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PRESENTATION

Operator

Good morning, and welcome to SunOpta's First Quarter Fiscal 2018 Earnings Conference Call. By now everyone should have access to the earnings press release that was issued this morning and is available on the Investor Relations page on SunOpta's website at www.sunopta.com. This call is being webcast and its transcription will also be available on the company's website. As a reminder, please note that the prepared remarks, which will follow, contain forward-looking statements, and management may make additional forward-looking statements in response to your questions. These statements do not guarantee future performance, and therefore, undue reliance should not be placed upon them. We refer you to all the risk factors contained in SunOpta's press release issued this morning, the company's annual report filed on Form 10-K and other filings with the Securities and Exchange Commission for more detailed discussion of the factors that could cause actual results to differ materially from those projections and any forward-looking statements. The company undertakes no obligation to publicly correct or update the forward-looking statements made during the presentation to reflect future events or circumstances, except as may be required under applicable securities laws.

Finally, we would like to remind listeners that the company may refer to certain non-GAAP financial measures during this conference. The 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.

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

David J. Colo - *SunOpta Inc. - President, CEO & Non-Independent Director*

Good morning, and thank you for joining us. With me this morning is Rob McKeracher, our Chief Financial Officer. We had an encouraging first quarter, generating revenue growth and improved profitability across our Global Ingredients, Healthy Beverage and Healthy Snacks portfolios. As expected, these improvements were mapped by softer sales and margins in the Healthy Fruit platform. As we discussed last quarter, we have a plan in place to improve financial performance in frozen fruit, which will take time. However, we continue to make good progress in all parts of the plan, and we are well prepared for a successful start to the strawberry season at our California plants. We continue to capture incremental EBITDA improvements through the Value Creation Plan and converted several opportunities in our sales pipeline during the quarter, which is bolstering our confidence and returning to consolidated revenue growth in the second half of the year.

Let me review the first quarter highlights and then provide an update on the Value Creation Plan. First quarter revenue was $312.7 million, down 5.3% as reported or down 1.6%, excluding the impact of commodities, currencies and removing the impact of the bar and pouch lines of business. First quarter adjusted EBITDA was $12.4 million, which includes $2.8 million of timing-related losses on commodity hedge contracts related to cocoa. Rob will provide more detail on this side in his prepared remarks. In the Global Ingredients segment, we reported a 7.7% year-over-year increase in revenue or a 4.1% increase, excluding the impact of commodities and currencies. The growth was driven by strong demand for internationally sourced Organic Ingredients, including sales growth in the U.S. and European markets. Our sales contract book is larger than last year's, and we are confident with the growth outlook in Organic Ingredients. In our North American grain and seeds business revenue remains lower than a year ago, as we are cycling over sales related to specialty soy products, which we decided to exit last year. In total, we are pleased with the performance of the Global Ingredients segment, which is tracking in line with our expectations.

Turning to Consumer Products, we had a strong quarter in Healthy Beverage, generating 4.9% year-over-year growth, despite lapping the loss of a significant private-label account, while also driving improved gross margins. This growth was driven by strong performance in both the aseptic and premium juice categories. As we have discussed over the past couple of quarters, our go-to-market effectiveness strategies have generated a robust sales opportunity pipeline in the Healthy Beverage platform, and we are seeing this pipeline convert. I will cover this in more detail as part of go-to-market effectiveness update. Healthy Snacks also posted strong first quarter, excluding the resealable pouch and nutrition bars businesses that we excited last year, snack sales were up 29.8% and gross margins were up significantly over the prior year. As I evaluate the performance of beverage and snacks, it is clear that these platforms are entering the second phase of the Value Creation Plan.

Turning to the Healthy Fruit platform, we continue to experience challenges as first quarter sales declined 17.1% adjusting for commodity prices and gross margin declined as a result of lower volume, sales mix and increased spending. The lower sales and margin partly reflect our investments in price that began during the fourth quarter as well as our efforts to improve quality and deliver a high level of customer service. As mentioned on our last earnings call, we continue to work through an excess inventory positioning crew and as a result, we are incurring increased storage and internal transportation cost as well as heightened fruit sorting, resulting in unfavorable labor and yield variances. These costs are being incurred to ensure quality and customer service are not sacrificed, as we work to level set our inventory through a reduced pack plan over the next 2 quarters.

