PARTICIPANTS

Corporate Participants

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

Other Participants

Scott Van Winkle – Analyst, Canaccord Genuity, Inc.

MANAGEMENT DISCUSSION SECTION

Scott Van Winkle, Analyst, Canaccord Genuity, Inc.

Good morning, everyone. I'm Scott Van Winkle with Canaccord Genuity. Thanks for being here. In the midst of the natural organic track, and with that, we'll go to one of the largest suppliers of non-genetically engineered ingredients, a thesis that we think is core right now and for the next couple of years in the natural organic space, and SunOpta is the best way to play that trend. There's no way you can look at the news and not have seen something about the potential for labeling.

So take a look at the conference book for information about SunOpta, as well as any potential relationship between Canaccord and the company. We have Steve Bromley, CEO; Rob McKeracher, Chief Financial Officer, here to speak about the business. So I'm going to turn it over to Steve.

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

Great. Well, thank you very much, and good morning, everyone. Hope you're having a good day. I appreciate you taking time to talk to us about SunOpta. So a little bit about our company, our focus is on natural and organic foods, really ties in to what Scott has mentioned. Our focus is on the natural and organic space, non-genetically modified and organic. And these are really fast-growing categories that we think presents really nice growth opportunities. And so we've been growing both internally and through acquisition. We'll spend a little bit of time talking about that today.

We run an integrated business model, and I'll talk about that model. You won't know SunOpta by our brands, but I can assure you that if you're eating products from the natural and organic space, we've either provided the raw materials or provided the ingredients or provided the finished package product integrated from field through the table. So, we'll spend a little bit of time talking about that.

I do want to share with you our blueprint on how we're creating shareholder value moving forward. I'll spend a little bit of time talking about our financial stability. We have a nice strong balance sheet, we're profitable and we're growing. And one of the things that I point out, as investors, when you take a look at the natural and organic pure set, good news for you, bad news for us is that we do trade at a discount multiple lies to a lot of companies that you'll see in our space and some of the folks that you've seen today, so we'll talk a little bit about all of those things.

I want to start off with this video on what we do, hopefully with the sound – is there sound with that? There's no sound with that. No? No, okay. So we'll pass on the video. I apologize. So our vision is to be – our mission is to be a recognized global leader in natural and organic foods that drive sustainable well-being.

Three key things that I want to mention in there, one is natural and organic. So natural to us means no genetic modification, no artificial flavors, colors or preservatives. And then organic, obviously, also is no genetic modification and it removes all the chemicals from the process. Those are the products that we're focused on.

We're a big company by natural and organic standards. We're not that big when you think about big global food companies, so it's important for us to stay in that niche, natural and organic. Global, we do have a global platform. A little over 80% of our revenues are still North American-based and growing quite nicely, but we are around world. And sustainable, very, very important in our space, our customers want to know where the product came from, who handled it, how far did it travel, was it grown with sustainable practices, et cetera. So, global, natural, and organic products that drive sustainable well-being.

This is our model. And to start off with, we work from field through the table. We don't own the farms and we don't own the brands, but we're integrated through that supply chain, contracting with growers. We have 5,000 grower relationships around the world. We contract product from 60 countries around the world. We bring those to our manufacturing facilities, where we convert them into raw materials, that's our lowest value sale; convert those raw materials into ingredients, that's our higher-margin sale; or we'll take those ingredients right through the finished package product, our higher-margin sale again. We don't own the brand and we don't own the field, but we're integrated right through that supply chain.

I won't spend much time on the thesis around healthy leaving and healthy eating other than to say that it's a global trend and our thesis is that healthy living and eating is not going away anytime soon. Between obesity and ageing populations, where we see great growth, we see lots of continuing opportunity in North America. And while we're global, the North American opportunity we see as very, very big.

Interestingly enough, half the people in the world consider themselves overweight, and the number one thing that we're going to do is change our diet. So that – and it's not just in North America – we do have some copies of the presentation at the back, if you want to see – it's around the globe where people feel that way.

So this is our business model. We'll start by contracting with growers. This happens to be a soybean model, and we'll do this in grains, in fiber and fruit. Soy, we're a large producer of soy products. I'll get into that in a minute. We contract about 60% of all the organic soybeans in North America, as an example.

So in that case, we'll deal with the grower. We'll help them grow for us. We'll buy back the crop. We'll clean screen [ph] the whole size, (05:39) test for genetic modification, and we'll sell that crop to food manufacturers. We'll further process it into ingredients, so we'll do liquid soy concentrates. In this case, we'll do powders and oils, soy bits for energy buyers. We have ingredients that we sell or we'll go right through to finished package products. We have two platforms. In the case of grains, we both roast, so we'll do snack-type products, roasted soybeans and corn and sunflower and blends. And then we also do aseptic beverages. We are the largest packers of organic aseptic soy milk in North America. We'll get into the products here in a second. But that's a vertically integrated model, and our margins are moving as we move through the value chain.

