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PRESENTATION

Operator

Good morning, and welcome to SunOpta's Second Quarter Fiscal 2019 Earnings Conference Call. By now, everyone should have access to the earnings press release that has -- that was issued this morning and is available on the Investor Relations page on SunOpta's website at ww.sunopta.com (sic) [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 the 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 ask -- 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 a more detailed discussion of the factors that could cause actual results to differ materially from those projections and any forward-looking statements.

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

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

Also, please note that unless otherwise stated, all figures discussed today are in U.S. dollars and are occasionally rounded to the nearest million.

And now I'd like to turn the conference over to SunOpta CEO Joe Ennen.

Joseph D. Ennen ***SunOpta Inc. - CEO & Director***

Good morning, and thank you for joining us today. With me on the call is Rob McKeracher, our Chief Financial Officer.

When I spoke on the first quarter call in May, I'd only been in the role for a month. I've now been leading the business for approximately 120 days, and it has given me more time to evaluate our strategies, operations, competitive positioning and capabilities. I've spent considerable time meeting with most of our top customers across all channels, visiting almost all our production facilities and meeting with our associates and our investors. I can tell you that I am more optimistic today than the day I joined about our core businesses and our ability to deliver strong top and bottom line results.

We are well positioned for growth because our business aligns with what consumers are focused on, health and wellness and the sustainability of our planet. We have a wealth of talented people in the company, and I am confident we will unlock the potential of our on-trend category, while driving margin enhancement and consistent operational excellence.

Given the multitude of businesses SunOpta has, it's sometimes easy to overlook that 3 businesses represent over 90% of our sales. These 3 businesses are plant-based beverages, Healthy Fruit and Tradin Organic. Within these businesses, we have some very strong competencies and capabilities. However, it is clear that we have not fully leveraged the potential to operate synergistically. We have significant opportunities to further integrate our operations, expand our sales activities and better utilize our sourcing capabilities. We must also be relentless about driving costs out of the business.

As I discussed last quarter, we have been developing 3 priorities: portfolio prioritization, speed of customer-centric innovation and productivity and pricing realization in frozen fruit. Let me touch on each of these priorities and the early progress we have made.

First, on portfolio prioritization. We're positioning the company in categories where it can excel. We're taking a more focused approach towards evaluating what businesses we want to be in and what businesses we don't want to be in. We are developing clear, long-term points of difference for how we're going to win in each of our businesses. We are taking action on these opportunities with increased speed and decisiveness, while prioritizing capital and human resources to focus on the opportunities that deliver the best return first.

As an example of our current portfolio prioritization efforts, at our board meeting last month, we approved a significant 2020 capital investment project that will expand our plant-based extraction capabilities by 4x, allowing us to further capitalize on the rapid growth of oat-based beverages. We are excited to announce this expansion, which leverages the core competency of ours and enables SunOpta to be a leader in oat-based beverage and oat food products.

Plant-based foods and beverages are an on-trend category, and a category where we have a history of leadership, strong assets and technical know-how. We will leverage our innovation capabilities and expanded capacity to lean into oat-based beverage opportunities. While running a portfolio business, there's a natural tendency to place disproportionate focus on the red numbers or the parts of the business that are underperforming. I want to assure everyone that while we're focusing our efforts towards fixing fruit, we're being just as aggressive investing time, energy and financial resources in our plant-based beverage portfolio to drive long-term value.

We are also announcing the completion of our Allentown beverage facility expansion, which began shipping product in July. The processing and filling expansion in Allentown, increases our capacity to package large-format, aseptic, plant-based beverages, that are well suited to food service customers. With this new capacity online, we are converting existing food service customers to the larger, more efficient format. Converting food service customers to 64 ounce, will free up much needed capacity on our high-volume 32 ounce line, enabling us to keep up with growing demand for plant-based beverages that serve the retail channel. The incremental Allentown capacity also allows us to rebalance and optimize our national production network to drive greater cost efficiencies and support our continued growth in product.