Additionally, the category remained in a state of modest decline during the first quarter as syndicated data for the 12 weeks and 4 weeks ended April 21, show declines of 1.5% and 1.2%, respectively. Despite the challenges in our frozen fruit segment, we remain confident with the long-term outlook for this healthy food category and our competitive positioning. Our plan involves taking the appropriate actions and making the necessary investments to lead in this category as the low-cost high-quality producer of frozen fruit, focused on driving innovation and bringing growth back to the category. In support of this plan, we have initiated the engineering phase of a multistep project to optimize our frozen fruit supply chain and production processes. This includes leveraging expanded procurement and processing capabilities at our Mexico facility. The completion of our expansion project that added retail bagging capabilities in Mexico allows us to ship directly to customers. We are also planning to utilize the most cost-effective combination of our California-based facilities as we process a reduced strawberry crop versus last year.

We remain focused on building a pipeline of sales opportunities and enhancing relationships with our customers through our investments in quality, service and codevelopment to ensure the correct assortment, merchandising, pricing and innovation strategies are brought to the category. We believe the combination of these efforts will allow us to stabilize and return this business to growth over time. We remain confident in the business and see significant opportunity to improve sales in margin as we work through the 2018 plan.

Now let me turn to an update on the Value Creation Plan. As we have discussed over the last year, the first phase of the Value Creation Plan is targeting implementation of $30 million of productivity driven, annualized EBITDA enhancements over 2017 and 2018. Recall that for 2017, these EBITDA benefits were offset by structural investments made in the areas of quality, sales, marketing, operations, engineering and other functional resources as well as nonstructural third-party consulting support, severance and recruiting costs. The plan also calls for increased investment in capital upgrades in several manufacturing facilities to enhance food safety and manufacturing efficiencies, of which many are already completed. Over time, these investments are expected to yield EBITDA improvements that go beyond the $30 million that is being targeted in the first phase. We expect to deliver ongoing productivity improvements as our go-to-market strategies drive revenue growth, which drives higher utilization and improved profitability. We have made good progress to date, cumulatively implementing actions are expected to yield $20 million of annualized EBITDA improvements. 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. We have largely cleaned up our portfolio and are now focused on strategically investing in key areas to drive growth and margin expansion. Our portfolio optimization efforts during the first quarter included the commercialization of our second roasting and processing line at our organic cocoa facility in Holland, which doubles processing capacity in addition to adding new capabilities. We also made additional progress with commissioning a new organic sunflower oil processing line at our Bulgarian sunflower facility. Last quarter we announced a significant investment to expand our roasted capabilities at our Crookston, Minnesota facility. During the first quarter, we completed installation and began commissioning of the new roasting equipment, and we are expecting to be in commercial production in the third quarter of 2018. This expansion will support further growth of a variety of roasted grains, seeds and plant-based snacks.

Finally, as I noted earlier, we also completed the expansion project to add incremental freezing capacity, storage and retail bagging capabilities to our Mexican frozen fruit facility. The focus to the operational excellence pillar is to ensure food safety and quality, coupled with improved operational performance inefficiency. These efforts continue to generate productivity improvements in cost savings in manufacturing, procurement and logistics. During the first quarter, we continue to advance food safety and quality efforts across the entire manufacturing footprint. The excellent result in customer audit scores seen across all product platforms is evidence of the success of these activities. We also identified productivity improvement opportunities as the SunOpta 360 continuous improvement initiative progressed. These productivity initiatives focused on manufacturing efficiencies, purchasing synergies and effective supply chain management.

