THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

SOY.TO - Q4 2014 SunOpta Inc Earnings Call

EVENT DATE/TIME: MARCH 03, 2015 / 3:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Steve Bromley *SunOpta Inc. - CEO*

Rob McKeracher *SunOpta Inc. - VP & CFO*

Rik Jacobs *SunOpta Inc. - President & COO*

CONFERENCE CALL PARTICIPANTS

Scott Van Winkle *Canaccord Genuity - Analyst*

Christine Healy *Scotiabank - Analyst*

Tim Tiberio *Miller Tabak - Analyst*

Keith Howlett *Desjardins Securities - Analyst*

PRESENTATION

Operator

Good morning and welcome to SunOpta's FY14 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 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 yesterday, the Company's FY14 report on Form 10-K that will be issued at the close of business today and other filings with the Securities and Exchange Commission for more detailed discussion of the factors that could cause actual results to differ materially from those projections and any forward-looking statements.

Finally, we would like to remind listeners that the Company may refer to certain non-GAAP financial measures during the teleconference. A reconciliation of these non-GAAP financial measures was included with the Company's press release issued yesterday. Also, please note that unless otherwise stated, all figures discussed today are in US dollars and are occasionally rounded to the nearest million.

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

Steve Bromley - *SunOpta Inc. - CEO*

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 Operator Officer. On this call today, I will provide you with a brief overview of our fiscal and fourth quarter 2014 results, provide an update on our key strategic initiatives as well as the accretive acquisition of Citrusource, which we announced yesterday. Following that, Rob will discuss our financial results and balance sheet in more detail as well as the approval of a share repurchase program, which was also detailed in our earnings release yesterday. Rik will then provide an update on our operations and, finally, I will provide brief closing remarks and then we will open up the call to questions.

As we look back, 2014 was a good year for SunOpta. We delivered record top- and bottom-line results in our core integrated natural and organic foods business and we continue to operate in growing markets which we believe offer strong, long-term growth prospects. Throughout most of the year, we executed on our key strategies with a focus on our integrated natural and organic foods platform.

At the same time, we are focused on divesting of our non-core businesses with the Mascoma sale essentially completed and the strategic review ongoing with Opta Minerals. We have significantly invested in value-added foods with the continued expansion of our healthy beverages platform and, specifically, our integrated aseptic beverage and refrigerated juice operations. As I previously mentioned, we also completed the purchase of Citrusource, which we will discuss in a moment.

So in total for 2014, we took strategic actions across our portfolio to better leverage our integrated platform and drive greater value and in turn, delivered improve profitability while significantly improving our balance sheet. While we are pleased with our progress and financial performance, our team knows that we still have significant room for improvement.

In the fourth quarter, we sold our fiber and starch ingredients business consistent with our strategy to focus on our two-touch integrated foods business. The net proceeds from this sale has lowered our debt and will support strategic investments, enhance our vertically integrated product portfolio and allow us to drive further shareholder value. As a result of the fiber sale, we have realigned internally into two core foods reporting segments: global ingredients, which includes all of our global sourcing and supply operations as well as all of our grains and cocoa based ingredients operations, and consumer products, which now includes fruit based and topping applications as they align both commercially and operationally with the rest of our consumer product portfolio. We reported our year-end results in these segments and operationally we believe this further simplifies our business and aligns with our go-to-market strategies.

While we had a record year, there is no question that our earnings in the fourth quarter were less than desired, driven in most part by a shortfall in our consumer product segment. We are confident in our ability to address the issues and improve our results in the coming quarters and Rik and Rob will provide more detail on that in a few moments.

Finally, we are excited about our acquisition of Citrusource, a leading supplier of premium, not-from-concentrate, private label organic and conventional juice and citrus products in the United States. This acquisition aligns with our core integrated two-touch strategy and leverages our vertically integrated healthy beverages platform. We will drive synergies via our global sourcing network and San Bernardino juice operation, provide opportunities to bring innovative new products to market and better serve our customers with more consistent, year round, not-from-concentrate and organic juice capabilities.

