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PRESENTATION

Operator

Good morning, and welcome to SunOpta's First Quarter Financial 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 at 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 all 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 like to remind listeners that the company may refer to certain non-GAAP financial measures, such as adjusted earnings and adjusted EBITDA during the teleconference. A reconciliation of these non-GAAP financial measures was included with the company's press release issued earlier today. Also, please note that unless otherwise stated, all figures discussed today are in U.S. dollars and are occasionally rounded to the nearest million.

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

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

Good morning, and thank you for joining us. I am joined today by Rob McKeracher, our Chief Financial Officer. Let me begin by briefly discussing our first quarter performance and then I will update you on progress against the Value Creation Plan.

Adjusted EBITDA for the quarter was $18.9 million, up from $9.4 million during the fourth quarter and compared to $22.1 million a year ago. We generated a sequential improvement in adjusted EBITDA margin and adjusted EBITDA dollars during the first quarter relative to the fourth quarter. As we previously discussed, there were significant nonstructural costs incurred as we were front-end loading the work on the Value Creation Plan. However, we expect these nonrecurring costs to moderate as 2017 progresses.

Gross margin for the quarter, on an adjusted basis, was 11.9% compared to an adjusted gross margin of 11.6% a year ago, and increased 400 basis points from the fourth quarter adjusted gross margin of 7.9%.

Compared to the first quarter of 2016, revenue declined 3.1% on an adjusted basis. However, we experienced 10.9% growth versus the fourth quarter of 2016, which, despite some seasonality, is an encouraging recovery for the quarter.

As we discussed last quarter, there has been a sharp drop in consumer demand for frozen fruit, due primarily to higher on-shelf prices in the freezer, in contrast to an oversupply that peaked in the fresh market in late 2016. These unfavorable market conditions have impacted the entire IQF fruit industry, including our business. As a result, we experienced a 12% decline -- revenue decline in Healthy Fruit in the first quarter.

In addition, the very strong growth we experienced in the first quarter of 2016 made for a difficult comparison.

Looking ahead, we are noticing some positive signs on the horizon for frozen fruit. The latest 4-week consumption data for the period ending April 22, 2017, suggests that while the overall category of IQF fruit declined 2.3% on a dollar basis, private label IQF fruit grew 3% on a dollar basis.

We are also continuing our efforts to further understand consumer and retailer needs as we position our IQF portfolio for future growth opportunities.

We generated good growth in Healthy Beverage. Premium juice sales rose 34% and aseptic sales increased 4%. As noted last quarter, we are in the process of winding down one of our private label aseptic contracts that we expect will be partially offset by strong demand from a large food service customer and additional broth and nondairy items being launched in the retail channel.

Healthy Snacks were relatively flat on a reported basis, but up 13% on an adjusted basis, led by bars and fruit snacks.

Finally, Global Ingredients declined approximately 11% on an unadjusted basis. However, if we adjust for the impact of lower commodity prices, foreign exchange and the impact of the sunflower recall, the segment posted a 5% decline.

Our North American ingredients business remained consistent with recent trends, declining approximately 4% on an adjusted basis, while our international sourcing operation saw a 6% adjusted decline against a very strong quarter a year ago, when growth had been compounding at double-digit rates.

Last quarter, we laid out some of the initial strategic actions we have and will be taking this year. As we previously noted, 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.

In the near term, these benefits are expected to be offset by structural investments made in the areas of quality, sales, marketing, operations, engineering and other functional resources. Additionally, the company is incurring 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.

Now let me give you an update on our progress on each of the 4 pillars of the Value Creation Plan.

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. Strengthening and broadening the skill set and experience of SunOpta's leadership team is a critical component to the process sustainability pillar, and I am pleased to tell you the team is now fully in place.

Over the past few months, in addition to my appointment as CEO, we have added a Chief Operating Officer for Consumer Products, a Chief Human Resources Officer, a Chief Information Officer, a Chief Quality Officer, a Senior Vice President of Operations and Engineering and a Senior Vice

President of Supply Chain, in addition to filling other management level positions in the areas of sales, marketing, customer marketing, engineering, operations, quality and other functional support services.

We have also made progress in improving service levels to our customers by implementing a sales and operations planning process in key parts of the business. We will systematically expand this process across all segments as we position the company to deliver best-in-class order fill rate and on-time delivery performance to our customers.

