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PRESENTATION

Operator

Good morning, and welcome to SunOpta's Second Quarter Fiscal 2017 Earnings Conference Call. By now, everyone should have access to the earnings press release that was issued this morning and is available on the Investor Relations page on SunOpta's website at www.sunopta.com. This call is being webcast, and its transcription will also 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 the factors that could cause actual results to differ materially from those projections and any forward-looking statements.

The company undertakes no obligation to publicly correct or update the forward-looking statements made during the presentation to reflect future events or circumstances, except as may be required under applicable securities laws.

Finally, we would also like to remind listeners that the company may refer to certain non-GAAP financial measures during this 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 U.S. dollars and are occasionally rounded to the nearest million.

And now I'd like to turn the conference call over to SunOpta's CEO, David Colo.

David J. Colo - *SunOpta Inc. - CEO, President and Director*

Good morning, and thank you for joining us. On the call with me today is Rob McKeracher, our Chief Financial Officer. This quarter marks another important step in SunOpta's journey. Our Value Creation Plan has brought an intense focus to the strategic direction of the company, and our recently rebuilt leadership team is fully engaged. With these foundational aspects in place, during the second quarter, the entire organization was able to become fully engrossed in the actions that support the Value Creation Plan, which we expect will ultimately lead to sustainable profitable results.

This quarter, we took meaningful action against all 4 pillars of our Value Creation Plan, including sharpening our portfolio focus by announcing the exit from resealable pouch products; improving our operational execution via the implementation of food safety, quality and productivity programs; enhancing our go-to-market effectiveness via the build-out of a new food service distribution network; and ensuring the benefits of these efforts are sustainable via process and systems improvements.

Before I detail our progress on the Value Creation Plan, let me begin by briefly discussing our second quarter performance against the key indicators of our transformation. As a reminder, we expect Phase 1 of our transformation to be marked by gross margin expansion and increased investment in SG&A while we work to build a pipeline of new commercial opportunities to drive growth in the future phases of the Value Creation Plan.

In this context, our second quarter results depict our continued progress as we generated sequential improvement in both gross margin and EBITDA margin in the quarter despite higher SG&A costs as we continue to reinvest into the business. Adjusted EBITDA for the quarter was $19.4 million, a modest improvement from the first quarter while down compared to a good performance a year ago. We generated gross margin of 12.5% on an adjusted basis, an increase of 100 basis points compared to 11.5% in the prior year period, and we are on track to achieve our productivity enhancement targets for the full year.

There continued to be significant nonstructural costs incurred during the quarter as we front-end load work on the Value Creation Plan. However, we expect these nonstructural costs to moderate over the back half of 2017.

As I mentioned, in the first phase of the Value Creation Plan, revenue growth is not the focus as we optimize the portfolio and build the foundation to ensure we can sustainably grow profitable revenue. During the second quarter, we generated revenue of $336.5 million compared to $348.1 million last year, representing a 0.6% decline on an adjusted basis. During the second quarter, we continued to face the headwinds of lower consumer demand for frozen fruit due primarily to higher on-shelf prices in the freezer relative to fresh pricing. However, the year-over-year pressure on growth moderated during the second quarter as sales were down 6.7% compared to a 15.1% decline in the first quarter, and we are beginning to see narrowing of the pricing gap between the frozen and fresh markets. While growth trends reversed compared to positive-looking syndicated data trends early in the quarter, the latest 4- and 12-week data for the period ending July 15, 2017, once again, showed positive growth at retail, with private label outpacing the category, with 6% and 2.1% dollar growth, respectively.

Much of the decline in frozen fruit was offset by strong demand in fruit ingredients during the second quarter. We remain confident in the future prospects of the frozen fruit category and have recently made incremental investments into our Mexican fruit processing operations, which I will discuss in a moment.