Finally, during the quarter we also invested considerable time and resources into pack plan readiness across the company's fruit facilities in California and Mexico in preparation for the 2018 strawberry harvest. 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. Efforts under this pillar are expected to improve revenue growth and profitability over time. We have continued to grow the pipeline of future commercial opportunities across the Healthy Beverage, Healthy Snacks and Healthy Fruit categories and have a strong book of business in Global Ingredients. During the quarter, we realized meaningful sales wins in key categories, including every day aseptic gross items with large club, mass and traditional retailers and expanded geographic sales for private-label orange juice. We also continue to penetrate the broad line food service channel with frozen fruit and innovative beverage offerings that utilize proprietary formulas packs in control labels. Recently we secured a multiyear supply agreement with a large food service operator for aseptic beverage products and successfully rebid and retained business with a large retail frozen fruit account, while being awarded a 14% increase in distribution with the same customer. We also continue to experience strong reorders of innovative private-label broth, both organics and conventional in the club and mass channels on products launched last year. To support the growth, we are experiencing with our existing customers, combined with the recent new business wins and our robust sales pipeline, we'll be expanding our aseptic platform later this year and into next year. This expansion is expected to cost approximately $22 million and is designed to add enhanced mixing and processing capabilities, which will enable us to bring additional innovation to the growing broth- and plant-based to beverage markets. The expansion will also add increased processing and filling capacity that will allow us to redistribute current production across our national network of aseptic plants, which is expected to drive cost advantages, while creating needed capacity to continue to support future growth. To date, we are converting our sales opportunity pipeline at a rate sufficient to meet our expectations to deliver consolidated revenue growth in the back half of the year. 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 captured from the Value Creation Plan. During the first quarter, we completed the implementation of a new ERP system at our Mexican frozen fruit facility. We enhanced our employee health and safety processes resulting in a nearly 50% improvement in employee safety results year-to-date. We advanced our sales and operations planning processes and tools in the Healthy Fruit platform, which is enhancing our readiness for the upcoming fruit season and will allow us to have the right products, in the right place, at the right time to meet our customer service requirements. We also completed consolidation of our transactional and other support functions as the Healthy Fruit platform into the North American shared services group.

Overall, I'm pleased with the benefit that Value Creation Plan is delivering to our business performance. As an example of this, I'd like to briefly highlight our progress to-date in the Healthy Beverage platform. When we initiated the Value Creation Plan just over a year ago, we identified that our aseptic processing capabilities, production footprint and specialized knowledge in plant-based beverages meant that beverage was part of the portfolio that has a strategic right to win. At the time, however, beverage was challenged with customer service and quality issues, operational inefficiencies, underutilized capacity, a stagnant pipeline of sales opportunities and a lack of focused innovation. Under the 4 pillars of the Value Creation Plan and with the newly formed leadership team, we set out to address these issues. To start, we implemented a new S&OP process, which corrected an inconsistent and unpredictable production schedule and brought case fill rate and on-time delivery metrics to the top of daily KPIs, resulting in improved performance of both metrics. Next, we launched SunOpta 360, our continuous improvement program that was first introduced at our aseptic beverage facilities. By first establishing and then standardizing operating procedures in the areas of food and employee safety, quality, production and maintenance, we have seen improvement in the first-time quality scores, employee safety, overall equipment effectiveness and a significant decrease in yield losses and other costs of nonperformance. After repositioning our go-to-market approach to the channel based and revamping the talent in our sales organization, we began rebuilding customer relationships and developing a robust pipeline of sales opportunities. The benefit from these efforts are evident in the return to year-over-year growth in aseptic sales this quarter, increased facility utilization and new multiyear commitment with a key customer, recent sales wins and the need to invest in additional processing and filling capacity in order to keep up with forecasted customer demand. Once complete, we expect the expansion will increase our aseptic network capacity by approximately 20%. We are excited about the additional opportunities we will be able to target with this. Finally, after investing in a marketing function that previously had limited resources, we researched the market and leveraged category insights to identify white space opportunities that accomplished the goal of growing our business in adjacent categories and penetrating new channels to diversify our top line. As a result, we now have the consistent and ongoing organic and conventional broth business that serves the fast growing private-label category, and we've been able to broaden our exposure to food service in part through the development of a lineup of innovative, control label, nondairy beverage products. I believe that we have demonstrated in Healthy Beverage a blueprint for success. We are replicating this success across each of our platforms. We can and remain committed to do the same thing in Healthy Fruit. Our S&OP process is now in place. Under the leadership of new plant management the frozen fruit facilities are more prepared for the upcoming pack season than in years past. The quality, marketing and innovation teams are hard at work ensuring customers' specifications are met and new packaging formats are being commercialized, and our sales force is driving a pipeline of sales opportunities designed to diversify our customer and channel mix. To sum it up, we have confidence in the efficacy of our Value Creation Plan initiatives and look forward to updating you on our continued progress.