Our second priority is speed of customer-centric innovation. We are uniquely positioned to provide an array of solutions addressing high-growth segments of the food and beverage industry. We have significant product development capabilities that we can leverage, and we are accelerating innovation in categories such as oat-based beverages, oat base for ice cream, bone broths, plant-based creamers, ready-to-drink smoothies, smoothy kits, frozen novelties and innovative juices that leverage our access to millions of pounds of fruit. Importantly, innovation will also allow us to create margin-accretive products that leverage our diverse access to supply.

Finally, we remain laser-focused on our initiative to improve productivity and pricing in fruit. This priority is focused on increasing gross profit in fruit, which presents the company's greatest near-term opportunity to drive improved EBITDA performance. As we have discussed, returning Healthy -- returning the Healthy Fruit business to its historic double-digit margin profile is a 2-year journey, due to the seasonal nature of the business and the time horizon required to complete capital projects. We will unpack in much greater detail, the impact of the 2019 California crop shortfall. But suffice it to say, it's not pretty. While you may be feeling fruit fatigue, I can share that some of the elements of our fruit margin optimization work focused on cost reduction have performed as expected. While not a key feature of the previous fruit recovery plan, during the last 60 days, we have undertaken the difficult task of rebuilding rational pricing architectures with our customers. As a result, we have made significant progress in creating sustainable pricing positions for the future.

This progress, however, will be masked over the coming quarters with a significant weather-related shortage of strawberries, serving the freezer market from Mexico and especially California. In California, the volume of strawberries that were directed to the Freezer segment is trending to be 100 million pounds or over 20% below 2018 levels. For competitive reasons, we won't discuss our specific impact to SunOpta. But I can tell you, we have experienced a material shortfall to our planned production volume.

The strawberry shortage weighed on gross margin due to increased field prices and lower overhead absorption, as we packed significantly less fruit than planned. In addition, due in part to the shortage of fruit and also our aspiration to reduce aged inventory, we intend to accelerate the rework of bulk inventory. This will help set us up for a cleaner start to the 2020 tax season. Despite these negatives, during the second quarter, we hit our targets to reduce variable labor through automation and enhanced management of our operations, giving us increased confidence that our fruit margin optimization plan can and will deliver structural improvements to the business.

Additionally, we have demonstrated over the last 120 days that we can do the following. We can take price which we expect to drive meaningful revenue and margin enhancement in the second half of the year. We are showing that we have the courage to walk away from unprofitable business, which is already occurring. We're showing that we have the ability to flex our facilities and adapt to changing capacity utilization. We have demonstrated that expanding production in Mexico lowers costs. We are leveraging Tradin's sourcing capabilities to partially offset for the shortfall in supply by contracting raw materials from countercyclical growers in places such as South America. These structural improvements will persist long after we have sold through the 2019 inventory, and will improve our long-term food operations, cost structure and profitability outlook.

Additionally, I am pleased with our fast and flexible response to the strawberry shortage to help limit the impact on availability and margin. Make no mistake, we still have a lot of work to do on frozen fruit, but we're demonstrating that some of the core components of our margin optimization plan are yielding benefits.

To round out my update on our 3 priorities, portfolio prioritization, speed of customer-centric innovation and productivity and pricing realization of frozen fruit, let me further unpack 8 key strategies that we have developed.

Number one. Develop our plant-based -- double our plant-based beverage business to roughly $500 million in revenue within 5 years via rapid expansion of our manufacturing, packaging and go-to-market capabilities.

Two. Deliver the fruit margin optimization plan on time by the end of 2020 through automation, diversification and rational pricing.

Three. Create and bring to market margin-accretive innovation in both our fruit- and plant-based beverage businesses.

Four. At Tradin Organic, continue to identify and develop new sources of organic ingredients to maintain our position as a leader in sourcing on-trend ingredients and to drive sustained, high single-digit top-line growth over the next 5 years.

Five. Further invest in manufacturing as a mechanism to add value to Tradin's -- Tradin Organic's overall value proposition and support attainment of an overall 14% gross margin profile in that business.