Citrusource, with revenues of approximately $30 million, is expected to be immediately accretive. The business was acquired for a combination of cash on closing of $13.3 million and future payments based on specific performance targets. The acquisition was funded from availability under existing debt facilities -- sorry -- and will be part of our consumer products segment. And we are happy that this Citrusource team will become an integral part of SunOpta.

With that, I will now turn the call over to Rob who will provide further details on our financial performance as well as our share repurchase program. Rob?

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

Thanks, Steve, and good morning, everyone. I'll focus more specifically on our financial results for FY14 as well as the fourth quarter. Please note that the financial figures referenced on this call exclude the fiber and starch business, which is included in discontinued operations.

Overall, 2014 represented a record year for SunOpta. We delivered record revenues of [$1.243 billion], compared to [$1.140 billion] -- sorry -- [$140 million] in 2013 and adjusted earnings of $25.7 million, or $0.38 per diluted common share, compared to adjusted earnings of $18.2 million, or $0.27 per diluted share in FY13. Note that FY14 was a 53-week year and the extra week fell in the first quarter. For the year, consolidated revenues increased 9% and SunOpta Foods revenues increased 11.8% versus the prior year, after excluding a number of factors, including the extra week of sales as well as the impact of changes in commodity prices and foreign exchange rates. We reported operating income of $45.2 million, or 3.6% of revenues, up from $37.7 million, or 3.3% of revenues in 2013.

Within SunOpta Foods, operating income grew $10.7 million and, as a percentage of revenues, grew 70 basis points to 3.8% in FY14. The improved operating earnings were driven by increased volume and margin on organic raw materials, improved performance in the sunflower category and increased volume of consumer products, including aseptic beverages and fruit bases and toppings. This was offset by margin pressure experienced in Opta Minerals, increased costs and competitive pressures in the resealable pouch market, increased costs associated with the retrofit of our premium juice operation and increased selling and administrative resources to support the growth in the business.

For FY14, we reported GAAP earnings of $13.1 million, or $0.19 per diluted common share, compared to a loss of $8.5 million, or $0.13 per share in FY13. On December 23, 2014, we completed the sale of our fiber and starch business for cash proceeds of $37.5 million, resulting in a gain on sale of $1.9 million after tax, or $0.03 per diluted common share. Also included in the results for FY14 were noncash impairment charges associated with our noncore holdings relating to a write-down of our investment in Enchi Corporation, formerly known as Mascoma, as well as an impairment charge against all remaining goodwill in Opta Minerals, totaling $15.7 million after tax and minority interest, or $0.23 per diluted common share. We also reported other expense items and realized favorable tax adjustments totaling a net benefit of $1.4 million after tax and minority interest or $0.02 per diluted share. Excluding these items, adjusted earnings for FY14 were $25.7 million, or $0.38 per diluted common share. A tabular presentation of adjusted earnings can be found in our press release that was issued after close of business yesterday.

For the fourth quarter, revenues increased $285 million, compared to $275 million in the fourth quarter of 2013. Excluding the impact of changes, including commodity prices and foreign exchange rates, consolidated revenues increased 5.5% and SunOpta Foods revenues increased 5.3% versus the prior year. The increase in revenues is driven by stronger demand for organic ingredients in the US and Europe.

Operating income in the fourth quarter was $4.2 million, or 1.5% of revenues, compared to $5.1 million, or 1.8% of revenues in the fourth quarter of 2013. Within SunOpta Foods, operating income grew $0.8 million and as a percentage of revenues grew 30 basis points to 1.7% in the fourth quarter. The growth in SunOpta Foods operating income was led by higher contribution from organic raw materials, including feed categories, as well as improved processing efficiencies in our sunflower operations.

The fourth quarter did, however, fall short of expectations and these positive factors were offset by lower margins in the consumer product categories. Rik will provide further details in a number of commercial and operational challenges experienced by the consumer products segment during the fourth quarter as part of his operations update in a few moments.

