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Alliance Grain Traders
Third Quarter 2012
Financial Results Conference Call
Transcript

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Speakers:

Murad Al-Katib
President and CEO

Gaetan Bourassa
Chief Operating Officer

Lori Ireland
Chief Financial Officer

Omer Al-Katib
Director, Corporate Affairs and Investor Relations

OPERATOR:

At this time I would like to turn the conference over to Omer Al-Katib, Director of Corporate Affairs and Investor Relations. Please go ahead, sir.

OMER AL-KATIB:

Thank you. Good morning and thank you for joining us on our third quarter Conference Call.

On the line with us today we have Murad Al-Katib, President and CEO of Alliance Grain Traders; Lori Ireland, our Chief Financial Officer; and Gaetan Bourassa, our Chief Operating Officer.

Before we get started, I would like to remind everyone that today's call may include forward-looking statements. Such forward-looking statements are given as of the date of this call and involve certain risks and uncertainties. A number of factors and assumptions were applied in the formulation of such statements, and actual results could differ materially. This call may also include references to certain non-IFRS financial measures. For additional information with respect to forward-looking statements, factors and assumptions, as well as a reconciliation to IFRS measures, we direct you to our news release, our website, as well as our recent filings on SEDAR.

With that I'll turn things over to Murad for some comments and then we'll go to questions. Murad?

MURAD AL-KATIB:

Thanks Omer. Key indicators and normalization needed for pulse markets around the globe continue their recovery. They appear to be more visible during this last quarter. Now, this has certainly aligned with our optimism regarding the gradual recovery of our sector that we believe may impact AGT's earnings, margins and utilization positively in the end of 2012 and the 2013 period.

We have stated earlier we believe the relative strengthening and stability of local currencies, easing of credit liquidity constraints, and lower consumption market supply of inventories are expected to drive import volumes into key consumption regions like the Indian subcontinent and Turkey and the Middle East/North Africa region.

Local production is reported as constrained in these regions and estimates regarding consumption remain high. India has reported lower production as a result of their deficient monsoon rains. Turkish production has been trending lower for some time. Both of these origins act as a key supplier for their regions. Lower available local production supplies may act as a catalyst, assisting in the 2013 recovery that we are forecasting.

Pulses are a nutrient-dense, non-GMO, gluten-free, high protein and fibre product that help to feed large numbers of the world's population. We remain firm on our view that consumption of pulses is relatively inelastic in that people cannot choose for a long-term basis to consume their protein, specifically the vegetable protein that pulses provide. They simply must consume to ensure a healthy and nutritious way of life.

Supply is not constrained globally, however, and in many of the origins we operate in like Canada, the U.S., and Australia, supply is ample. This supply, with the carry-in stocks remaining for the 2011 harvest, puts AGT in a positive supply position, even with estimated production decreases in 2013 in some origins, most notably Canada.

Pulses are a rotation crop and have lagged behind cereals and oilseeds with respect to pricing increases, making it natural for farmers to continue their rotation plan and to not chase the market by pushing their rotation.

We believe farmers will make their seeding decisions in the traditional April and May period before heading out to the field in North America. We believe they will continue to grow pulses. It's far too early to estimate what farmers may do in May of 2013.

In the past, our opinions have been clear regarding stock levels for AGT in Canada, the U.S., and Australia. We continue to maintain that stock levels are higher than what is actually needed. In fact, the supply contraction is seen as a positive for AGT with respect to market recovery.

While demand is estimated to remain strong and export volumes appear to be normalizing, pricing structure and generally lower prices on pulses in end use markets have not led to the margin recovery to the extent that we believe we would see in the period, but we did make some positive progress.

In the three month ended September 30th, 2012, we reported EBITDA $11.5 million, revenue and other income of $210 million. Additionally, our balance sheet improvement and management initiatives have allowed us to reduce our net debt once again. Interest spreading debt continues to come down steadily, and we've provided an improvement of $140.2 million in cash flow from operations when comparing the nine month period of 2012 to 2011. You'll find our complete financial result notes and management discussion on SEDAR or on our website at www.alliancegrain.com.

I'm going to turn things over to Lori to discuss some of the highlights from this quarter, then I'll come back with some wrap up comments. Lori?

LORI IRELAND:

Thanks Murad. AGT continues to focus on the implementation of cost-cutting initiatives and continued tracking of metrics for cash flow management right down to the subsidiary level. We are pleased to see continued improvements in these areas.