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

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

Thanks, Dave. I will take you through the rest of the financial results as well as balance sheet and cash flow metrics for the first quarter. As Dave mentioned, first quarter revenue was $312.7 million, a 5.3% year-over-year decline as reported, excluding the impact on revenues from changes in commodity related pricing and foreign exchange rates, and removing the impact of the bar and pouch lines of business revenue declined 1.6%. The Global Ingredients segment generated revenues from external customers of $136.3 million, an increase of 7.7% compared to $126.6 million in the first quarter of 2017. Excluding the impact of changes in commodity and foreign exchange, revenues in Global Ingredients increased 4.1%. The increase in revenue reflected strong demand for internationally sourced organic ingredients, which grew 15.3% during the quarter, driven by higher volumes of seed, oils, grains and cocoa. This growth was partially offset by lower volumes in North American source grains and seed products which declined 18.5% during the quarter, mainly as a result of our exit from certain specialty soy products. The Consumer Products segment generated revenues of $176.3 million during the first quarter of 2018, a decrease of 13.3% compared to $203.4 million in the first quarter of 2017. Excluding the impact of commodity prices and removing the impact of the bar and pouch lines of business, revenues in the first quarter decreased by 5.5%. The decline in revenue primarily reflects 17.1% lower sales in frozen fruit, due to ongoing declines in consumer demand, reduced distribution to certain retail customers and timing of deliveries to a large food service customer. The revenue for (inaudible) fruit was partially offset by 4.9% growth in our beverage platform, driven by continued growth in the food service channel for aseptic nondairy and in the retail channel for broth products as well as expanded distribution in premium juice. Excluding sales relating to a large private-label account that we stopped servicing in April of 2017, revenue in the beverage platform would have grown approximately 13% during the first quarter. In our snack platform, excluding the bar and pouch lines of business, revenue grew 29.8% in the first quarter driven by increased contract manufacturing volume in fruit snacks. Consolidated gross profit was $33.7 million for the first quarter of 2018 compared to $38.7 million for the first quarter of 2017. As a percentage of revenues, gross profit for the first quarter of 2018 was 10.8% compared to 11.7% in the first quarter of 2017. The gross profit percentage for the first quarter of 2018 would have been 11.7%, excluding the impact of $0.1 million in costs associated with the Value Creation Plan as well as $2.8 million of timing-related losses associated with commodity futures contracts, used to hedge our organic cocoa position, which I'll explain in a few moments. This compares to a normalized gross margin percentage of 11.9% in the first quarter of 2017. In Consumer Products, margin pressure in Healthy Fruit was driven by lower plant utilization due to decline in sales volumes, price [impacts] on lower fruit costs and unfavorable shift in sales mix towards lower margin product offerings and significant cost in manufacturing related to yield losses, excess labor and handling, storage costs and outbound freight. The increased cost in manufacturing, I just mentioned, amount to approximately $3.5 million in the first quarter. And do not include volume-related inefficiencies. We are addressing these cost challenges by reducing our California pack plan for 2018 and will leverage our Mexican procurement and enhanced production capabilities to improve our cost position. It will take a few quarters to work through this plan. And as a result, we expect to see frozen fruit continue to weigh on our consolidated margins, at least into the fourth quarter. We believe this pressure is expected to be significant in the second quarter, before moderating in the third and fourth quarters. Accordingly, while we expect modest sequential improvement in adjusted EBITDA in the second quarter, we would expect adjusted EBITDA to remain lower than the prior year. However, we anticipate generating meaningful year-over-year growth in adjusted EBITDA in the second half of 2018. The margin pressure experienced in fruit was partially offset by margin expansion in the Healthy Beverage and Snacks platforms, reflecting favorable plant utilization due to higher production volumes to meet sales demand, productivity driven cost savings and operational savings following the discontinuations of flexible resealable pouch and nutrition bar production in the fourth quarter of 2017. In Global Ingredients, we recognized approximately $2.8 million of costs relating to negative hedge results due to the steep rise in the market price for cocoa during the first quarter. We expect the impact of these hedge losses to be offset by improved forward margins on cocoa that should be realized over the balance of the year, as we sell through our cocoa position, which grew during the first quarter as a result of the expansion of the cocoa processing facility in Holland. Excluding the negative hedge result, gross margin in Global Ingredients would have been at 12.8% compared to 12.1% in the prior year. Operating income was $1.7 million or 0.5% of revenues compared to a loss of $3 million or 0.9% of the revenues in the first quarter of 2017. The increase in operating income primarily reflects lower nonstructural SG&A cost when compared to the prior year. For the first quarter of 2018, operating income would have been $4.9 million or 1.6% of revenues, excluding $0.3 million of nonstructural cost in SG&A related to the Value Creation Plan as well as the hedge losses and other Value Creation Plan costs that impacted gross profit, as compared to a normalized operating income of $9.6 million or 2.9% of revenues in the first quarter of 2017. On a GAAP basis for the first quarter, we reported a loss attributable to common shareholders of $6.3 million or $0.07 per common share compared to a loss of $13.3 million or $0.16 per common share during the first quarter of 2017. First quarter results include several charges and gains that are not reflective of normal operations and have been excluded in calculating adjusted earnings. On a pretax basis, these items include a $2.5 million gain on reversal of contingent consideration, $2.2 million of cost primarily related to the Value Creation Plan and $0.3 million of product withdrawal in recall costs. Excluding these items, for the first quarter of 2018, we reported an adjusted loss of $6.4 million or $0.07 per common share, compared to an adjusted loss of $0.9 million or $0.01 per common share in the first quarter of 2017. For the first quarter of 2018, we realized adjusted EBITDA of $12.4 million compared to $18.9 million during the first quarter of 2017. 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, cash provided by operating activities was $7.5 million compared to $19.5 million in the first quarter of 2017. A decrease reflects the immediate cash benefit generated from working capital efficiency initiatives implemented in the first quarter of 2017, partially offset by improved operational performance largely due to lower nonstructural cash costs incurred in the support of the Value Creation Plan. Cash used in investing activities was $6 million during the first quarter compared to $8.7 million a year ago. We invested $6.7 million in capital expenditures during the first quarter and continue to anticipate CapEx of $25 million to $30 million for the full year of 2018. At the end of the first quarter total debt was $464.4 million reflecting $216.1 million net of issuance costs of 9.5% senior secured second-lien notes due in 2022. $233.6 million drawn on our first-lien global asset-based credit facility, with the balance representing smaller credit facility, 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 $365 million.