In Healthy Beverage, we experienced a 1% sales decline year-over-year as strong juice sales were offset by the impact of the contract expiration with a private label nondairy customer in April. Premium juice sales increased 22% year-over-year, while aseptic sales declined 8% from the second quarter of 2016. While the contract expiration will negatively impact aseptic volumes in the near term, we are encouraged by the pipeline of new business opportunities and remain confident that we can overcome this volume loss with new business and expanded sales to existing and new customers as we progress through the balance of this year and into 2018.

Healthy Snacks increased 1% on a reported basis while up 11% on an adjusted basis. However, profit performance was poor, in particular, at our pouch and bar operations, and we have taken action. As we announced a couple of weeks ago, we will be exiting all flexible resealable pouch products, which have been produced out of our Allentown, Pennsylvania facility.

Recall that last year, a fire at a third-party facility ended our West Coast pouch production capabilities. While the baby food pouch category has demonstrated growth over the past several years, we have not been effectively positioned in the market and have been unable to generate acceptable profit since our entry into the space. After evaluating the market, the competitive landscape and our ability to profitably grow resealable pouches as a core part of our consumer business, we decided to cease pouch operations altogether and sell the remaining assets.

We also have work to do to improve the profit performance of our nutrition bar facility in Carson City, Nevada. We have established a rapid recovery team, who are systematically identifying and correcting operational issues that are leading to inefficient production and gross margin losses at that facility. The poor profit performance of pouches and bars year-to-date has somewhat masked the benefit of the cost-savings initiatives that have been implemented and are now contributing to increased profit inside our Consumer Products segment.

Finally, Global Ingredients declined 5.7% on an unadjusted basis. However, if we adjust for the impact of lower commodity prices and foreign exchange, the segment posted a 1.2% decline, which is an improvement relative to the first quarter trend. The domestic raw material segment declined 2.3% on an adjusted basis due primarily to lower sales in our Sunflower operation as a result of the 2016 recall and reduced acreage, while the international sourcing operation was essentially flat with prior year, declining 0.6%. We continue to see organic specialty ingredients as well as roasted snacks as key areas of the business as SunOpta is uniquely positioned to grow profitably, and I will discuss investments and new growth initiatives we are making in these areas in a moment.

As we discussed over the last couple of quarterly calls, the first phase of the Value Creation Plan is targeting implementation of $30 million of productivity-driven annualized EBITDA enhancements over 2017 and 2018 and $20 million of working capital efficiencies by the end of the year. For 2017, these EBITDA benefits will be offset by structural investments made in the areas of quality, sales, marketing, operations, engineering and other functional resources as well as nonstructural third-party consulting support, severance and recruiting costs. The plan also calls for increased investment in capital upgrades at several manufacturing facilities to enhance food safety and manufacturing efficiencies. Over time, these investments are expected to yield EBITDA improvements that go beyond the $30 million that is being targeted in the first phase.

For the second quarter of 2017, we made progress against each of the 4 pillars of the plan, and we believe we are on track to achieve targeted productivity enhancements while continuing to make the necessary structural investments we believe will accelerate growth and drive long-term value.

Let me give you an update on our progress on each of the 4 pillars of the Value Creation Plan during the second quarter. Turning to portfolio optimization, we were, again, very active during the second quarter. The focus of the portfolio optimization pillar is to simplify the business, investing where structural advantages exist while exiting businesses or product lines where the company is not effectively positioned. As noted, we are exiting our operations in flexible resealable pouches and have announced the sale of assets for $2 million that is expected to close during the fourth quarter. The exit from pouch production will initially result in some stranded costs in Allentown that will burden our aseptic beverage business, but we're confident our growth strategies will more than offset this drag over time. In fact, if we had exited this product line prior to January 1 of this year, we would have seen a positive impact on EBITDA thus far in 2017, even after considering stranded costs.

The capital and other resources that are freed up from the pouch exit will be redeployed into more promising segments of our business. We will continue to produce aseptic products in the Allentown facility and ultimately look to invest further in the Allentown operations as we expand our aseptic volumes over the longer term. Additionally, we have exited some unprofitable product lines and consolidated volumes of specialty grain ingredients into our Hope, Minnesota facility. This consolidation stems from a decision to close our Moorhead, Minnesota processing facility. We expect to see reduced costs and increased utilization as a result of this action.