Similar model in graphic, this particularly being in fruit. We'll start with raw fruits, we'll turn them into purees, we'll put them into poach products for things like baby food or apple sauces, and the kids will eat them. 5,000 growers, 60 countries.

So, we have – and this is a busy chart, but if you think about it, we do grain-based, fiber-based and fruit-based foods. So, in grains, the big grains that we would see here in North America, soy, corn and sunflower, but we're also into sesame and we're into rice and chia and quinoa, those ancient grains that nobody knew how to spell five years ago and we're all eating now, we do a lot of that. We'll convert those into ingredients and we will rate through the finished packaged products by both aseptically packaged products. Aseptic products are growing really quickly because they're shelf stable. It's good for food on the go. You don't have to put them in the refrigerator until you're ready. So, we'll do soy milk, rice milk, almond milk, sunflower milk. We'll do teas, broths, coffees, leveraging that integrated platform.

Same type thing on the frozen fruit and vegetable side. We'll take frozen fruits and vegetables, convert them into a wide range of ingredients. We'll do basis for things like organic fruit on the bottom yogurt. So, if you went to whole foods and you're buying an organic fruit in the bottom yogurt, chances are we did the fruit for the bottom of that. Toppings, we'll do fruit juices.

And then we'll go right through to finished package products, and we have four packaging platforms on the fruit side. We do resealable pouches. This is a very, very fast-growing category we've been expanding rapidly. These are the resealable squeezable pouches that are big in baby food but are moving into all types of applications as consumers replace cans and bottles.

We do packaged individually quick frozen fruits and vegetables, so same source of raw materials. If you buy a bag of frozen fruit, use it in your blender, we'll do that. Healthy fruit snacks, fruit like bars, fruit snacks and twists and peels and bits. Again, starting with the same raw material but a different finished goods application. And then we'll do juices and waters and those sort of products.

We're also big suppliers of fiber. So we're the largest producers of oat fiber for the food industry in the world. We're the second largest producer of soy fiber in North America. And the soy fiber is a byproduct of our soymilk production. And so, grains, fiber and fruit-based offerings.

Our customer base is very, very diverse. We deal with all the major retailers and then we deal with the branded food companies as well. So, in the case of a General Mills, we'll do a number of ingredients for that company, some raw materials, and then we'll pack some of their particular products. So, a wide breadth of customers. We don't have – our largest customer is 6% of our revenue, so we're very diverse.

We have three key strategies that we're executing on to drive shareholder value. The first is to become a pure play food company and I'll talk about what that means. The second core strategy is to drive our value-added product offerings because margins are better and it's stickier for us. And last is to leverage the platform that we put in place.

And quickly to walk through those, our company started in 1973. We weren't in food until late 1999. So, as a food company goes, we have over a $1 billion revenue platform now, but we're a relatively new food company. And so, we've been divesting of both assets that we acquired on the food side of the business that didn't make sense for our platform, and we still have two noncore businesses that are left. We have a position in a minerals company and a position in a bio-fuels company. They're both noncore. It's not – if we're going to dispose of them, it's only a case of when we will be a pure-play food company. Food is 94% now of everything that what we do, so we're well down the road but we will do that.

But more importantly than selling those, it's continuing to grow in the space that we're in. So we've traditionally been an acquirer. We'll continue to acquire in this space. Our balance sheet is in good shape, we'll talk about that in a minute. But the shorter-term goal here is that the noncore, nonfood assets will be disposed and we'll continue to grow on the food side.

Second is driving value-added. In that example where we went through on soybeans, if all we do is clean screen [indiscernible] (10:58) soybean and ship that, we make 2% to 4% operating margins – EBIT margins. If we can convert it into an ingredient, it's 8% to 12% margins. And if we can convert it into a finished package products, we're in the 14%, 16% and plus range in margins.

So our goal as we grow the business is to be growing at on the ingredient and the packaged goods side. So if you go back and take a look at where we've been investing and putting our money, it's on that side of the business. That's where the growth is. That's where it stickier for us. That's where the margins are better.

So in simple terms, for every soybean that we sell today, if we can sell that tomorrow as a packaged product, we make an additional 10%-plus margins. And that's really where we're driving, and that's where we're seeing the growth come in the business.