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

QUESTIONS AND ANSWERS

Operator

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

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

Rob, just a quick clarification. So second quarter EBITDA now expected to be down year-over-year a little bit, but for the full year should we still expect you to add at least $20 million of EBITDA versus 2017?

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

We expect $20 million through productivity initiatives versus 2017, that's correct.

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

And as we look at the percentage from the operating business, how much of that should we expect to flow through?

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

We don't give guidance on the full year EBITDA. What we're commenting on in the prepared remarks is trying to give folks a sense of the weight of the fruit pressure we're experiencing right now and working through, and so that's going to be the primary driver of pressure in the second quarter. This quarter obviously, we posted a $12.4 million adjusted EBITDA number, I believe last -- during the second quarter it was a little over $19 million. So that kind of gives the range for the second quarter. But really what you've got is a situation where we're confident of delivering our productivity $20 million. We're seeing good growth and progression of margins certainly in the beverage and in the snacks, and I think the timing related pressures and Global Ingredients in that platform and really our main source of pressure is fruit.

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

Can you quantify the margin pressure in that business through the first half? Like, how much -- how many million dollars of EBITDA is lost and not going to be recovered, at least this year?

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

Yes. In the first quarter, we've quantified $3.5 million of costs that I laid out in my prepared remarks. They aren't sort of volume dependent, if you will, so they are costs related to things like access storage, right? Our inventory is at a higher level than what otherwise we require for the current demand forecast. We're also incurring increased freight, storage, handling, a variety of costs as we consolidate warehouses and as we reposition fruit, really to be putting ourselves in the spot where we can service our customers effectively. As well as yield cost. Again, really, a service matter for customers. So when you add all that up there's about $3.5 million that sits inside of the first quarter, that does not include the pressure that also comes from fixed cost coverage, which is not as efficient as it was, because we're not packing as much fruit this year. If that makes sense, Amit.

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

Yes, it definitely does. And then second quarter we expect a similar magnitude of loss from frozen fruit? Or lost EBITDA?