Portfolio optimization is as much about investment into areas for profitable growth as it is actions to rationalize nonstrategic parts of the business. When it comes to investment, we recently broke ground on an expansion of our Mexican frozen fruit processing operations to increase capacity and capabilities. And in hand with this decision, in July, we acquired the remaining 25% equity interest of our Mexican facility located in Jacona, Mexico. The investment includes the addition of retail bagging lines and cold storage capacity, enabling us to ship finished product direct to customers from Mexico, which we expect to create further cost advantages for our frozen fruit platform. We have also identified investment opportunities we expect to lower costs and add capabilities to both our roasted snack and domestic Sunflower operations and have finalized plans to add an organic sunflower oil processing line at our Bulgarian Sunflower facility.

Finally, we are adding an additional roaster and press to our Crown of Holland organic cocoa processing facility in the Netherlands in response to increased demand for organic cocoa products. We will continue to evaluate our operations for additional investment or divestiture and evaluate our product offerings on a SKU basis to optimize our portfolio and enhance our strategic positioning going forward.

Since the initiation of the Value Creation Plan, the company has implemented portfolio changes expected to yield $4.2 million of annualized EBITDA benefits. The focus of the operational excellence pillar is to ensure food safety and quality coupled with improved operational performance and efficiency. These efforts are expected to generate productivity improvements and cost savings in manufacturing, procurement and logistics. Our top priority remains enhancing food safety and quality. I am pleased with our progress to date, and we will continue to focus on becoming the leader in food safety and quality across the healthy food industry.

At the same time, we continue to identify and implement cost savings initiatives to increase productivity in our manufacturing operations and lower procurement and logistics costs. Some of the benefits of these initiatives weren't apparent in the second quarter due to the poor profit performance in Healthy Snacks that I discussed earlier. Specifically, pouches and bars have been a $4 million drag on EBITDA year-to-date. We have addressed the pouch issue in our portfolio optimization pillar with the decision to cease operations, and as previously mentioned, we have deployed a rapid recovery team to return the bars operation to profitability.

Since the initiation of the Value Creation Plan, the company has implemented process improvements and costs savings expected to yield $3.1 million of annualized EBITDA benefits.

The focus of the go-to-market effectiveness pillar is to optimize customer and product mix in existing sales channels and identify and penetrate new high-potential sales channels. The company expects efforts under this pillar to improve revenue growth and profitability over time. During the second quarter, we activated a new food service distribution and sales brokerage network, leveraging third-party capabilities. As I've previously noted, we believe there's a large and untapped opportunity in food service across our CPG platform. We have assembled a sales force to address this opportunity and now have the logistics in place to fulfill the opportunity. We are targeting additional food service opportunities with both existing and new customers. And as an example, we recently launched a new line of nondairy products in a control brand format, specifically targeting food service operators.

While revenue growth is not our primary focus during the first phase of the Value Creation Plan, we are building the pipeline for future revenue growth. We continue to develop meaningful opportunities across our CPG platform with both existing and new customers. In addition, we have experienced growth in the contract book for organic ingredients ahead of prior year. Since the initiation of the Value Creation Plan, the company has implemented go-to-market improvements expected to yield $2 million of annualized EBITDA benefits.

The focus of the process sustainability pillar is to ensure the company has the infrastructure, systems and skills to achieve and sustain the business improvements and value captured from the Value Creation Plan. Last quarter, we completed the hiring of our senior leadership team. During the second quarter, we onboarded the remaining senior leaders while continuing to attract new talent to the team in the areas of sales and marketing, engineering, supply chain and procurement. I remain very pleased with the quality of the talent our organization is attracting, and as I've stated before, it all starts with leadership. And we have the team in place to achieve our goals and make progress on the Value Creation Plan.

We recently launched SunOpta 360 as our sustainable, continuous improvement methodology for the company. SunOpta 360 will serve as a catalyst to create a zero-waste culture and a day 1 mindset focused on driving long-term value creation. We will implement the SunOpta 360 in our aseptic beverage facilities initially, and we'll roll out the system across the entire company over time.