For the fourth quarter, we reported a GAAP loss of $1.9 million, or $0.03 per common share, as compared to a loss of $1.3 million, or $0.02 per common share in the fourth quarter of 2013. Excluding discontinued operations, noncash goodwill and other asset impairment charges at Opta Minerals and the benefit of favorable tax adjustments, adjusted earnings were $3.9 million, or $0.06 per diluted common share during the fourth quarter of 2014 versus adjusted earnings of $1.8 million, or $0.03 per share in the prior year.

We remain committed to our stated objective of achieving an 8% operating margin and 10% EBITDA margin. But given the gap we need to close from our full year 2014 run rate, it is unlikely that we will be able to achieve our objective in the time frame we set out for ourselves. Based on plans, we believe that we will achieve the stated goals with approximately a one-year delay. To get there, our Management team remains focused on the three key drivers that will drive results. The first driver is growth and specifically in the areas of our business that offer the highest margins and enhance our integrated field-to-table business model. Our focus on innovation, both in products and processes is designed to drive growth in these areas and with our strong balance sheet and access to capital, we're prepared to continue to make investments ahead of the curve.

The second driver is cost reduction. Today our Management team has over 150 active cost reduction projects identified, primarily in our supply chain. Examples of these projects include freight lane consolidation, centralized procurements, investment into automation, yield enhancement projects, utility and overhead reduction initiatives, enhanced production planning to minimize downtime and focused productivity efforts designed to maximize available capacity.

And the third driver is leverage. Over the course of 2014, we have been investing in our people, processes and infrastructure to create a platform for continued growth. Structural changes, such as the centralization of our R&D function under the leadership of recently hired Jim Grassick, carry an upfront cost but will help to drive the top line which will further leverage what is a scalable cost base.

We finished the year off with a strong balance sheet. Our net debt was reduced to $121.3 million as compared to $182.3 million at the end of 2013, a reduction of $61 million. It is important to note that as of January 3, 2015, $46 million of our net debt belongs to Opta Minerals, which is nonrecourse to SunOpta. Within SunOpta, as of January 3, 2015, we had approximately $100 million in available capacity under existing credit facilities. This availability was created in part by cash generated from operating activities of $24.8 million and cash generated from investing activities of $22.1 million. Looking ahead, we expect to invest in capital expenditures in support of our growth objectives and we continue to seek acquisition opportunities that make strategic and financial sense and that are consistent with our disciplined approach to acquire accretive companies that complement our integrated business model, such as Citrusource.

The strength of our balance sheet continues to provide us the ability to grow organically and through acquisition and provides us the flexibility to return capital to our shareholders through a share repurchase program. We have been authorized by our Board of Directors to purchase up to $30 million worth of SunOpta shares. We believe this can be a prudent use of our capital resources and reflects our confidence in our cash flow generation and overall business. The repurchase of shares is an accretive use of funds for our shareholders and will not impede our ability to grow our business through capital investment or acquisition.

I will now turn the call over to Rik who will discuss our operational performance in more detail.

Rik Jacobs - *SunOpta Inc. - President & COO*

Thanks, Rob, and good morning, everyone. I will discuss the performance of the two reporting segments within SunOpta Foods: global ingredients and consumer products.

So let's start with the good news and that's definitely our global ingredients platform. At face value, this segment grew 5.5%. But this is really hiding a very strong underlying performance as the price of soy and corn were considerably lower in 2014 than they were in 2013. If you adjust for foreign exchange and the commodity price changes, the underlying growth is really 9.6%. And if you dive a bit deeper, our international sourcing and supply division actually grew revenue by an impressive 23.5%; while on the domestic side, which comprises mostly soy, corn and sunflower, we actually decreased by just 1.1%.

The growth of our internationally sourced organic ingredients is the result of the investments the team has been making over many years in organic projects and supply chains all over the world, from Indonesia to Turkey and from the Philippines to Ethiopia. And now that markets in both Europe and the US are growing, we are benefiting from these investments, both on the revenue and the operating margin front. In fact, our operating income almost doubled year-over-year on the international business. While that is partially the result of our strategically shifting more raw material procurement and, therefore, margins from consumer products to our international sourcing group, much of the credit should go to the team that's making it happen in a tight global supply environment.