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

Yes, we expect the pressure to be sustained through the second quarter. We really -- the way that the fruit business works is we need to get to the 2018 pack plan. So fruit -- as Mexico, of course, started a couple of months ago, but the bulk in -- at the California fruit is about to come off the field in very near term here. And so really, your opportunity to get back, let's say an equilibrium in terms of where your fruit position is relative to your demand isn't till after you go through the pack season, which is why we're kind of guiding towards fourth quarter being where we see the pressure letting off.

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

Got it. And then Dave, it's certainly encouraging performance or improvement in aseptic business. Good to see new volume. Can you just help us quantify maybe in terms of numbers where that business is? And where it was when it was running as efficiently as it could, like several years ago at this point?

David J. Colo - *SunOpta Inc. - President, CEO & Non-Independent Director*

Yes. I'm not sure I understand the exact nature of the question, but let me answer it this way, Amit, and you let me know if I answered it. But, we feel really good about the progress we've made on the business over the last year. I think, in the prepared remarks we called out kind of a case study to help people understand all the impact that the Value Creation Plan is making, particularly, on that business and we feel that we can do the same across all of our businesses. But I think, what -- one way to look at it is from a utilization perspective, I think we started last year out as below 50% utilization of these facilities. As you exit the first quarter here, we're at about a 70% utilization and that's on a continuous operation basis across all 3 of our facilities. So we see good momentum in the business, the revenues are picking up given the conversions we've had in the sales opportunity pipeline that I spoke to. Obviously, as we increase our capacity utilization, the plant costs are dropping in line as we expected. Operationally the plants are doing a very good job on making sure that we minimize cost of nonconformance. Yields are improving, overall equipment effectiveness is improving, and we still remain to have a very robust sales opportunity pipeline that we're chasing on that business. All of that's led to the capacity expansion that we spoke to. Because as you know, we need to make investments, literally a year plus in advance to support the expected growth that we see in that business. So that's what triggered the $22 million investment that we spoke of as well.

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

That's really helpful. Just wondering to get a little bit better flavor for the margin structure. And, obviously, frozen fruit is hiding the improvement here, and the -- if you look at the total CPG segment, but if you just look that your aseptic business, where are operating margins or EBITDA margins, generally where you want to go now versus where they were when you were running it pretty efficiently before the loss of (inaudible) business back in '15 and '16?

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

Yes, let me try to answer that . I will approach the answer there with -- we're not in a position to disclose discrete margins on the lines of business. Our segment reporting does -- we do report CPG as one segment. But you're bang on that certainly the pressure in fruit is offsetting improved margin profile inside of the beverage business. If I'm to give you a kind of a scales magnitude, moving from more of a 50%, 55% utilization into more of 70% utilization, you're talking anywhere from 200 to 400 basis points on margin, kind of mix-dependent a little bit, but we are seeing improvement there, but that's just a volume piece. We are seeing also improvement when it comes to improved operating efficiencies. So things like better yield performance, less cost of nonperformance, as we once referred to it and other things. So certainly what is hitting us in many regards as to the downsize in fruit, we're benefiting from year-over-year in beverage and snacks.

Operator

Our next question comes from the line of Jon Andersen with William Blair.

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

Well, if it weren't for this pesky fruit business, we'd be in great shape. Congrats on the performance on the rest of the portfolio. I wanted to ask first, it sounds like you've had a number of new business wins in the past quarter, which suggest the commercial pipeline is converting well. Can you talk a little bit, David, about the feedback or the discussions that you're having with retailers that are kind of leading to those wins? Is this SunOpta coming to the table with better pricing, more innovative product? Is it retailers have more confidence in your kind of capabilities from a service perspective? What's driving this and what level of conversion are you seeing? And what level do you kind of want to aspire to down the road?