In order to improve the quality of information we utilize to run the business, we have several data foundations projects underway. The initial areas of focus are product costing, inventory management, master data governance, specification management and KPI and functional reporting.

I am very pleased with the success we've had in attracting experienced leaders to SunOpta, which is a testament to the opportunity we have in front of us. It all starts with people. The changes we've made over the past few months were critical to reset the tone from the top, adding much-needed leadership and experience. With the senior leadership team in place and the Value Creation Plan well underway, the DNA of the company is quickly migrating to a performance-based culture that highly values continuous improvement and demands accountability.

We have also established key performance indicators for the organization to measure and track performance against. These KPIs focus on employee safety, food safety and quality, customer service, productivity and cost as well as revenue, gross margin, EBITDA and working capital.

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. During the first quarter of 2017, we launched network-wide upgrades to worker safety and food safety and quality programs with the goal of becoming a leader in safety and quality across the healthy food industry. At the same time, we have been identifying and implementing cost savings initiatives to increase productivity in our manufacturing operations and lowering procurement and logistics cost. We expect to see the benefits of these initiatives start to accelerate in the second quarter and into the back half of 2017.

Since the initiation of the Value Creation Plan, the company has implemented process improvements and cost savings, which are expected to yield $1.3 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 to 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 first quarter, we implemented a revamped go-to-market approach, emphasizing proactive engagement with current and prospective customers. We also generated business wins with existing and new customers in existing and new categories across frozen fruit, Healthy Beverage and Global Ingredients.

Organizationally, we continue to build out our food service and retail sales and marketing capabilities. And the new talent in these areas is hard at work, building a robust pipeline of sales opportunities to pursue, timed in parallel with needed capital and process improvements at several of our facilities. We also strategically adjusted pricing for certain consumer product offerings, driving expanded margins.

Since the initiation of the Value Creation Plan, the company has implemented go-to-market improvements, which are expected to yield $2 million of annualized EBITDA benefits.

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.

This pillar was the first one we acted against upon launching the Value Creation Plan, which led to the decision to close 2 underperforming facilities. During the first quarter, we continue to evaluate product rationalization opportunities to enhance margins.

We also appointed John Ruelle as Senior Vice President of Corporate Development. John will focus on M&A activities and product rationalization opportunities in addition to his responsibilities of managing the North American ingredients business.

Since the initiation of the Value Creation Plan, the company has implemented portfolio changes, which are expected to yield $4.2 million of annualized EBITDA benefits. As we previously mentioned, in the near term, all of the benefits derived from the Value Creation Plan will be reinvested back into the business. This reinvestment was evident during the first quarter and is needed to solidify the company's foundation and establish the right trajectory for the business.

Before I hand the call over to Rob, let me reiterate the we will statements I introduced to you last quarter, as they are a key driver of how we manage and operate our business. 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.

I will now turn the call over to Rob to go through the first 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 first quarter.

As Dave mentioned, first quarter revenue was $330 million, a 6.3% decline as reported or 3.1%, excluding the impact on revenues from changes in commodity-related pricing, foreign exchange rates, the estimated impact of the sunflower recall 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 $130.3 million, a decline of 10.8% compared to $146 million in the first quarter of 2016. Excluding the impact of commodity-related pricing, foreign exchange and the estimated impact of the sunflower recall, Global Ingredients revenue decreased 5.2%. The revenue decline reflected lower volume of specialty raw materials driven by a reduction in contracted acres and lower volumes of internationally sourced ingredients, mainly due to weather-related delays in accessing raw materials from Eastern Europe and lower sales volume of low margin animal feed.

The Consumer Products segment generated revenues from external customers of $199.7 million during the first quarter of 2017, a decrease of 3.2% compared to $206.3 million in the first quarter of 2016. Excluding the impact of a fire at the third-party pouch processing facility, revenues in Consumer Products decreased 1.6% compared to the first quarter of 2016. This decrease largely reflects a 12% decline in our Healthy Fruit platform as a result of lower retail IQF sales due to a decline in consumer consumption, partially offset by increased sales of custom fruit formulations. The lower frozen fruit sales were partially offset by a 3.9% increase in aseptic beverage sales and a 34% increase in sales of shelf-stable and refrigerated juice products.