And lastly, leveraging the platform. This company on the food side of the business is a culmination of bringing 34 companies together. So for a long time, as we grew, the SG&A line grew with it because we didn't have the leverage. We now are in a position and we are driving leverage. We're all on one operating platform, we operate on Oracle. We have consolidated information systems, information technology, human resources. So we have a platform that is now scalable and leverageable. Our average capacity utilization is in the 65% to 70% range. So it's time and we're starting to see the leverage come from what seemed like forever getting everybody on the same system, but we're there now. So, a combination of pure play food company, drive valued-added, leverage the platform we put in place.

Today, our operating margins, our EBIT margins are 4.3%, okay? Our target is 8%. And we want to hit that target on the last day of 2015. So we're two – just a little over two years away from these targets.

What does that mean? In simple terms, we can double – at least double the earnings capacity of this business, okay, and should do more than double. That excludes acquisitions. So last year, we did $0.36 in earnings. At those target margins, assuming a continued growth in our top line, we should be between $0.80 and $1. So at least to double, and we believe that that will drive significant shareholder value.

Operating margins of 10% which is – 8%, sorry, translates into EBIT of 10%, and a return on net assets of 15%. So far this year – last year we had a record year, $1.1 billion in revenue. Our adjusted EPS from operations was $0.34, $0.36 when we factored in discontinued operations. So far this year, we've had record revenues of $594 million. Our earnings from operations are $0.17 versus $0.19 last year.

Couple of key things that are happening this year. We've invested about $3 million in bringing new operations online, which is impacting – which is the major impact against the earnings year-over-year, but seen nice top-line growth which is really important. And as you can see, from Q4, our margins have moved up sequentially over the last three quarters. So we're seeing the growth that we were expecting.

Our balance sheet is in good shape. We have about $700 million in assets employed. We have debt of $183 million that should be – yeah, $183 million. Our debt-to-equity ratio is 0.57:1. In that $183 million is $60 million of debt that is non-recourse. It's in the minerals business, but we have to consolidate that minerals business. So the true debt within the core food business is $120 million. And that will go down further if you sell the minerals business because not only does their debt go away but you get cash proceeds. And so, our balance sheet is in good shape. We have about $100 million in available capacity to grow – drive growth projects and that's committed capacity, to drive growth projects and potential acquisitions.

The good news is we've been in the food – most of the team have been in the food business for quite a while. The bad news is that means we're all getting a little older, but I've been with the company since 2001. I started as CFO, I was COO and now CEO. We have a nice mix of sort of organic pioneers on the operating side of our business. Allan Routh and Joseph Stern and Gerard Versteegh have been in this business for a long, long time. So, they really bring the cultural and the industry dynamics to our team. Rik Jacobs is our President and Chief Operating Officer. Rik joined us a year ago. What I realized in the company was that we really needed to up our innovation and sales and marketing abilities. And Rik's a Dutch fellow, who's been in this space a long time and has really done a nice job of helping us drive the business forward. So, really comfortable with the team that we have in place.

I do want to mention briefly about sustainability before I take some questions, that for our customers and our employees, sustainability is really important. Our corporate social responsibility reports are posted on our website. We have a five platform sustainability – five [ph] pure (16:36) sustainability platform, dealing not only with the environment but what's happening in the workplace, what's happening with our suppliers. That's the biggest question we get from our customers as where is all this stuff coming from and where there kids in the fields and how do you know us? So, that's all really, really important to us.

So, to wrap up before questions, just in highlights, global, natural and organic healthy foods integrated from field to table. We're not a branded foods company but – and so we don't go around talking about who all the customers are, but I can assure you you're eating foods that we've produced or foods that have our ingredients in there.

Our balance sheet is strong. We're well-positioned for continued growth. We have our strategic priorities, pure play, value-add, leverage the platform that's in place. And we're very proud of the team that we have in place to drive this ahead, and we really believe that there's good shareholder value to be created. All under the umbrella of healthy eating and healthy living is not going away anytime soon.

So with that, if I could take any – oh, sorry, if I could take any questions that anybody might have.

QUESTION AND ANSWER SECTION

<Q>: [Inaudible] (17:53)

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

<Q>: [Inaudible] (17:55-18:03)

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

<Q>: [Inaudible] (18:04-18:20)

<A – Steve Bromley – SunOpta, Inc.>: Yeah. So to Scott's point, today our consumer package products are about 40% of our overall revenues. We guided that we would – and in the consumer product segment that we report, we've been incurring a lot of costs. And the thing about adding all these capabilities is as you're adding them, you're expensing as you go rather than just buying a company that has them all. So, we've incurred those costs. But in the second quarter, we saw that group really break through and see some margin improvement.