David J. Colo - *SunOpta Inc. - President, CEO & Non-Independent Director*

Yes, I think what's driving the conversion and the success in our sales pipeline, Jon, is all of the things you mentioned. It's the -- it's literally the Value Creation Plan and the benefits of all the work that the team has been doing over the last year plus coming to life. I think, the short answer is, if you have a good plan, if you have good leadership working against the plan, you're typically, over time, going to start to see the benefits of that work. And that's what we're experiencing, it's happening. We've developed -- we're -- I say we've done a pretty good job in rebuilding our relationships with our key customers as well as penetrating opportunities with new customers across all of our product categories. That has led to a lot of these opportunities. I think we're rebuilding the confidence with our customer base in our quality as well as our customer service capabilities, both of which have improved significantly over the last year. So with that comes credibility and the opportunity to get back in front of customers and be viewed as a long-term strategic partner. And we couple that also with some good innovation that we're bringing to the table across some of these different customers in different channels, and that's leading to some of these conversions. I would add to that, I think we're just beginning in this regards, we continue to have a pretty robust sales pipeline across all of our product categories and with some of the expansion that we spoke to in aseptic as well as the commercialization of our new roasted snacks facility, the bringing on in the commercialization of our organic cocoa processing facility in Holland. We have a lot of potential in front of us. And even in fruit in the recent weeks we're starting to see some new wins and good key wins for our fruit business, which again, gives us confidence that a lot of the work that we're doing in our fruit business is starting -- we're starting to realize the benefits with our customer base and recognize, I know you guys all noticed, but in store brands in particular, it's a long [week] cycle to get to business back with customers. So if you've had historical quality in service issues, you kind of get one kick at the can per year to try to get that right and the timing of when those opportunities open up to you obviously influences when you're going to have the ability to regain the business and start growing the business again. And we've seen a couple of key wins here in the last couple of weeks in our frozen fruits business that give us confidence that we're going to be able to accelerate that as we go throughout the year.

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

Would those be second half shipments? The newer wins in fruit.

David J. Colo - *SunOpta Inc. - President, CEO & Non-Independent Director*

Yes, exactly, they actually are. The majority of it will hit towards the end of Q3 and going into Q4.

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

Great. Second topic on your beverage business, which is obviously performing well. Are you seeing an evolution of your beverage business? I think on the aseptic side, one of the nut-based beverages have moved -- may be been more action in the refrigerated section in nut-based beverages, but are you able to kind of navigate this transition either by, it sounds like category expansion in the broth may be more work with food service operators, but how is that playing out in terms of the composition of your aseptic beverage business? And as part of the capacity expansion or the investments you're making in capacity to bring on new capabilities to do maybe new packaging types as well as just enhance the capacity of your existing product lines?

David J. Colo - *SunOpta Inc. - President, CEO & Non-Independent Director*

Yes, we -- I think as we spoke in the prepared remarks, what's going on in the beverage business is, I think the team has done a good job in identifying an adjacent category, which is broth. We also have a pretty good tea business that is growing. So it's the combination of getting into different product categories as well as the benefit of our multichannel focus in nondairy aseptic. One of the benefits, I think, we have as a company is we sell from a contract manufacturing perspective, we sell into the food service channel, we obviously sell into retail. And we see good opportunities in all of those categories in the nondairy platform in particular, but also primarily in the retail channels on the broth category. And in the tea business we're seeing some pretty good growth primarily on our food service business. So I think the diversification that we've done in the portfolio is allowing us to grow the category quite nicely. From an investment perspective, the capacity we're adding, it does give us additional capability to do different product forms, what we call hard-to-batch products, which are basically -- could be nondairy primarily products that have higher solid content levels to deliver a specific nutritional benefit that's part of the capacity expansion includes that additional capability. The other piece of it adds further processing and filling capacity that allows us to basically leverage and reposition some of our different package formats across our 3-plant network and puts us in a better position to continuously be a low-cost supplier to our customer base. So there's significant benefit that comes with the investment.

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

Okay, last one for me. Just as you think about the 3-year plan or Phase 1, 2 and 3 and the value creation program. I think, you've talked -- at least somewhat broadly in the past about the desire to add revenue by 2020 and it sounds like we're going to start growing on a consolidated basis in the second half of this year, so we're moving in that direction. But also bring the margins of the business up to -- close to I think a 10% kind of level on EBITDA margin basis. Given what you're seeing in the marketplace, given what you've kind of worked on internally, from an operational and process improvement perspective and then thinking about fruit and the hopeful -- hopefully the eventual recovery in fruit. Is there any need to kind of rethink that? Is that still a realistic set of objectives by kind of the 2020 time frame? Or do we need to be thinking out a little bit further at this point?