For the first quarter of 2017, gross profit was $38.7 million or 11.7% of revenues compared to $31.9 million or 9.1% in the first quarter of 2016. Excluding the $0.4 million of costs related to the wind down of the San Bernardino juice facility as well as an estimated $0.7 million of costs associated with the sunflower recall, gross margin for the first quarter of 2017 would have been 11.9% compared to an adjusted gross margin of 11.6% a year ago. As compared to the fourth quarter of 2016, on an adjusted basis, gross margin increased 400 basis points from 7.9% reflecting improved cost control and efficiencies, due in part to increased production volume inside our consumer products manufacturing operations.

For the first quarter, we reported an operating loss of $3 million compared to operating income of $2.6 million in the first quarter of 2016. Adjusting for wind down costs, the impact of the sunflower recall and $11.4 million of nonstructural SG&A costs relating to consulting fees, temporary labor, employee recruitment and retention costs associated with the Value Creation Plan, operating income in the first quarter would have been $9.6 million or 2.9% of revenues compared to $12.3 million or 3.5% of revenues in the first quarter of 2016, all on adjusted basis.

On a GAAP basis, for the first quarter, we reported a loss from continuing operations of $11.4 million or $0.16 per diluted common share compared to a loss from continuing operations of $9.7 million or $0.11 per diluted common share during the first quarter of 2016, and $33.5 million or $0.41 per diluted common share in the fourth quarter of 2016.

First 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, $17.3 million in costs related to the Value Creation Plan, reflecting asset impairment and severance costs, as well as the previously mentioned costs associated with the wind down of the San Bernardino juice facility and nonstructural SG&A costs, in addition to lost gross profit and other direct costs related to the sunflower recall and other expense items.

For the first quarter of 2017, we reported an adjusted loss from continuing operations of $0.9 million or $0.01 per diluted common share compared to adjusted earnings of $2.7 million or $0.03 per diluted common share in the first quarter of 2016, and an adjusted loss of $7.3 million or $0.08 per diluted common share in the fourth quarter of 2016.

We realized adjusted EBITDA of $18.9 million compared to $22.1 million during the first quarter of 2016 and $9.4 million during the fourth 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 first quarter of 2017, we generated $19.5 million of cash from continuing operations compared to cash used in continuing operations of $17.9 million in the first quarter of 2016. The improvement in cash from operations was driven by a focused reduction in working capital due largely to liquidity optimization efforts undertaken as part of the Value Creation Plan. I'd like to remind listeners that our working capital requirements are seasonal, and we expect to use cash to fund working capital in the second quarter, due primarily to the timing of the fruit harvest. We continue to target $20 million of increased cash flow during 2017, generated by our efforts to lower working capital.

During the first quarter, we spent $9 million on capital expenditures compared to $4.5 million in the first quarter of 2016. Capital spending in the first quarter of 2017 related primarily to facility upgrades and automated sorting enhancements in our frozen fruit operations, additional roasting capacity at our cocoa processing facility in Holland, quality and safety enhancements in our Sunflower operations and the lease buyout of equipment at the former San Bernardino juice facility.

As previously mentioned, we expect our capital spending to trend higher in 2017 in support of the Value Creation Plan to solidify the foundation of our operations and also to achieve a number of productivity improvements. We continue to expect capital spending for 2017 to be in the range of $30 million to $35 million.

During the first quarter, bank indebtedness declined $6.4 million and total debt declined $6.7 million to $425.9 million. On April 1, 2017, our leverage was approximately 5.3x adjusted EBITDA on a trailing 4 quarter basis after eliminating the negative impact on EBITDA from the San Bernardino juice facility.

From a liquidity perspective, we ended the quarter with approximately $96 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. As we previously discussed, the Value Creation Plan will have 3 distinct phases. During the first phase, we don't expect meaningful revenue growth. However, we expect to generate increased gross margin as a percentage of revenue. This will be partially offset by increased investment in SG&A. As I mentioned earlier, this investment is necessary to build the foundation for consistent profitable growth. For the second and third phases, we expect revenue to increase as our go-to-market initiatives take hold, driving incremental gross profit dollars.

In addition, we expect continued gross margin expansion as a result of improved utilization in our plants and the benefit from our productivity initiatives. The investment in SG&A will be complete by the second phase, and by the third phase, we expect to leverage our SG&A investment, further enhancing EBITDA margins.

Finally, in phase three, the effect of growing revenue and expanding margins is anticipated to result in substantial free cash flow generation. We look forward to updating you each quarter on our progress.