On the domestic side, we sold approximately the same volume that we sold in 2013, although it was a different mix and certainly at an improved profit level. We sold about 50% more nonVMO and organic feed than last year at higher margins and we turned around the operating loss in our sunflower business by more than $1 million because we right-sized our asset base and rationalized product lines. As you may recall, during the third quarter we sold our Fargo and Goodland sunflower sites so we could better utilize our two main facilities in Crookston and Breckenridge.

Our strong performance in global ingredients was offset by a number of commercial and operational challenges in the consumer products segment. We lost sales in our aseptic business due to a number of operational challenges we encountered with the expansion project in Modesto, which also led to unexpected incremental costs. As most of you know, aseptic is our largest and most profitable category, so missing sales here really hurts the bottom line. We were also impacted by a number of inventory write-downs, especially in nutritional bars as we realign our customer base, and in fruit snacks, as some customers lost distribution while others reduced their footprint in North America.

Finally, some products, like organic milk and organic frozen fruit, have seen either a serious shortage of supply or a significant raw material price increase, both of which are challenging to recoup from in the short-term. All told, we ended up well short and these items cost us in excess of $4 million in operating income. Barring these predominantly one-time issues, the operating income in consumer products would have been around 5.5% to 6%.

The good news, if you can call it that, is that the majority of these issues should have been in our control and are not caused by market circumstances. While 2014 has been transformational for our Company with a new structure and many new resources in place, it's fair to say that we should have executed better in the fourth quarter.

So while our fourth quarter results were well below expectations and could impact our near-term results in the first half of 2015, we are confident that we have our arms around the executional issues we experienced. To name just a few, in aseptic beverages, our third process, or a new aseptic line, is now up and running as of the beginning of March, which unlocks capacity at the plant. But obviously it will take some time to win back the prospects we had to delay in the fourth quarter. In frozen fruit and vegetables, we are passing through much needed pricing and we also have new management in place in some of our factories to deal with the operational issues we've encountered.

Finally, in our juice business, the San Bernardino retrofit is now complete and with the addition of the Citrusource team we can really start to leverage the capital we have invested in that facility once we have our [SQF] certification, which we expect to receive in April.

Net net, we anticipate that some of the issues in consumer products may impact our results somewhat in the first half of 2015, but we also expect that global ingredients will continue to realize strong top- and bottom-line results. We started the year strong and have just won an important contract with a global retailer through our R&D efforts in consumer products and we have a diverse pipeline of opportunities. Over overall 2015 results in our core foods should continue to realize top- and bottom-line growth, which in 2014 was about 12% top line and 35% bottom line, respectively, which, unfortunately, were overshadowed by our poor performance in the fourth quarter.

That concludes my second review. I'll turn the call back over to Steve for some brief closing remarks.

Steve Bromley - *SunOpta Inc. - CEO*

Thanks, Rik. In summary, while we realized record 2014 results, we must relentlessly execute on our plans to achieve our long-term growth targets. Our balance sheet is strong and our share repurchase program reflects our confidence in our business and our ability to drive long-term value.

We remain active on the M&A front and are pleased to have closed the Citrusource transaction. We have been busy over the last year in assessing a number of acquisition opportunities and have remained steadfast with our disciplined approach to M&A. We have some interesting opportunities in the pipeline, in addition to continued investment in the growth of our core business.

We participate in great markets and we have the Management team and tools in place to deliver long-term shareholder value. We continue to realize improvement across our business from our operational realignment and reposition go-to-market strategy, which we believe will only strengthen our business in 2015 and beyond.

And finally, later this week, we will have a strong presence at Natural Products Expo West in Anaheim, California. From what we hear at this point, this will be the largest natural products expo yet, which is a testament to the growing market for healthy and organic foods. I encourage anyone who is attending to visit us at booth number 2350. We'd love to see you.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from Scott Van Winkle with Canaccord Genuity. Your line is open.