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

Yes, I'll take that one, Jon. I do think that's still realistic. The modeling that we've done in respect to the trajectory that we're seeing the business is on and the pacing, other than fruit, really, is in line with where we want it to be. We're very confident that we can address fruit and get it there, but the nature of that business requires us to go through a bit of an investment year, if you will, in 2018 to rightsize the inventories and get back a level where we can be more nimble, if you will, with our margins and then get back to growth in the category through innovation. So that's why in the prepared remarks, David referred to the case study, we're bringing those same processes, the same level of discipline, if you will, to fruit that we've done with beverage. So while a different category, we're confident in being able to return that business to growth and growing margins as well.

Operator

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

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

Just a quick question on the aseptic broth opportunity. If you looked at your pipeline of conversations and discussions and potential new customers and new wins, how has that evolved over the last 12 months or grown?

David J. Colo - *SunOpta Inc. - President, CEO & Non-Independent Director*

Chris. We've -- the broth category in general, it's on a measured basis. It's about a $900 million category and it's been growing anywhere from 8% to 10% over the last year. So it's a significantly sized category and one that we obviously, see good potential in. And as we targeted different categories for sales opportunities it was definitely one that was at the top of the list. And we've seen good conversion on a lot of those opportunities with some major accounts. So we continue to have opportunity in that category but we've also had good success to date converting some of those sales opportunity pipelines, and we see that category continuing to have good growth potential in the forward years as well.

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

If you look at the competitive environment for that category, what are your advantages? Is it the innovations in the different flavors? Or how should we look at that?

David J. Colo - *SunOpta Inc. - President, CEO & Non-Independent Director*

Yes. I think it's our innovation capabilities, it's our both -- capability to provide both organic and conventional products and again, it's our 3-plant network that puts us in a position to be able to basically be a low cost -- a low total landed cost provider that, I think, that's a competitive advantage we have versus the majority of our competitors in that space.

Operator

(Operator Instructions) We have a follow-up question from the line of Amit Sharma with BMO Capital Markets.

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

Dave, just wanted to circle back on the frozen. Can you give us an update on how is the strawberry crop in California this year? And as you laid out the case for recovery in that business in the back half or to the fourth quarter, how much of that is continued on where the crop comes and how the [price gets out of impression] frozen?

David J. Colo - *SunOpta Inc. - President, CEO & Non-Independent Director*

Okay. The crop this year is off to a -- as far as converting from fresh to freezer, which we use freezer strawberries, it's off to a bit of a slow start because of the weather patterns that have played out this year. What happened earlier in the year is the growing conditions were near ideal in Southern California, and we thought at that time that actually there was going to be too much fresh strawberry supply and that the market was actually going to convert to freezer earlier than it normally does. And then rains and cooler weather came to California and that completely stalled that out and it's put the growers in a position where they've had to extend their fresh season to try to make up for the lost revenue that they incurred during that weather pattern, if you will. What we're anticipating is that the fields will start [sticking bird] over the next couple of weeks and we'll start to get back to normal receipt level on strawberries. We don't anticipate having a shortfall in the crop that's necessary to meet our needs for this year. However, we are seeing the strawberry costs go up a bit as due to the delay and the need for processors like ourselves to post some prices to get the growers to start to convert. To the extent that, that allows or is necessary, we'll have to consider that in our pricing considerations as we go forward as the point to potentially offset that increased cost.

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

Doesn't that help you though to -- so if your fresh prices on higher, the gap between frozen is wider and that helps you push your inventories out?

David J. Colo - *SunOpta Inc. - President, CEO & Non-Independent Director*

Yes, I think it's more -- what we're learning is it's more about the availability of supply of fresh on a year-around basis that tends to drive more of the consumption pattern from frozen into fresh, the pricing obviously is also a component of that. Based on the prices spread that we're seeing right now though, I don't know that there's going to be a significant enough gap between fresh and frozen to create that dynamic on it.

Operator

And I'm showing no further questions in queue at this time. I'd like to turn the call back to Mr. Colo for any closing remarks.

David J. Colo - *SunOpta Inc. - President, CEO & Non-Independent Director*

All right. Thank you, operator, and thank you all for participating in our first quarter conference call. I look forward to speaking with you in the future and updating you each quarter on our progress, as we unlock the opportunity and value in SunOpta.

Rob and I will be presenting next week at the BMO Farm to Market Conference in New York City as well as the William Blair Growth Stock Conference in Chicago in June. We hope to see you there. Have a great day.