduction.

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

Okay. And then, how much was FX, if you can take that out?

Rob McKeracher - *SunOpta Inc. - VP and CFO*

Sorry. Say that again, Eric?

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

FX in the quarter -- the impact? You lumped it in with a bunch of other things.

Rob McKeracher - *SunOpta Inc. - VP and CFO*

Yes, sure. Foreign exchange, bear with me here. It was a $600,000 gain in the quarter.

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

Okay. And then, you also mentioned -- last question. You also mentioned that extraction and ingredients will take some time to materialize. Do you have a timetable on that?

Rik Jacobs - *SunOpta Inc. - President and CEO*

Yes. Look, I think that should be ramping up towards the end of 2016, and by 2017 we should get to at least a 50% utilization out of the effects of the facility. But, let there be no mistake, the improvements that we are talking about in terms of achieving inside of San Bernardino, they are mostly on the bottling side. The opportunity for sustainable long-term profitability is when you add extraction to that. Because not only do you then end up selling tankers of juice, you also get the organic lemon oil and organic orange oil, and those are in very high demand in the end markets right now.

Operator

Jon Andersen, William Blair.

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Jon Andersen - *William Blair - Analyst*

I just wanted to ask you a question on Sunrise and frozen fruit more broadly. I think you indicated the sales were, in value terms, relatively flat year over year. What are your growth expectations for the Sunrise business or your frozen fruit business in aggregate, and where are the white spaces or the opportunities for SunOpta to grow that business over the next 24 to 36 months?

Rik Jacobs - *SunOpta Inc. - President and CEO*

Yes, sure. So the frozen fruit business at retail has grown at double-digit rates, and we actually expect that to continue.

What you need to remember, when you are looking at Sunrise, is that about two-thirds of that revenue comes from retail and one-third of that revenue comes from the food service. And food service, where the product was being used in smoothie mixes, etc., etc., that is not growing at double-digit growth.

So in aggregate, we are looking at Sunrise Growers growing between 8% and 10%, basically, in line or slightly higher than what the end markets are. Where do we believe that there are further opportunities for growth? We believe that that is obviously with new and unique blends in current packaging. We also believe that there is packaging innovation opportunities in retail, and one of the big ones, that Sunrise has invested in, is basically in -- with the USDA. That is really being utilized for school lunches. It is utilized all over the world -- or, sorry, all over the country, and they have just installed two high-speed lines to be able to satisfy that demand with the USDA. And there is a lot of incremental demand that we think we can fill for the USDA.

Jon Andersen - *William Blair - Analyst*

From a capacity standpoint in that business, what kind of capacity do you have to kind of grow that business with the current assets that you have, and are there capacity -- additional capital leads as you do grow it at that kind of 8% to 10% level?

Rik Jacobs - *SunOpta Inc. - President and CEO*

Yes. You know, they have invested a lot in incremental capacity, incremental freezing capacity in Mexico, incremental packing capacity in Kansas City, primarily. We will, obviously, be utilizing some of the assets that we have in our Buena Park facility, be it in Mexico or in Kansas City and Santa Maria. They have had -- so they have invested a lot, and they will not require a lot of incremental investment on a go forward basis.

The only thing that we are investigating, to be fair, is are there opportunities for further automation, and those obviously will only make sense if we believe it leads us to a lower cost.

And one last thing I would like to point out, when you talk about the healthy food category, we need to all remember that the penetration of this category today is at less than 30%. So, therefore, it should be a sustainable runway as household penetration increases.

Jon Andersen - *William Blair - Analyst*

That's helpful. Last one for me is on the healthy snack business. It sounds like there is quite a bit of focus here from an innovation standpoint. What could you highlight there, maybe a little bit more in terms of innovation that is coming to market and talk about providing a turnkey platform for customers, and what kind of visibility do you have at this point to maybe some new business wins and in healthy snacks the way that you have been able to kind of articulate a couple of new business wins in aseptic nondairy? Thanks.

Rik Jacobs - *SunOpta Inc. - President and CEO*

Yes. So look, our healthy snacks category consists really of three products. It is the pouches, which is where we have that equipment breakdown; it is nutritional bars; and it is in fruit snacks.

If I start with the last one, in fruit snacks, there is a lot of opportunity, we believe, to innovate where we haven't done so in the past. And, in fact, we will be launching, it is kind of like the fruit/nut crossover. Totally new concept. Very exciting and we will be launching that with a national retailer.

So that is really where we think we have a lot of innovation capability. When it comes to bars, what was hot six months ago in nutritional bars is no longer hot today. We all -- I mean, if you go to the grocery shelf, you continuously see a completely new array of bars. That is very difficult for retailers to keep up with, I think, with our in-house innovation capabilities.

So what we are saying to retailers is, like, look, you can't keep up with your in-house capabilities. You have a huge array of private label to manage. This category is ever-changing. Let us manage that on your behalf. We will make sure that you stay totally on trend. We will come in with a certain set of bars that we then put into your store, and we will guarantee you that in six months we will come out with a new innovation that will be hot at that particular point in time.

That is kind of how we are helping our retail customers stay on trend and ahead of the curve.

Jon Andersen - *William Blair - Analyst*

And then, pouches, Rik?

Rik Jacobs - *SunOpta Inc. - President and CEO*

Yes. With pouches, look, we have very good capacity utilization right now. I am just not happy with the profitability that we are making over there. That is partially as a result of some overcapacity in the market, which, basically, has led everybody to reduce their sales prices. So, again, there it is about how do we innovate appropriately and how do we make sure that what we fill, we actually two-touch that. So we provide ingredients as well as the manufacturing capabilities. So our attention more and more there is also shifting towards the large retailers. And, in fact, in the fourth quarter, we did launch with the two largest retailers in the country under their private-label names with new pouches that offer us a higher, I would say, this takes opportunity for profitability because we didn't reach it in the fourth quarter due to the equipment breakdown.

Jon Andersen - *William Blair - Analyst*

Okay. That's helpful. Last one for me. The change in management incentive compensation metrics towards margins and debt reduction or deleveraging, is this something -- how is this different than the prior program, and is this something you are viewing as kind of a one year or more short-term type of focus, given just some of the operational challenges and given the leverage right now? Or do you see this as more of a long-term system and where you want to focus longer-term? Thanks.

Rik Jacobs - *SunOpta Inc. - President and CEO*

I mean, look, I think that there is -- so we have basically three metrics, and anybody who in the Company is on a wellness program, at least 60% of their wellness will be based on these three metrics. For the management team -- the senior management team, it is basically 100% of their bonus, and it is really about improving the margins, a rally cry for 2016 CPG. Obviously, we believe that CPG inherently where we add more value, we should be able to make a higher margin than what we are making in our raw materials and ingredients business. And that has flip-flopped in 2015, which is that is just basically wrong.

The second one is the EBITDA. So margin improvement in EBITDA, I believe, are two that we will consistently have as we go forward.

The third one, because we are adamant about the fact that we do need to delever from the current 5 times, 1 to 1.2 times in a 12- to 18-month period, the third one, I think, is more of a short-term one just to make sure that everybody is totally focused on this deleverage. And so I would say that the third one has the potential to change as we have -- as we are proving that to be true, so to speak.

Operator

I am showing no further questions. I would like to turn the back call to management for closing remarks.

Rik Jacobs - *SunOpta Inc. - President and CEO*

So, thanks, everybody, for joining us on the call. We do look forward to, hopefully, meeting with many of you as we are at Expo West and sharing some of these innovative products that we have been working on in a line fashion with you, and we hope that you will be encouraged by what you see there.

So with that, thank you for joining, and we look forward to your continuing support.

Operator

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