Scott Van Winkle - *Canaccord Genuity - Analyst*

Thanks. So on consumer products, Rik, can we dive into a little bit more detail about what portion of the challenges you had in Q4 you can firmly say were Q4 related things like inventory adjustments or rationalizations on the customer side to things like disruptions at Modesto that would continue into the coming quarters?

Rik Jacobs - *SunOpta Inc. - President & COO*

Yes. Hi, Scott. If you look at inventory write-downs, those are obviously one-time events that happened in the fourth quarter. If you look at the aseptic, we got to the third process, are up and running now in February -- end of February, beginning of March. So just basically last week. And that really unlocks capacity along with the new aseptic lines that we have.

So that one has cost us revenue in the fourth quarter. We had to turn away prospects, so that one will linger on somewhat. And on the pricing and frozen, we have passed that pricing onto our customers, but it's -- there is some lead time to lag in order to get that pricing through. So basically net-net, I would say half of it is lingering, half of it is done.

Scott Van Winkle - *Canaccord Genuity - Analyst*

All right. So we may not see the margins kind of get back to where we thought they should be until maybe the end of [Q2]. Is that kind of an expectation?

Rik Jacobs - *SunOpta Inc. - President & COO*

Yes. Having said that, we tried to manage the overall business and I think some of the headwinds we're facing in consumer products should be recuperated as well by global ingredients.

Scott Van Winkle - *Canaccord Genuity - Analyst*

Okay. And then going into 2015, you've got lower commodity prices across the board as well as weak foreign currencies, a strong US dollar. Can we talk a little bit about what we should expect on the headwind on commodity pricing? How you pass through that pricing and maintain margin and then what's currency net -net to kind of the bottom line or to revenue from an impact? I guess specifically the euro, I guess, would be the most impactful?

Rik Jacobs - *SunOpta Inc. - President & COO*

Yes, Scott, I think if you look at the commodity side the soy and the corn and domestic basically is gone down, as you guys have seen. That doesn't necessarily impact our margin so much. But it will impact top line revenue quite significantly. I think, in fact, Rob, in 2014, the total impact of lower commodity costs was about -- or pricing was about --

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

Give or take about $22 million influenced just on FY14. And I think it would be fair to assume a similar level heading into 2015. And as Rik mentioned, it doesn't impact our profitability but it does impact, obviously, the top line number. We're still generating the same or better per pound or per bushel margin.

Scott Van Winkle - *Canaccord Genuity - Analyst*

And on the currency, Rob, I'll have you --

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

Yes. And then the currency, I think it will be fair to assume that a little less than a quarter of our sales in our global ingredient platform are generally denominated in euros. And so as the euro continues to slide relative to the US dollar, that would put downward pressure on the translation, certainly, of that business into US dollars.

It doesn't influence the overall margin. We've got a hedging program that doesn't impact, if you will, the stand alone European business, but certainly on translation, that would put some downward pressure both on the translation of revenue and operating income.

Scott Van Winkle - *Canaccord Genuity - Analyst*

Do you have a kind of percentage number of sales or -- that are denominated in euros? It's hard for us to kind of flush out since a lot of your transactions, even in Europe, are in US dollars?

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

Yes. And that's where it's roughly about a quarter of that -- a little less than a quarter of that global ingredient business.

Scott Van Winkle - *Canaccord Genuity - Analyst*

Okay.

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

That segment. It's important to note out, Scott, that on the foreign exchange, the other movement that -- we're really exposed, if you will, to euros and Canadian dollars. And so as the Canadian dollar as well weakens relative to the US dollar, there is SG&A savings there. So from our prospective, the movement in foreign exchange really will stand out on the revenue line, which should not be influential from an earnings perspective.

Scott Van Winkle - *Canaccord Genuity - Analyst*

Okay. Great. I'll yield the floor. Thanks.

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

Yes.