Sixth, quickly identify and leverage both sales and margin synergies by viewing our fruit businesses as 1 synergistic operation, as opposed to operating global fruit sourcing, fruit snacks, fruit juice, frozen fruit and fruit preps as 5 independent operations.

Seventh. Further diversify our fruit sourcing by expanding our operations in Mexico, while simultaneously strengthening our California grower relationships, and expanding our global reach to derisk the impact weather can have on fruit supply.

And finally, streamline the organization for faster decision-making, clearer accountability and more empowerment.

These strategies will be activated through a culture that is faster and more agile, focused on the big priorities and fanatical about the customers and their needs. I've already begun to see some of these cultural attributes materialize across the organization.

Now let me turn to the second quarter and run through the highlights of our commercial activities.

For the second quarter of 2019, we generated $293 million of revenue, which on an adjusted basis, represents a 2.4% year-over-year growth rate. The growth was driven by our Consumer Products and Global Ingredients segments. In Consumer Products, revenue and

Healthy Beverages accelerated to a 9.3% adjusted growth during the second quarter, up from 6% in the first quarter of 2019. The plant-based beverage category continues its decades-long growth trend because it offers the consumer real value around sustainability, taste and nutrition. Our growth reflects higher volumes across the business as well as favorable customer product mix.

The adjustment to revenue reflects a profit neutral change to a co-man agreement with one of our customers. As I noted, we have commissioned the expansion of our Allentown beverage facility and began shifting from the expanded capacity in July. We continue to have a very strong sales pipeline, and the added capabilities and capacity in Allentown will support this additional growth. We anticipate further revenue growth acceleration in the second half of 2019 and beyond.

Growth in the Healthy Snacks platform accelerated to 21.2% adjusted for the exit from bars and pouches last year. The growth partially benefited from some sales to a key customer that were pulled into the second quarter from the third quarter. Encouragingly, we are seeing more opportunities for everyday items in private label, which should reduce quarter-to-quarter volatility and continue the high growth in this business. Again, consumers and customers are seeing the value in our organic products and our products that have significantly cleaner ingredient lists than our competition.

Revenue in Healthy Fruit -- in the Healthy Fruit platform declined 4.9% on an adjusted basis, reflecting reduced demand for fruit ingredients from yogurt customers and a modest decline in revenue in frozen fruit as a result of the company's aggressive pricing actions in 2018 that we continue to lap.

The late Mexican harvest we discussed last quarter was exacerbated by a significant shortfall of California strawberries as the season progressed. By June, our pack volumes were significantly below plan, and we started to encounter increased field prices. Rob will detail the impacts to the second quarter and outline our expectations for the upcoming 3 quarters. We are in the process of implementing corrective actions to address the higher input prices and lower supply and the impact it will have on our top line.

Moving to Global Ingredients. Sales on an adjusted basis increased 1.4%, excluding commodity and currency changes and the impact of disposed and acquired businesses. The growth was driven by higher volumes of oils, including post-acquisition growth of Sanmark as well as growth in nuts, coffee and cocoa. These gains were partially offset by timing of shipments of fruits and vegetables and lower volumes of grains, sugar and liquid sweeteners.

Our organic cocoa processing facility realized improved throughput towards the end of the quarter, which we expect will support continued growth in the business in the back half of 2019. We also expect to see stronger volumes of organic fruits and vegetables. The recent acquisition of Sanmark performed well during the quarter, and integration efforts are right on track. Domestically, revenue in the Sunflower and the roasted ingredient business declined 5.5% on an adjusted basis, primarily reflecting lower demand for in-shell and kernel Sunflower products, partially offset by higher roasted snack volumes.

In summary, it's been a productive 120 days since I joined SunOpta. We have established our strategic priorities for each of our operations. We've also demonstrated that we can execute critical components of our plan to enhance fruit margins, and we are taking the necessary actions to address the shortfall. We are developing a more agile and customer-centric culture and focusing on the areas of our business where we have a right to win, and we are excited about the momentum in our Healthy Beverage and Global Ingredient sourcing platforms.