With that, I'll turn it back to the operator to facilitate Q&A. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Jon Andersen with William Blair.

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

David, maybe I'll start with the last comment you made around the Value Creation Plan and the 3 phases. It's helpful to understand kind of what to expect within each of those phases in terms of revenue margins, profitability and cash flow. Do you have any thoughts you can help us with, with respect to the timing or duration of those 3 phases that you described? Or is it just too early at this point?

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

Yes, thanks, Jon. As we kind of discussed on the last call, I think the first phase we're viewing as a 12- to 18-month process. And then the second and third phase, anywhere from the 18- to 36-month phase. So we're really a little over a quarter into this process. But I think those are fairly realistic time frames as we see them today.

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

Excellent. Okay. Shifting gears, on the Consumer Products business, talk a little bit more, if you would, about the frozen fruit kind of business, the category trends in general. And to what extent we should be really encouraged or thinking about maybe better consumption trends going forward based on some of the latest 4-week data? Have we kind of worked through the pricing issue at this point? Or are there more kind of pressures to come? But just talk a little bit about what you're seeing there and what your expectations maybe for that business are as you move through the year?

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

Sure. Yes, I think as we've discussed previously, what we think was a big driver of some of the category decline was this -- the pricing actions that have been taken over the last few years in IQF fruit have been relatively significant. And last year, there was somewhat of an anomaly that occurred in that there was an oversupply of fresh fruit, which delayed the harvest, if you will, going to the IQF fruit, which caused our IQF fruit costs to go up. We had to take pricing, obviously, at retail to offset that. And it created a pretty good gap between IQF pricing and fresh pricing at retail. We think that's what's driven down the IQF consumption to date. As we're coming into kind of the new fruit harvest season here, and we've taken some actions to normalize pricing, we think that, that's what may be driving some of the growth back into the private label category. It's early. We had one quad-week that showed this kind of trend starting to reverse. But even the quad weeks prior to this one we saw that, although the category was declining, it was declining at a lower rate, if you will. So one quad-week doesn't a trend make. But we think as the pricing returns to more

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historical levels and the delta between IQF fruit pricing and fresh gets back to historical levels, we're encouraged that we think the category might continue to grow.

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

And we're hearing from others that there may be a renewed focus at least among some large food retailers on private label as a way to improve the economics of their stores and also create a price halo and provide a certain level of differentiation. Is this something that you're seeing in potentially, not just within fruit, but broader across your Consumer Products portfolio? And is that an opportunity for you going forward?

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

Yes, I mean, I think private label offers a tremendous value. And we're very encouraged by some of the trends in private label broadly. So I think, with our portfolio, we're well positioned to take advantage of that. We have good diversification in the portfolio to take advantage of it. And I think with our new go-to-market approach that we're taking by focusing on key customers in key channels, and bringing kind of more intelligence to our customer base with how we've added additional talent in the organization to be more knowledgeable about the consumer and the categories that we compete in, we see -- that we think there's some good potential growth opportunities for us.

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

Okay. If I can squeeze a couple more in, I'll get back in the queue. On the beverage business, there are some transitions going on. And you mentioned this in your prepared comments, there's a wind down of one piece of business. But it sounds like you've had some wins in other parts of the beverage business. Could you help us a little bit with maybe how the impact of this transition will play out over the next quarter or 2? So that we're kind of prepared for that and can quantify it as well as possible in our models?

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

Yes, I think we'll probably see a slight dip in revenue over the next couple of quarters. And then as some of this new business takes hold, that should start offsetting it. We're anticipating for the year to be relatively flat on the beverage versus prior year.

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

Great. Okay. Last one for me. The portfolio work that you're doing and continue to do, is there any kind of update there with respect to potentially bigger kind of simplification decisions? Just your thoughts as you've kind of continued to kind of work through the portfolio and look for opportunities to kind of get more focused improved profitability?

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

Yes. Nothing significant, Jon, versus what we spoke to in the last quarter. We'll continue to look for opportunities to call out unprofitable SKUs and product lines and things of that nature. That work will always be something that we do on an ongoing basis, but nothing significant to report at this point.

Operator

(Operator Instructions) Our next question comes from Amit Sharma with BMO Capital Markets.