Operator

Our next question comes from Christine Healy with Scotiabank. Your line is open.

Christine Healy - *Scotiabank - Analyst*

Thanks. Hi, good morning. I guess first I have a couple of questions for Rob. First of all, just what is the current carrying value of Opta Minerals on your books? I believe the original value is around $30 million, but what is it following these write-downs? That would just be good to know ahead of the pending sale.

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

Sure. The goodwill impairment we just recorded, Christine, is just under $11 million. And of course we own two-thirds of the business. And at the end of the day, we consolidated two-thirds of that loss. So you're right that its carrying value was around $30 million and now will be reduced by roughly 66% of that loss.

Christine Healy - *Scotiabank - Analyst*

Okay. I just wanted to see if I was accurate there. Okay and then next on consumer foods, hoping you can help us out. We can see the operating income margin is just over break even, but can you tell us what the gross profit percentage was for the quarter?

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

Included in our K that will come out, but we'll dig it out here.

Christine Healy - *Scotiabank - Analyst*

Thanks. And, Rob, I guess while you're looking for it, what -- when can we expect to see the 10-K and also the 8-K come out?

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

There's going to be a 10-K, our intention is file that before the close of business today, Christine -- the annual results. And then before this week's over -- we're targeting Thursday, if not sooner -- we'll have an 8-K published.

And in that 8-K, what it will provide you is the quarterly recapped segments for the change. So you'll see what global ingredients looked like and consumer products. Sorry. Just for the recap. Let me look up -- you were looking for the annual or the quarterly?

Christine Healy - *Scotiabank - Analyst*

Yes, just the quarterly gross profit percentage for consumer foods just so we can see the movement there.

Rik Jacobs - *SunOpta Inc. - President & COO*

I think most of the issues that we've encountered, obviously, impacted the gross margin line, right?

Christine Healy - *Scotiabank - Analyst*

Yes. That's what I wanted to see. I guess you can send it to me offline if you can't find it -- just because it might take a day or two to get that 10-K. So that would be helpful to know.

And then just lastly, Rik, just wanted to understand better the healthy fruit snacks. I get the -- I completely get the comments that customers are rationalizing so there were some inventory adjustments there.

But I think you also mentioned that you made decisions to rationalize some products. Was that because there was just too many skews, maybe too much variety in some areas? Can you just talk about that?

Rik Jacobs - *SunOpta Inc. - President & COO*

I think -- well, you are exactly right. We were making way too many products, and as a result, holding a whole bunch of different ingredients. And then when you start looking at what are you really making when you are producing those things, you're actually saying you're not making anything. So we need to reduce the portfolio of things that we're selling and we need to ensure that we use a lot more of the common ingredients, so to speak, so that we can actually realize a profit in these businesses.

Christine Healy - *Scotiabank - Analyst*

Okay. And has that rationalization already taken place or is it happening gradually in the first half?

Rik Jacobs - *SunOpta Inc. - President & COO*

The rationalization has by and large taken place and that's why we, at the end of the quarter, took the inventory write-downs.

Christine Healy - *Scotiabank - Analyst*

Okay. Great. Thanks, guys.

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

Thanks, Christine.

Operator

Our next question comes from Tim Tiberio with Miller Tabak. Your line is open.

Tim Tiberio - *Miller Tabak - Analyst*

Good morning and thanks for taking my question. You had mentioned last quarter that you were targeting, I think, 10% of savings of your overall transportation spend. Can you kind of give us an update of how far along you are in rationalizing out your logistics network and do you also see the recent drop in global ocean shipping rates potentially being a tailwind for your global sourcing business at all?

Rik Jacobs - *SunOpta Inc. - President & COO*

Okay. Well two questions on that one. On the domestic side, we have now contracted a third party logistics provider to work with us and who is basically going to give us a lot of the insight and a lot of the reductions that we're getting in our freight. And you're absolutely right, we are still targeting 5% to 10% savings on that one. That one is going to go live at the end of the second quarter.