So, as you watch that, you should be – what we're watching is that split will start to ramp from the current percentage mix as it moves forward and margins will improve as we gain scale in that business. And you should see the raw material side of the business start to come back. So, it's not sort of like this, like this curve doesn't go like that. It kind of steps as you bring capabilities on.

We moved into the resealable pouch business. For example, we moved into the pouch business in late 2011. And we saw that pouches were really growing, and it's a global phenomena what's happened in pouches. And North America's still way behind the rest of world in pouch consumption. But we are selling all these raw materials to people and well, where's all this going? Well, it's going in this pouch that and in this pouch that. What if we did it perfect like that where we don't have to have another party involved? So, we've moved into that, but what happens is we just brought our fifth and six lines on. So, you get costs and then, oh, now you've got capacity and you're selling it.

Same thing on the aseptic side of our business. We just added – just finished adding three more aseptic packaging lines. So you kind of – you fill them up and then you step as you go. And we're already, where do we put lines seven and eight on the pouch side, and how where else do we have to go with these things.

And it's not just – we also see it on a snack. Portable nutrition is really, really big. So on the fruit strips and all of those sort of buyers, we've been expanding, so you see that. We've been rapidly expanding our non-GMO corn milling capacity because everybody – not everybody, but the non-GMO horse left the stable, that's the way I like to describe it.

North Americans are now aware that – and are asking for labeling options, saying [ph] look at that, (20:56) and I'm not here to tell you whether it's good or bad, that everybody make up their own mind, but consumers are saying label that for me so I know it's there. And so we're seeing more and more and more demand to have ingredients in raw materials that will fit the non-GMO bill. So those are the types of things I'll be watching for.

I couldn't have dazzled you that much. Jack?

<Q>: [Inaudible] (21:23-21:37)

<A – Steve Bromley – SunOpta, Inc.>: Yeah, normally – first off, are their relationships exclusive? You're normally exclusive with a given crop in a given year. But not to spend too much time on that, but when we go out and, say, it's a soy grower, just for a lack of a better description. We'll contract for probably 80% of the crop with a right of first refusal on the balance.

And the reason for that – and so, we'll be the only person initially. And the reason for that is if it's a real, real bumper crop, you don't want to get yourselves stuck with an overabundance of supply. And if it's a short crop, you want to have the ability to go get the balance, so normally we take everything from a grower.

So, they're not – they're essentially exclusive, but that guy might be growing or a person might be growing soy and he may have other crops on the farm that we don't deal with. And so, we may not, depending on what they're doing in their crop rotations, because the natural and organic guys are much more in a rotation. And one year, we may be with the grower and the next year we might not because they may rotate out of the crops that we're in. so that's why the network has to be as [ph] extended. (22:50)

It's really interesting what's happening. We are not seeing a lot of grower conversion in North America on the grain side because they make good money growing GMO corn or soy and the economic motivation isn't there. That will come again if the markets ease up and maybe demand for crop, for fuels goes down, we'll see some of that. So that's not a challenge for them, but they're just not economically motivated right now to convert. One of the questions I'm always asked is, what's going to happen when people want to convert to non-GMO? Can there be enough supply? Yeah, there will be lots of supply, but you're just going to have to pay for it. That's going to have to make it economically enticing.

In other parts of the world, though, we're seeing much more conversion because the economics are different. And so, we have a lot of new projects in Africa and places where they're very motivated to grow organically.

But North America is quite interesting, and that's what we like about our business model. We're sourcing from around the globe. And in North America, the demand is plus 10%, but the supply side is not growing on all commodities accordingly. So having supply and being able to generate supply while it's our lowest-margin part of our business, I think, is strategically as important as any.

<Q>: [Inaudible] (24:13-24:28)

<A – Steve Bromley – SunOpta, Inc.>: Well, the two biggest GMO crops in North America are soy and corn, and the two biggest crops that we're going to have to get into GMO – non-GMO are soy and corn, all right? Like they're the ones that – corn is going to be the number one food product that has to get into the non-GMO space. So that's where the margin profile will have to change somewhere in order to motivate growers to grow [ph] food. (24:46) I always tell people, and I grew up in an egg kind of community, there's no such thing as a dumb farmer, right? These are businessmen and ladies and they know what they're up to and it's economics. And so, there's a certain percentage who just don't want to grow roundup-type crop on their property, but for the most part, it's economics. And it can be done but it's – I don't know how much it's going to cost to get it all done.

Scott Van Winkle, Analyst, Canaccord Genuity, Inc.

[indiscernible] (25:24) Thanks, Steven.

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

Great. Thank you.