Now let me turn the call over to Rob, to discuss the financials in more detail. Rob?

Robert McKeracher *SunOpta Inc. - VP & CFO*

Thanks, Joe.

Let me walk through gross profit and the rest of the income statement, given Joe's discussion of the commercial activities and revenue during the quarter. I will also cover the balance sheet and cash flow results.

Gross profit was $27.3 million for the second quarter of 2019, a decrease of $7 million compared to $34.3 million during the second quarter of 2018. Consumer Products accounted for $5.3 million of the decrease in gross profit, mainly reflecting the impact of the weather-related supply shortfall from the freezer fruit harvest in Central Mexico and California. The supply shortfall resulted in unfavorable purchase price, substitution and material usage variances, due in part to rework the bulk inventories to meet customer demand. In addition, we experienced unfavorable production variances and inefficiencies as a result of a significant drop in plant utilization.

The year-over-year decrease in gross profit also reflected a $1.2 million gain related to a claim recovery from a third-party supplier that was recognized in the second quarter of 2018. Overall, the Healthy Fruit platform contributed close to $0 gross profit during the second quarter of 2019. The gross profit decline in the Healthy Fruit platform during the second quarter of 2019 was partially offset by increased gross profit within the Healthy Beverage and Snacks platforms, due mainly to increased sales and production volumes and productivity-driven cost savings. In addition, during the second quarter, we recognized a $0.9 million expense in cost of goods sold related to an isolated raw materials spoilage event in our aseptic beverage operations.

As Joe mentioned, we expect this season's strawberry shortfall to continue to impact gross profit for the next 3 quarters. Given the unprecedented effect of the 2019 crop shortage, we are sharing details in a range on the estimated impact to our income statement for the next 3 quarters.

In the second quarter of 2019, the negative impact to gross profit from the weather-related shortfall was $3.6 million, up from $1.6 million in the first quarter. We expect the full impact of this issue to be between $20 million and $30 million overall. The $20 million to $30 million estimate is inclusive of the year-to-date results and is comprised of approximately $11 million to $15 million due to production inefficiencies at our U.S. plants. From a significant drop in production volumes, approximately $7 million to $11 million related to costs incurred to compensate for the Mexican crop shortfall and approximately $2 million to $4 million related to rework the bulk inventories. We expect approximately $12 million to $18 million to be recognized in the back half of 2019 and approximately $4 million to $6 million to carry into the first half of 2020, as we sell-through 2019 strawberry inventory.

At this point, we estimate the crop shortage will impact the third quarter more unfavorably than the fourth quarter. This is because we're taking steps to extend our season to capture incremental fruit from more northern regions in California and expect to incur rework of bulk stock to augment supply, while the prime fruit season remains open. Both the third and fourth quarters will be impacted by the sell-through of inventories carrying inefficient production variances from earlier this year. Partially offsetting these headwinds, we anticipate generating increased per unit revenue as a result of recently completed pricing initiatives with retail and food service customers as well as new bids. We expect the effect of pricing to start to show up in the P&L in the third quarter of 2019, but become more meaningful in the fourth quarter.

Let me provide some additional color into how we expect the crop shortage, net of structural cost improvements and pricing actions to impact gross margin in the Healthy Fruit platform over the coming quarters.

In the third quarter, we expect gross profit in Healthy Fruit to be in a negative position as a result of the cost pressures I previously mentioned and because most of the customer pricing isn't expected to arrive until the fourth quarter. The net effect of this leads to an expected drop in third quarter Healthy Fruit gross margins of approximately 400 to 600 basis points compared to the second quarter of 2019.

Our 2019 California strawberry pack season is expected to conclude during the third quarter. And as a result, we expect lower rework and other period costs in the fourth quarter. This, combined with additional customer pricing, is expected to drive gross profit back to positive territory in the low single digits as a percentage of revenue.