As you can imagine, turning all of our -- I think just in the fourth quarter alone, we had something like 29,000 different shipments as a Company. So just making sure that all goes over flawlessly, we are now in testing phase with this particular provider. So that should be going live at the end of second quarter.

When it comes to the ocean shipments, I think there's really two parts of that one. One part is getting our goods to the ports, which has been challenging -- at least on the rail side.

And then secondly, that's -- I'm talking from domestic going to be sold in Asia, for example. And obviously some of the strikes that we have going on in the ports have delayed outgoing as well as incoming somewhat. But I don't think it has been a -- we shouldn't say that has been a significant impact on our international sourcing business.

Tim Tiberio - *Miller Tabak - Analyst*

Okay. Great. And then going back to the aseptic beverage issues in Modesto, have you had a chance to talk to some of your existing customers as kind of a postmortem to see whether the relationships are intact? How confident are you that -- we can understand that obviously there's temporary operating capacity constraints, but are you confident that this is, from a customer's perspective, something that they're viewing in a temporary manner?

Rik Jacobs - *SunOpta Inc. - President & COO*

Yes, I think most of our large customers have been long-term customers with us and, obviously, those are also the ones that we have prioritized in getting our shipments out to. I think we have continuously talked about all of the different prospects that we have. And that is really where the new customers and the prospects, that's really where we could have sold a lot more if we would have had the available time and capacity.

Tim Tiberio - *Miller Tabak - Analyst*

Okay. And just one last question. I believe last quarter you mentioned that you were launching the Opta Smooth product in some sample customer arrangement. Is there any update on whether you've seen any additional wins in the quarter with that product? And is that related to this large retail win that you mentioned?

Steve Bromley - *SunOpta Inc. - CEO*

Tim, Opta Smooth was a product that was being produced by the fiber business that we sold. So we're not promoting that anymore from an ingredient perspective.

We do have the availability under our agreements to use that product in some of our consumer products and we are using it for that purpose under our arrangement with the new owner. But we're not marketing it anymore as an ingredient to others and the consumer products win that we had didn't involve Opta Smooth.

Tim Tiberio - *Miller Tabak - Analyst*

Great. Thanks for your time.

Steve Bromley - *SunOpta Inc. - CEO*

Thanks, Tim.

Operator

Our next question comes from Keith Howlett with Desjardins Securities. Your line is open.

Keith Howlett - *Desjardins Securities - Analyst*

Yes, thanks. I just had a few questions. One on the expectation for capital spending in 2015.

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

Sure. Yes. You're looking at the range of between $40 million and $50 million, Keith.

Keith Howlett - *Desjardins Securities - Analyst*

And in terms of the tax rate that you're thinking of in 2015?

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

Yes, it's coming down a bit from what we had signaled previously. I think it would be fair to assume that the rate would be in the range of 36% to [37%] in 2015.

Steve Bromley - *SunOpta Inc. - CEO*

Keith, the rate is coming down because of just some of the strategies that we're employing around leveraging the business platform that we have.

Keith Howlett - *Desjardins Securities - Analyst*

And then just in terms of the San Bernardino facility which is up and going, was it up and going most of the quarter and so now it's just a question of selling capacity?

Rik Jacobs - *SunOpta Inc. - President & COO*

It is indeed a question of selling the capacity. And that capacity will get a lot easier to sell once we have our [SQF2] certification, which we expect to get in April. That's when some of the things that we are doing for customers now that we don't have in house, we can bring back in house. And obviously also some of the things that Citrusource is doing, we can then start bringing in house as well.

Keith Howlett - *Desjardins Securities - Analyst*

Great. And then just finally on the aseptic pouch business, what would -- is the industry condition about the same that there's been additional more capacity than the market currently needs or how does that market look?

Rik Jacobs - *SunOpta Inc. - President & COO*

Yes, I mean, the -- there has been a lot of capacity that hasn't been installed. However, I think with our Allentown facility and our West Coast facility, we are in the right locations to deliver the lowest delivered cost and where most of the consumers actually live. So we feel that we are well positioned in that one and, in fact, are winnings some of the bids that are out there as we speak.