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

David, just going back to the frozen fruit segment, I mean, I think you're signaling that the price delta between fresh and frozen is at the heart of this sales compression that we're seeing in that business. But the question really is that, this probably is not the first time where we've seen this price gaps perhaps narrow as much as they have in this environment. Can you go back and maybe talk about some of the previous times when this happened? And how long did it take for frozen business to come back or frozen growth to come back? And also, the margin recovery associated with that?

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

Sure. Hey, Amit, it's Rob. I'll try and take that just based on SunOpta's experience following the acquisition of Sunrise Growers early in the fourth quarter of '15. 2015 was a similar dynamic where prices in the freezer continued to grow, and we did see actually in our first quarter, post acquisition, a little bit of price elasticity. But it came back quite quickly in the first quarter of '16. And we attribute a big part of that due to the fact that the disparity between fresh and frozen was not as great then. But fruit prices have been on the rise for a number of years preceding the 2016 harvest. What we had is a situation in '16 where the dynamic, if you will, on supply and demand -- and if you remember back to the second quarter of last year, where one of our big headwinds was the fact that the growing conditions allowed for berry growers to really service the fresh market longer. It really pushed I think what I'd consider to be a more extreme, kind of 10-year extreme, between -- the delta between fresh and frozen, both supply and then, of course, price. So while there has been ups and downs, I mean, clearly, in any business like this, you're going to have this dynamic going on. We'd consider 2016 to be a fairly extreme event. And so from our perspective, as prices appear to be coming down and as we are hopeful and are expecting that, that delta decreases, consumers will migrate back to growth in the -- out of the freezer, because of the convenience and because of the usage occasions and everything else that we think will continue to drive that category long term.

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

And then, I think last quarter you mentioned some of the things that you could perhaps do to improve your pricing in that maybe local IQF production in Mexico. Can you elaborate on that a little bit? If pricing does remain a concern in this category, what other things that SunOpta could do to mitigate that?

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

Yes, I think with our manufacturing and distribution network, we're well positioned. We do have a facility in Mexico. We're optimizing the throughput and the capacity of that facility. We may look to further expand that facility to take advantage of the cost economics. We've also -- have a facility in the Midwest that allows us to bring fruit in from either Mexico or California, package it there and then hit the East Coast very economically. So those are some of the things that we've historically done, and we'll continue to emphasize going forward to try to make sure we stay cost competitive.

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

Got it. And then, David, just a broader question. As you are meeting with your top customers and laying out the vision for the reformed or changed SunOpta, what's the consistent feedback? I mean, is there a clear need for SunOpta to be a different company? Or what are you hearing from them, from your customers in terms of, hey, these are the top 2 or 3 things that if SunOpta did, then I think we can have a better strategic relationship, rather than just a price-based transaction?

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

Yes, there's very strong demand for the products that SunOpta supplies to the market. The very consistent theme that I've heard since I've been here from our customers is that, we haven't been as reliable a supplier as they would like. And that comes around to a couple of areas, primarily customer service, meaning that our fill rates to our customers and our on-time delivery performance to our customers has not been at a level that's satisfactory. So that's why you have heard me speak to the sales and operations planning processes that we've put in place to ensure that we have the right product at the right time for our customers. That's been a very consistent message, as well as just making sure that we consistently produce a quality product and a food-safe product for our customers. Those 2 things have kind of been the Achilles heel of the company, and that's why you see us putting so much focus and emphasis on those particular items.

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

And just to elaborate on that, what's the reward if you do -- or if you're able to make substantial improvement in these 2 areas?

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

I think it's what we've spoken to relative to the Value Creation Plan. And the timing of getting the foundational elements of this company set up properly, that's going to enable us to be operationally sound and execute consistently day in and day out. And I think as a result of that, over time, we'll continue to grow our top line in a more cost effective company, which should generate expanded margins and improved growth in EBITDA.

Operator

Our next question comes from Chris Krueger with Lake Street Capital.

Christopher Walter Krueger - *Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst*

Right. Back to your aseptic beverage business, I know you've had multiple expansions in recent years. I know you're winding down a large customer, but bringing on some other new customers. I was just wondering where your -- what your -- how much capacity do you have and what's your utilization rate right now? And where do you see that going by the end of the year?

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

Yes. I mean, the good news is we have plenty of capacity. I think we're running around probably 60%, 65% utilization. And we expect that, similar to the revenue story we told earlier about beverage, we think we'll be relatively flat top line for the year, so that utilization is going to stay roughly in that range. But we're building a robust pipeline of ideas to grow the top line in the business. So over the next -- as we get into 2018 and beyond, we expect that utilization factor to increase.