Looking ahead to the first quarter of 2020, we expect continued margin pressure as we sell-through the inventory that carries the burden of the 2019 costs. However, the full effect of our pricing efforts is expected to have taken hold and assuming a more typical Mexican strawberry harvest, the fruit platform is expected to generate mid-single-digit margins. Once we get into the second quarter of 2020 and enter a new crop cycle in California, we expect to be in a position to build new crop inventory, continue to drive cost reductions through productivity and continue to benefit from improved price realization in support of our targeted 2020 exit rate of low double-digit margins in Healthy Fruit.

Global Ingredients accounted for $1.7 million of the decrease in gross profit, primarily due to the sale of the soy and corn business, which more than offset increased gross profit in international organic ingredients. Excluding the impact of the sale of the soy and corn business, gross profit in Global Ingredients increased by $1.1 million, which reflected the stabilization of our Sunflower and roasting operations, combined with increased margin in international organic ingredients. This improvement was driven by a $4.3 million reduction in foreign exchange losses on U.S. dollar-denominated raw material purchase contracts, offset by a $3.1 million unfavorable swing in commodity hedging results, primarily related to our cocoa hedging activities.

As a percentage of revenue, the second quarter gross margin was 9.3% compared to 10.8% last year. Excluding the gross profit impact of disposed businesses, plant expansion, start-up and other transition costs and a $1.2 million claim recovery in the prior year, the gross profit percentage for the second quarter of 2019 would have been approximately 9.5% compared to 10.7% for the second quarter of 2018.

Operating loss was $2.5 million or 0.9% of revenues in the second quarter compared to operating income of $4.6 million or 1.5% of revenues last year. The decrease in operating income year-over-year reflects $7 million lower gross profit and a $0.3 million increase in consolidated SG&A expense. The increase in SG&A reflects higher overall employee compensation-related costs, offset by reductions related to the sale of the soy and corn business and rationalized overhead, together with other cost-reduction measures.

Excluding the operating results of disposed businesses as well as expenses related to the value creation plan and other items affecting gross profit that I just mentioned, operating loss would have been $1.5 million in the second quarter of 2019 compared with the operating income of $2.8 million in the second quarter of 2018.

Loss attributable to common shareholders for the second quarter was $11.1 million or $0.13 per common share and compared to a loss of $5.1 million or $0.06 per common share during the second quarter of 2018. On an adjusted basis, net loss was $9 million or $0.10 per common share compared to $5 million or $0.06 per common share in the second quarter of 2018. For the second quarter of 2019, adjusted EBITDA, excluding disposed operations was $10.1 million compared to $12.7 million in the prior year.

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.

At the end of the second quarter, total debt was $498.5 million, down $10.7 million from December 29, 2018, mainly as a result of the net proceeds generated from the sale of the soy and corn business, offset by our seasonal debt increase related to the strawberry harvest. Total debt at June 29, 2019, reflects $217.7 million net of issuance costs of 9.5% senior-secured second lien notes due in 2022. $265.2 million drawn on our first lien global asset-based credit facility, with the balance representing smaller credit facilities, lease and other financing arrangements. The global asset-based credit facility is a syndicated credit agreement maturing in February of 2021 with an aggregate commitment of up to $367.7 million.

From a cash flow perspective, during the second quarter, cash used in operating activities was $31.7 million compared to cash used of $34.2 million during the second quarter of 2018. The $2.6 million decrease in cash used is -- in operating activities reflects lower cash used to fund working capital, partially offset by increased consolidated losses. As a reminder, seasonally, our working capital levels peaked during the second quarter and through the summer months, as this is when the majority of the fruit is harvested. Similar to years past, we expect operating activities to generate cash in the back half of 2019 and working capital levels to decrease, especially in the fourth quarter.

Cash used in investing activities was $12.9 million in the second quarter of 2019 compared with $10 million in the second quarter of 2018, an increase in cash used of $2.9 million, due mainly to the acquisition of Sanmark in April 2019. For 2019, we continue to anticipate capital expenditures of approximately $25 million.

Before we open up the call for questions, I'll turn it over to Joe, to provide some closing remarks.