Keith Howlett - *Desjardins Securities - Analyst*

Great. Thank you.

Steve Bromley - *SunOpta Inc. - CEO*

Thanks, Keith.

Operator

Our next question comes from Scott Van Winkle with Canaccord Genuity. Your line is open.

Scott Van Winkle - *Canaccord Genuity - Analyst*

Thanks. So following up on pouch and Allentown, the startup costs you expect, the timing and magnitude, can we get an update there?

Rik Jacobs - *SunOpta Inc. - President & COO*

The timing -- so Allentown -- we have made the decision, as you know, to basically put aseptic lines over there and that should be operational and coming online in the fourth quarter. And then if you look at the total investment that we're making there in terms of capital is north of $20 million. Startup, I would say, is about $3 million to $4 million that we will be incurring as we schedule ramp up. Is that right, Rob?

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

Yes, [that's in the zone]. And you'll see that cost really start to come through obviously in advance of the startup, Scott -- so starting now, to be honest, but then more predominantly noticed in the second and third quarter.

Scott Van Winkle - *Canaccord Genuity - Analyst*

And is the expectation kind of off the bat to kind of relocate existing production into an East Coast facility to save on transportation? Or is there more an expectation of incremental business because you're on the East Coast now?

Rik Jacobs - *SunOpta Inc. - President & COO*

I think it's a combination of both, as you may know. Some of the customers that we have as our significant customers, we don't actually have all of their volume.

So we're hoping to get that with being the lowest land of cost provider. And obviously for some of our customers, this will be a lower cost so they will expect to benefit from that as well.

Scott Van Winkle - *Canaccord Genuity - Analyst*

Okay. And then, Rob, with splitting up the remainder of the ingredients segment and moving part of it into the global sourcing, if not global ingredients segment, and part of it into the consumer products segment, what kind of margin impact to those two segments? I would assume the margin might be accretive to the portion ingredients business going into global sourcing and maybe a little dilutive for the portion of ingredients that's going into consumer products? Is that the right way to think about it? Or is it not just not big enough to really move the overall margin in those two segments?

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

Yes. Directionally, certainly you've hit on it there, Scott. So the more value add that moves into being what is now global ingredients, certainly that is accretive, if you will, to the margin profile there. And then it's the opposite for consumer products. You'll notice on the -- in our 10-K that we'll put out later, we'll have our adjusted targets for these two new segments and certainly an explanation of what comprises each of them.

Scott Van Winkle - *Canaccord Genuity - Analyst*

Great. And then, Rik, I think you talked about some management changes. I believe was it the frozen fruit and vegetable segment, if I have that right. And what was the driver there? I'm wondering if there's been -- if this is part of the restructuring and realignment that started, I guess, a year ago or what were the changes there?

Rik Jacobs - *SunOpta Inc. - President & COO*

Yes, Scott, over the last year we have certainly had a significant talent upgrade in our organization, especially, I would say, in the operations side of things. When you look at the supply chain initiatives such as that [three party] that is all new, central procurement is new.

But what I was specifically referring to in my earlier comments were that in all honesty, some of the issues that we encountered in the fourth quarter were basically us not executing. And that is not excusable anymore these days. And so as a result of that, we've also made some changes.

Scott Van Winkle - *Canaccord Genuity - Analyst*

Great. Thank you.

Steve Bromley - *SunOpta Inc. - CEO*

Thanks, Scott.

Operator

And I'm showing no further questions. I will now turn the call back over to Steve Bromley for closing remarks.

Steve Bromley - *SunOpta Inc. - CEO*

Great. Well thank you and thank you to everyone for joining the call today. We appreciate your time.

For those that will be at Expo West, we look forward to seeing you there. And otherwise, we look forward to talking to everyone in the near future. So thank you and have a great day.

Operator

Thank you, ladies and gentlemen. That does conclude today's conference. You may all disconnect and everyone have a great day.