Christopher Walter Krueger - *Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst*

Okay. And then it's been a while since we've heard an update on the aseptic pouch business. Can you tell us what's going on with that?

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

Yes, yes, sure, Chris. I mean, so the pouch business, obviously, I commented in my remarks that we did lose one, the smaller side of that, if you will, by way of a fire at a third-party co-packing facility last year. But the pouch business, that's in Allentown. I think that folks are generally aware we have a fairly concentrated customer list there. But it remains an important part of the portfolio in the snacks business. We're not seeing a great deal of growth there right now. We are fairly full in terms of our utilization of that facility, but it's an area where we continue to evaluate. We see opportunities potentially for innovation, and yes, it'll be of a focus.

Operator

And we have a follow-up question from Mr. Amit Sharma with BMO Capital Markets.

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

Just 2 quick ones from me. David, you mentioned potentially some product rationalization. Is there a way for you to quantify the size or perhaps the timing of that? And then the second one is related to custom fruit. It looks like that part of the business is still growing. Can you talk about what is the relative size of that business? And what's the trend in that?

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

Yes, on the product rationalization, not really prepared to give any quantitative aspect to that. I mean, it's more of an ongoing process that will look at our entire portfolio, look at any potential SKU or product rationalization for unprofitable items. That's pretty much the extent of that at this point. On the custom formulation, the fruit business, that is a -- we like that business. It's very much a solution sale-type business where we work very proactively with our customer base to develop customized formulations to meet their specific needs. And it's been a -- we do see some pretty good growth in that business. We expect to try to continue to leverage the capabilities of that business for growth, and we like the margin structure in the business.

Operator

I show no further questions. I would now like to turn the call back over to Mr. Colo. Oh, apologies. We have one additional question from Mr. Andersen with William Blair.

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

The EBITDA enhancement items that you've identified, you spoke to in the prepared comments and quantified in the press release. Have those -- have any of those been realized to date? Or are those benefits that have been identified that will be delivered as you move through 2017? And then the second part of my question is, with respect to the nonstructural costs, are you still thinking about that as a $20 million investment in the year? I know it was kind of front end loaded to the first half, I think. And does that kind of roll off as we get into 2018?

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

Sure thing, Jon. It's Rob, I'll take that one. So yes, in terms of the kind of the implemented, if you will, savings that we've generated from the pillars of the Value Creation Plan, think of that as essentially actions we've taken. A great example would be the San Bernardino closure, where we've taken the action, we've concluded that action. We can -- the way we're approaching this is that we want to make sure there's enough of a run rate on our P&L, and we've actually got an auditing function that goes in and audits that, in fact, the savings we were expecting are there. We can see them and frankly, that they will stick to the P&L. And so that's kind of the approach that we're taking as we start to report against, let's say, how we're making against the $30 million objective. If you were to add up what we put out there in the prepared remarks, it would come up to $7.5 million. So you can expect to see most of that certainly arrive in year in 2017. Obviously, the amount that arrives in year is very dependent on when we implement and start realizing the benefit from these initiatives. So that's something you can expect that we'll continue to do quarter-after-quarter as we want to give folks the ability to see how we're making, from a dollars perspective, at least, against the Value Creation Plan. Just going back then to your second question, in terms of the costs, we are -- we have basically guided that we expect $20 million of nonstructural costs to land this year in support of the Value Creation Plan. You're right, it is a front end loading. We've incurred about $14.5 million out of that $20 million so far. What you'll see in the press release is $3 million that relates to San Bernardino that we are attributing to the Value Creation Plan. But frankly, that was a 2016 decision and '16 event. So there's about $5.5 million to go, and I think you can expect to see most of that come through here in the second and third quarter. I expect all that spending, though, to subside after 2017.

Operator

Thank you. I show no further questions. I would like to turn the call back over to Mr. Colo for closing remarks.

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

Thank you, operator, and thank you for participating in our first quarter conference call. I look forward to speaking with you in the future and updating you on our progress as we unlock the opportunity and value in SunOpta. We are well positioned in the right categories, at the right time, with the right assets, and now, with the right team. Thank you.

Operator

Thank you. Ladies and gentleman, that does conclude today's conference. Thank you very much for your participation. You may now disconnect. Have a wonderful day.