Joseph D. Ennen ***SunOpta Inc. - CEO & Director***

While we spent a significant portion of this call providing details on the challenges on frozen fruit and our commitment to correct the business, I want to remind everybody that approximately 70% of our portfolio is healthy, growing, structurally advantaged and on trend. We are a leader in plant-based beverages. We are a leader in global organic sourcing. And these businesses are poised for accelerated growth in the back half of 2019 and beyond.

With that, I'd like to ask the operator to open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Amit Sharma from BMO Capital Markets.

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

Rob, a couple of questions for you and then 2 for Joe. Rob, you gave a really good commentary on the frozen fruit gross margin. Can you talk about the top line as well. We saw around 5% decline in frozen fruit in the quarter. As you look to Q3 and Q4, how the top line will be?

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

Yes, sure. I mean -- and obviously, your question's in response to what is the crop shortage. So one of the things that we're actively working on now is, of course, and Joe made mention of this in his prepared remarks, looking for substitution fruit in places like South America, countercyclical supply. That's important because I think that's what would help us be in a position to kind of maintain that sales right now. So as we think about the impact of the shortage, potentially hitting the top line. It's probably more under the first quarter. Maybe the start of the second quarter next year, there could be some pressure depending on the amount of fruit that we're able to service customers with. So we aren't seeing a -- too big of an impact here in the back half necessarily. There's some seasonal business with a large food service customer that would lead me to believe that the fourth quarter would be a bit lighter, but that's not to do with necessarily the crop shortage. So we're working hard to make sure we can maintain. But there obviously is a risk in that in a shortage climate that -- for revenue pressure, and I think that would be more in the Q1 and Q2 next year.

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

Great. And the ingredient shortage that you cited, is that just a quarterly phenomenon that could bleed into the second half as well?

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

Yes, the ingredient shortage is more on the fruit prep business, where we provide the inputs that go into yogurt applications. And so that's a market that hasn't been growing. And so I'd assign that more to a demand phenomenon than anything to do with the shortage.

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

Got it. And then on the aseptic side, really solid growth in the quarter. And Joe talked -- did talk about seasonal business coming in, acceleration in the back half. So most of the broth business still is yet to ship or maybe will ship in Q3. So you should see a bigger ramp up in sales?

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

Correct. Yes, correct. We're expecting accelerated growth into the double digits here in Q3 and Q4 over last year, as a result of the wraparound of a lot of broth business as well as growth in our core plant in operation.

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

Got it. And then, Joe, I mean, I think the tone is unmistakenly upbeat for what's to come, right? And you listed it, right? To you, that may seem like a lot, but if you go through them, they all kind of make sense. How -- what I want to get a little bit deeper from you is how much of that is aspirational versus something that you truly believe that in the next 2 years or 3 years, we will start to see tangible benefits, both on top line and margin from some of these initiatives?

Joseph D. Ennen ***SunOpta Inc. - CEO & Director***

I absolutely believe we can make progress on everything that I outlined.

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

Okay. And that should start to come within the next 2 years or so? I mean you can talk about specific things. But generally speaking, you do see an inflection in margins, not just in frozen food but its uptake, beverages as well?

Joseph D. Ennen ***SunOpta Inc. - CEO & Director***

Yes. I mean, if you think about our plant-based beverage business and our ability to drive capacity utilization in that business. We're seeing basically a business where demand is outstripping supply. We're able to maximize our production facilities, and we expect that in the short to midterm that, that reality will continue to exist.

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

And the vital question is, as you continue to exceed expectations on the aseptic side, right, and you have really planned to like delve deeper into it -- and maybe this is a difficult question to answer, but if frozen fruit remains challenged because of weather or other dynamics, is there a thought to maybe monetize the parts of the businesses that are actually performing really well?

Joseph D. Ennen ***SunOpta Inc. - CEO & Director***

Are you referring to basically selling all pieces of the business, is that the...