The sales and operations planning process implemented on key parts of our business last quarter has matured and is delivering improved service levels, positioning the company to deliver best-in-class order fill rate and on-time delivery performance to our customers. Our data foundations project was also initiated during the second quarter. As we noted last quarter, the initial focus areas are product costing, inventory management, master data governance, specification management and KPI and functional reporting, and we're pleased with our progress made to date. As I stated earlier, we are on track with our targeted productivity savings and look forward to updating you each quarter with our progress.

I will now turn the call over to Rob to go through the second quarter financial results. Rob?

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

Thanks, Dave. I'll take you through the rest of the key financial statistics as well as balance sheet and cash flow metrics for the second quarter. As Dave mentioned, second quarter revenue was $336.5 million, a 3.4% decline as reported or 0.6% excluding the impact on revenues from changes in commodity-related pricing, foreign exchange rates and the estimated impact on the snacks platform due to a fire at a third-party pouch processing facility in 2016.

The Global Ingredients segment generated revenues from external customers of $149.4 million, a decline of 5.7% compared to $158.5 million in the second quarter of 2016. Excluding the impact of commodity-related pricing and foreign exchange, Global Ingredients revenue decreased 1.2%. The revenue decline reflected lower volumes of specialty raw materials, driven by a reduction in contracted acres as well as lower roasted sunflower and other ingredient sales due, in part, to customer losses stemming from the 2016 recall.

The Consumer Products segment generated revenues of $187 million during the second quarter of 2017, a decrease of 1.4% compared to $189.6 million in the second quarter of 2016. Excluding the impact of the fire at a third-party pouch processing facility, revenues in Consumer Products decreased 0.2% compared to the second quarter of 2016. This decrease largely reflects a 2.3% decline in our Healthy Fruit platform as a result of lower frozen fruit sales due to decline in consumer consumption as well as a 1.1% decline in the Healthy Beverage platform due to the loss of a significant private label account we reported earlier this year, which was partially mitigated by strong aseptic sales in the food service channel and continued growth in the premium juice category. The revenue declines in fruit and beverage were offset by an 11.2% increase in the Healthy Snacks platform adjusted for the impact of the fire, stemming mainly from increased sales of nutrition bars.

For the second quarter of 2017, gross profit was $41.7 million or 12.4% of revenues compared to $36 million or 10.3% in the second quarter of 2016. Adjusting for costs related to plant closures, gross margin in the second quarter of 2017 would have been 12.5% compared to an adjusted gross margin of 11.5% in the prior year. The 100 basis point improvement in margin reflects a significant improvement in operational efficiencies in our frozen fruit business, as 2016 was a supply-challenged season that led to significant labor and processing inefficiencies, as well as cost reductions generated from our Value Creation Plan, which, in our beverage operations, helped to offset the year-over-year margin pressure that came from lower plant utilization. As Dave mentioned earlier, the year-over-year increase in adjusted gross margin would have been more significant were it not for the margin drag we experienced at both our pouch and bar facilities, which somewhat masked the improvements that we have been making through the execution of our productivity initiatives within the Value Creation Plan. We remain focused on addressing facilities that aren't delivering an acceptable contribution to gross profit, and we remain committed to demonstrate continued margin increases over the coming quarters.

For the second quarter, we reported operating income of $2.6 million compared to $8.8 million in the second quarter of 2016. Adjusting for wind-down costs of $0.3 million and $7 million of nonstructural SG&A costs related to consulting fees, temporary labor, employee recruitment and retention costs associated with the Value Creation Plan, operating income in the second quarter of 2017 would have been $9.9 million or 2.9% of revenues compared to $14 million or 4% of revenues in the second quarter of 2016, all on an adjusted basis.