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

Yes, yes. I mean, look, if the stock price is indicating that the market is unwilling to give you credit for partial businesses that are actually performing well and are on a really good trajectory, do you unburden them by displacing some of the businesses that are dragging the overall results down?

Joseph D. Ennen ***SunOpta Inc. - CEO & Director***

What I would say to that, Amit, is there's a -- we've formed and it's been in place for a period of time, predating me, a strategic review committee of the board. And that is an active committee where we're evaluating all the potential moves for the portfolio, both in terms of what businesses we want to be in and what businesses we don't want to be in.

Operator

And our next question comes from Jon Anderson from William Blair.

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

So I guess I'm just trying to get a little bit better understanding of your expectations for the full year. The fruit -- the crop issue, it sounds like, has caused -- led to about $5 million in headwind to gross profit through the first half of the year, you expect a kind of a full impact of $20 million to $30 million, the bulk of which will affect 2019 as I think I understand it and as you laid it out. So I guess my question is -- if we think about 2018, the EBITDA base was around $53 million. We've got a $20 million to $30 million headwind from fruit, it sounds like, so kind of an adjusted base would be closer to $20 million to $30 million. Is that the right way to think about the year? And I guess I'm not accounting for profit improvement in other parts of the business, which should help mitigate some of that fruit margin headwind. But help us think through that a little bit more, how you're seeing kind of the full year earnings power of the company playing out maybe in 2019. And then also, your expectations for fruit next year. Let's assume it's a more normal crop next year given the automation that you've put in place. I think you're standing up that new facility next to the Santa Maria processing facility next year. Do we see the full realization of the fruit margin optimization program next year as opposed to kind of a balanced step this year and next year? I know there's a lot there but appreciate any color.

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

Let me start with that. And then, Jon, if you wanted to follow up, go ahead. But I -- what you're seeing -- and I think we commented last quarter that we are anticipating second quarter EBITDA to be roughly in line, give or take, with first. Obviously, we had some headwinds in fruit, which I've described. It's not difficult to do the math to see that the benefit coming from the other parts of the portfolio helps to offset that. And I think that, that -- the general theme is something that we should expect moving forward. As I think about -- it's either sequential and/or -- well, let's just talk sequential. We're going to have additional headwinds. And we've somewhat quantified it inside of the prepared remarks, where you can -- with the revenue in fruit obviously deduce that it will be a gross margin loss in the third quarter. We expect that to come back to positive in fourth. We are expecting that the growth in both revenue and profitability in beverage and in snacks and at Tradin Organics helps to offset a big piece of that, possibly in the third quarter, not the entire amount, which would put us into a spot where third quarter could be a little pressured relative to where we just finished the second quarter. But then as we turn the quarter into the fourth and we start getting the benefit from some of the pricing, I made the comments that the costs related to the crop shortfall are not -- we aren't expecting them to be as heavy in the fourth quarter, if you will, as the third. That's a start then to put us in a position where we can be delivering improved results on a sequential basis. And I think that, that's going to continue to next year.

As you asked, Jon, I think -- how do you step back and think about some of the ranges, the $20 million to $30 million overall cost, which is, of course, part of this year? And we talked about a carryover expectation in the next year. As I step back and look at the business and all things equal, which is maybe a big statement, but in a situation where you've got a more typical harvest in California and a more typical volume and timing in Mexico, the costs that we're referring to, we wouldn't see as cost that continue. And so as I think about 2019 and 2020, I think that's the way to kind of view the potential is. If we can get back to normal and that on top with normal, of course, on the harvest, and that on top of our productivity efforts and our pricing efforts, the ability to generate the margin we're talking about in fruit is there.

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

Okay. And am I -- so EBITDA -- sorry for the detailed questions. But EBITDA in the quarter was $10.1 million, that was down $3.7 million year-over-year. And I think you said that fruit -- the issues related to fruit -- the crop cost about $3.6 million in the quarter. So that would kind of bridge the gap between last year's EBITDA and this year's, and it wouldn't suggest that there was much positive contribution from other parts of the business. Am I missing something there?