On a GAAP basis, for the second quarter, we reported a loss from continuing operations of $0.4 million or $0.03 per diluted common share compared to a loss from continuing operations of $4.1 million or $0.05 per diluted common share during the second quarter of 2016. Second quarter results include several charges and items that are not reflective of normal operations and have been excluded in calculating adjusted earnings. These items include $7.7 million in costs related to the Value Creation Plan, reflecting the previously mentioned costs associated with the wind-down of the San Bernardino juice facility and nonstructural SG&A as well as asset impairment and severance charges.

For the second quarter of 2017, we reported an adjusted loss from continuing operations of $0.7 million or $0.01 per diluted common share compared to adjusted earnings of $4.1 million or $0.05 per diluted common share in the second quarter of 2016. We realized adjusted EBITDA of $19.4 million in the second quarter of 2017 compared to $23.5 million during the second quarter of 2016.

I'd 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 issued earlier this morning.

From a cash flow perspective, during the second quarter of 2017, we used $25.8 million of cash from continuing operations compared to $34.4 million in the second quarter of 2016. As mentioned on our last earnings call, seasonally, we typically use cash during the second quarter due primarily to the timing of the fruit harvest. Year-to-date, we have used cash of $6.3 million in continuing operations as compared to cash used of $52.3 million during the first half of 2016. We continue to target $20 million of increased cash flow during 2017, generated by our efforts to lower working capital that are part of the Value Creation Plan.

During the second quarter, we spent $7.1 million in capital expenditures compared to $4.8 million in the second quarter of 2016. Capital spending in the second quarter of 2017 related primarily to capability enhancements within our aseptic beverage operations; a second processing line at our Dutch cocoa facility; as well as food safety, employee safety and productivity enhancements across several of our manufacturing facilities. As previously mentioned, we expect our capital spending for 2017 to be in the range of $30 million to $35 million, primarily in support of the Value Creation Plan. These capital resources will be invested into both continued productivity projects to enhance margins as well as several strategic growth initiatives, including those mentioned by Dave earlier on this call.

During the second quarter, bank indebtedness increased $42 million, mainly to fund working capital, capital expenditures and payment of contingent consideration, and total debt increased from $425.9 million to $467.7 million. On July 1, 2017, our leverage was approximately 6.1x adjusted EBITDA on a trailing 4-quarter basis after eliminating the negative impact on EBITDA from the San Bernardino juice facility. We expect our total debt level to decline over the back half of 2017 as we sell through our fruit inventory and complete the 2017 grain crop changeover.

From a liquidity perspective, we ended the quarter with approximately $53 million of available capacity on our global asset-based credit facility and remain well positioned with sufficient capital resources to support the Value Creation Plan.

I'll now turn the call back over to Dave for some closing remarks. Dave?

David J. Colo - *SunOpta Inc. - CEO, President and Director*

Thanks, Rob. Before we begin Q&A, I want to reiterate that we are on track with our targeted productivity savings and continue to make progress against the Value Creation Plan. Let me reiterate what we will do. We will focus on food safety, quality and execution. We will be focused and decisive as we execute our strategic plan. We will focus on long-term value creation. And we will make decisions with a long-term focus, even if those decisions do not maximize near-term earnings.

With that, let me turn the call over to the operator to facilitate Q&A. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Amit Sharma with BMO Capital Markets .

Amit Sharma - *BMO Capital Markets Equity Research - Analyst*

Dave, just a couple of -- maybe more detail and then I have a long-term question. You said bar and the pouch business, a $4 million drag. So you got out of the pouch business. How much of a drag is the bar business at this point? And what are some of the strategic alternatives available for this business?

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

Yes. Amit, it's Rob. I'll start with your answer. In the first half, there were definitely a $4 million drag coming from both those facilities. It'd be fair to assume it's roughly split 50-50 in terms of where the drag comes from. And unfortunately, neither facility has performed to our expectation. What you'll see over the back half here, and we announced that we expect the sale of the pouch asset to happen -- or to close in the fourth quarter, you'll see that continue in our P&L. In other words, we'll continue to have sales and continue to have profit from those sales and the continued business on our P&L until the point that we divest it. We do expect that to improve over the back half year before divestiture but not really create any meaningful contribution in any way for us because it's inherently why we're divesting in that business. And I'll turn the call back over to Dave to answer your question on bars.

David J. Colo - *SunOpta Inc. - CEO, President and Director*

Yes. On the bar business, I think our immediate actions are to correct the issues that we have within the facility and get it back to a profitable business. I think long term, we have some very important customers that we service out of that facility. Our goal is to get back to a point where we can service them and generate a meaningful profit for our company. And that's the whole purpose of the rapid recovery program that we have in place, and we'll continue to look to ways to optimize that business as we go forward.

Amit Sharma - *BMO Capital Markets Equity Research - Analyst*

So just -- so we should expect these 2 to remain a drag for the same magnitude in the back half as well. And then just related to that, as you exit the pouch business, what does it do to your obligation to Plum as part of your agreement with them?

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

Yes. Amit, it'd be fair to expect that neither business is going to contribute. I don't anticipate the drag being as significant over the back half, but we certainly aren't expecting a contribution from them. And so I think that would set up that expectation. And in terms of our obligation to Campbell's as part of the settlement last year, obviously, we're going to work with our customer to settle all remaining obligations under that agreement, and that'll happen in the back half of this year.

Amit Sharma - *BMO Capital Markets Equity Research - Analyst*

If you sell the pouch business, would those obligations transfer to the new buyer? Or are you still obligated?

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

No, it's our obligation. There'll be no transfer. It's our obligation to settle, and obviously, we'll take care of that here in the back half. If you recall, it was the second quarter of last year, we took the full accrual for that obligation. So you should not expect the resolution or the settlement of that agreement to have any meaningful downside P&L impact.

Amit Sharma - *BMO Capital Markets Equity Research - Analyst*

Got it. Okay, that's great. And just one more for you, Dave. You mentioned that sales growth may be not the primary focus at this time. Can you elaborate on that a little bit? What's the thinking behind that? Is it simply a transitional thought as you fix some of the underlying operations? Or is that a shift in how you would view SunOpta going forward?

David J. Colo - *SunOpta Inc. - CEO, President and Director*

Yes. No, it's consistent with what we've communicated previously. Our focus in Phase 1, as we have said, is to get the operational issues resolved in the company focusing on improving food service quality, employee safety and customer service while we go after driving productivity and manufacturing, procurement and logistics cost reductions. So that's been our immediate focus. We are building out, as we spoke to, our commercial organization, and they're actively working on building the pipeline for new revenue growth opportunities. We think that realistically, those will start hitting as we go into fiscal year 2018. Part of that also is tied to just the cycle that's involved with some of the categories that we compete in and when the opportunities are to actually participate in new business. But it's very consistent with what we've said on the last couple of quarterly calls on what our approach is.

Operator

(Operator Instructions) Our next question comes from the line of Jon Andersen with William Blair.

Jon Robert Andersen - *William Blair & Company L.L.C., Research Division - Partner*

I wanted to kind of follow up on Amit's last question. Dave, if you -- looking at the progress to date on the Value Creation Program, how would you characterize the progress on the safety and kind of quality dimensions of the program? And are you also seeing improvement in service levels, putting pouches and bars aside, I mean, the overall kind of progress towards a higher level of service capability relative to your customer base? Are you kind of happy with the progress? Is it moving along as expected? And part of the reason for the question is just trying to kind of anticipate to what extent there may be some exposure from additional customer transitions or whether it's pretty good about kind of where you're sitting relative to the operational effectiveness piece.

David J. Colo - *SunOpta Inc. - CEO, President and Director*

Yes. We feel very good about the advancements and progress we're making in food safety, quality, employee safety and, in particular, customer service to our customers as well. I made some comments in the prepared remarks that our service levels have improved as a result of our new sales and operations planning process. And we've seen significant improvement in both, what we call, case fill rate as well as on-time delivery performance across all categories of our business, and we'll continue to improve. But right now, Jon, I'd say we're at levels that are pretty much meeting customer expectations. So we've done a very good job, in a relatively short period of time, getting back to kind of industry-expected service levels to our customers. And on food safety and quality, I'd say we've made significant progress over the last quarter. Some of the new talent that we've brought on board has made a significant impact. We're seeing improvement across all of our facilities, and I just think all the new processes we have in place and the execution against those is continuing to put us in a much better position than where we've historically been.