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

Yes. It's -- keep in mind that our EBITDA reported last year has the soy and corn business in it, which was profitable. And so in our prepared remarks, the last year EBITDA that -- if you remove that, your starting point at Q2 of '18 would be $12.7 million of EBITDA, right? So that's -- compare that to the $10.1 million and you'll see that there was a growth in the other parts of the business.

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

Okay. Maybe one for Joe. Joe, it sounds like the leadership team and the board has made a significant commitment to increase capability and capacity in the beverage business. Could you -- can you talk a little bit more about what kind of -- what some of the dollars and cents are there? I mean how much of a capital investment we're talking about? What kind of capacity and capability you plan to bring online? And what time frame? And how that would be kind of utilized?

Joseph D. Ennen ***SunOpta Inc. - CEO & Director***

Yes. So just to unpack that a little bit further. We're making an investment in the extraction staff, which will allow us to basically take whole oats and convert it into oat milk. Also importantly, as a product of that, you end up with oat solids, which we also think there is a market for, that component ends up being 50% protein, 15% fiber. And we think that -- and have had initial discussions with many interested parties in the oat protein powder component of this as well as just the oat beverage side of it. We continue to see rapid growth in the oat beverage business. I believe there were 19 new oat beverage product launches in the first half of the year. And so we think there's a significant opportunity to capitalize on that. The investment that we're making represents a fourfold increase in our ability to basically produce oat milk. And in terms of the total cost, we're in the kind of mid-$20 million range for total cost. We're still kind of finalizing some of the details there, so there's some moving parts, but that would be a broad component of the cost. The vast, vast, vast majority of that will be cost expenses that hit in 2020 versus this year.

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

And what kind of capacity would that provide, sales capacity for either, I guess, oat milk or some of the solids, the protein and the fiber?

Joseph D. Ennen ***SunOpta Inc. - CEO & Director***

When fully ramped up, we think it represents north of $50 million of revenue.

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

Okay. Okay.

Joseph D. Ennen ***SunOpta Inc. - CEO & Director***

And that would be just on the base. So that would be just a value of the base. There's also then margin and profitability, if we turn that oat base into oat milk, and we sell both the concentrates, the base as well as turning that base into oat milk. Some customers, we supply the base. They add the water and package it themselves. Some customers, we add the water and package it. And so there's margin -- additional margin that isn't embedded in that $50 million number that I just referenced, if we're the ones who basically package and add the water. Does that make sense?

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

Yes, it does. That's helpful. I appreciate all the color. Okay. That's all I have for now.

Operator

And we have another follow-up question from Amit Sharma from BMO Capital.

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

Rob, just wanted to circle back on the second half ramp up for the aseptic beverages. Can you just remind us how much of incremental sales are we looking for? And generally, what's the margin structure on that? So that as we look to offset the decline in [GI], we can be a little bit more accurate with our assessment for the back half.

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

Sure, sure. I'll give you some direction. So at the end of last year, we had comments about commercializing roughly $50 million of new broth business. I think we shipped somewhere between $15 million to $20 million of it in the fourth quarter last year. So the biggest piece of the revenue ramp you'll see is related to that. So $50 million minus that and you'd be at $35 million overall across the 2 quarters as kind of the bump, which should help you kind of gauge it. When I say we're a double-digit growth territory, that's the primary reason there.

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

And generally, what are the -- what's the gross margin profile of this business, Rob?

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

It would be in the high teens.

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

Okay. And this is on top of whatever growth that you're seeing on your plant base as uptick business, right?

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

Correct.

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

And that should continue in the back half as well?

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

Yes. We expect that to continue.

Operator

And I'm showing no further questions at this time. I will now like to turn the call back to CEO, Joe Ennen, for any further remarks.

Joseph D. Ennen ***SunOpta Inc. - CEO & Director***

Thank you, operator, and thanks for -- thank you all of you for participating in the second quarter conference call. I look forward to speaking with you in the future, and appreciate your interest and support in SunOpta. Have a great day.

Operator

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