Jon Robert Andersen - *William Blair & Company L.L.C., Research Division - Partner*

Okay. And in terms of -- when you think about the revenue or sales kind of white space opportunities, you mentioned food service a number of times and building out your go-to-market capability in food service. You also mentioned control brands, and I think that might be an emphasis more on private label as opposed to kind of co-packing business, which I know you've had significant position in historically. Can you talk a little bit about, again, if you look at sales opportunities into 2018, where the principal focus lies?

David J. Colo - *SunOpta Inc. - CEO, President and Director*

I think our co-man businesses are important to us as a company, so we'll continue to make sure we maintain good relationships there and service those customers effectively. But what we're -- where we're also going to put an increased focus is definitely in the food service channels because we see a lot of potential opportunity there because we're very underdeveloped in food service. And then also, at retail, whether it's control brands or more store brands for our customers, we see tremendous opportunity there as well, really, in all channels. Whether it's mass, traditional grocery, the natural channel, et cetera, we see significant opportunities there. The other area that we're -- we have our eye on and need to make sure that we stay focused and participate in the growth is in the e-commerce channel. So I think you'll see us, Jon, continue to make sure we provide great service to our co-manufacturing customers, focus on growing both distribution and retail as well as food service.

Jon Robert Andersen - *William Blair & Company L.L.C., Research Division - Partner*

Okay. And on the -- within the fruit business, I mean, to what extent are you -- as you interpret kind of the consumer demand trends in frozen fruit at retail, I understand that the industrial portion of the business has been strong and the custom business has been strong. What are your expectations or kind of read on what's happening in that category and how you're positioned? Obviously, with the investments you're making in the Mexican facility, you're looking to kind of put more behind that. But it's been a little bit uneven, I think, in terms of consumer demand, and I'm just trying to understand if that's something you'd still view as transitory or if maybe we're coming off a few years of outsized growth and settling into something a little more muted.

David J. Colo - *SunOpta Inc. - CEO, President and Director*

I think as we've discussed previously, the category is reacting, I think, to significant pricing that's been taking over the last couple of years and probably reached the tipping point last fall going into the winter months. And we're seeing that the last 4- and 12-week periods and, in fact, in the last 2 12-week periods, private label is starting to come back in the category, but we're not taking that for granted. What we've done is we've done an A&U study on the category. We've learned some things as a result of that, that we're going to be exploring. But I think we do expect growth to come back to this category, but we're going to probably have to work harder to achieve the growth than maybe historically. And the way we're going to do that is by focusing a little bit more on innovation and bringing some new innovation to the category, improving some of the quality of the offerings in the category and even looking at some portability options from an innovation perspective to some of the consumers. It's no mystery. If you walk into any grocery retailer, there is more of an emphasis around the perimeter of the store on fresh options in both fruit and produce. And I think we need to do a better job in this category of making sure that the frozen options meet the same quality and taste expectations that the consumer is receiving in fresh. And then we need to work on our packaging formats to help with that. We need to work on packaging from a portability and reusability aspect as well. And we need to bring some innovation to the category as far as how the product is used and some of the benefits it provides. So we're still very bullish on this category. The reason we're making investments is because we believe in the category. We also want to make sure we are the leader in this category. We want to make sure, going forward, that we're the low-cost producer in the category, bringing the highest quality and highest service levels and the leading innovation to the category over time. So that's our focus.

Operator

(Operator Instructions) And I'm not showing any further questions at this time. I'd like to turn the call back to Mr. Colo for any closing remarks.

David J. Colo - *SunOpta Inc. - CEO, President and Director*

Thank you, operator, and thank you all for participating in our second quarter conference call. I look forward to speaking with you in the future and updating you each quarter on our progress as we unlock the opportunity and value at SunOpta. Have a great day.

Operator

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