As I said last quarter and I reiterate again, AGT will continue to assess synergies across our global platform to take advantage of cost savings and create additional value for our shareholders.

We are also pleased to report by segments for the first time this quarter. AGT's three sales platforms are pulses and grain processing, trading and distribution, and food and food ingredients. As we mention in our financial statements and in our MD&A, the food and food ingredient segment was deemed immaterial to report separately at this time; therefore, it has been combined with the pulses and grain processing segment. Since we are unable to compile comparative information, we will continue to report sales by product as well at this time.

We continue to see margin improvement as gross margins improve from $62.02 per tonne in quarter 2 of 2012 to $69.72 per tonne in quarter 3, and adjusted gross margin improved from $70.72 per tonne in quarter 2 to $79.16 per tonne in quarter 3. In addition, EBITDA margin improved from $33.57 per tonne in quarter 2 to $44.35 per tonne in quarter 3.

Adjusted gross profit is a new metric we have defined this quarter and it's calculated as gross profit plus depreciation included in cost of sales. This number will allow us to be measured on a similar basis to other publically listed comps in our industry.

For the three month ended September 30th, 2012, adjusted gross profit was $20.5 million or 9.8% and was 12% when considering the reclassification for marketing, sales and distribution. This is compared to $26.8 million or 14.1% for the three months ended September 30th, 2011 and $19.5 million or 9.6% for the three months ended June 30th, 2012. Note that we are reclassifying these expenses for year over year comparisons only and there is no change in the methodology when comparing September 2012 to June 2012.

Although there is an improvement from the prior quarter, AGT is still experiencing some margin compression resulting from macroeconomic issues, credit liquidity, currency volatility and the Eurozone crisis.

Although accounts receivable increased $178.6 million at September 30th, 2012 compared to $171.5 million at December 31st, 2011 and compared to $157.8 million at June 30th, 2012, this is due to increased sales tonnes out of our North American factories and is not unusual for this time of year.

In contrast, however, inventory levels decreased to $141.8 million at September 30th, 2012 compared to $183.3 million at December 31st, 2011 and compared to $143.7 million at June 30th, 2012. The decrease in inventory levels is the result of a continued focus on inventory levels at each factory. This continued effort to increase and monitor inventory turns has resulted in lower inventory levels. We are pleased with the absolute reduction of inventory from year-end in the amount of $41.5 million.

When looking at our below the line results, general admin and marketing, sales and distributions costs were $10.2 million for the quarter ended September 30th, 2012. This is $1 million lower than the $11.2 million at June 30th, 2012. We feel this is a result of our continuing programs aimed at cost savings initiatives.

Income tax expense was $22,000, lower than the $1.8 million reported in June 2012. Income taxes are recorded at various rates in various countries and certain jurisdictions recorded lower tax impacts due to utilization of lost carry forwards this quarter.

When comparing the non-cash foreign exchange for the nine months ended September 2012, this was a recovery of $4 million compared to an expense of $29 million for the nine months ended September 30th, 2011. This demonstrates a slow and gradual return to more stable currencies in our markets of operation.

We have seen interest expense increase from the quarter ended June 30th, 2012 and the quarter ended September 2011 due to interest rate increases in certain foreign subsidiary loans. AGT management continues to focus on alternative financing to lower the overall interest rate of our company. We are examining options to increase the size of our Canadian domiciled syndicated credit facilities to more cost effectively fund some of our emerging markets operations with more interest rate certainty, longer duration and committed credit facilities. This strategy will better manage the liquidity risk on our balance sheet and provide adequate capital to capture sales and earnings opportunities when we see the anticipated market recovery in 2013.

AGT and its subsidiaries are in compliance with covenants at September 30th, 2012. Also, a dividend was paid out on October 5th, 2012 based on 60 cents per share per annum.

Finally, I would like to reiterate that AGT has a clear path going forward. As Murad mentioned, we have specific goals and targets and our subsidiaries will be held accountable for this. Thank you.

MURAD AL-KATIB:

Thanks, Lori. As I've indicated in the past few quarters, we've used the recent market downturn that has continued to show signals of recovery to our advantage by focusing on operational efficiencies and management initiatives aimed at strengthening our balance sheet and on redefining our strategy overall.

In the more than 15 years I've spent in the global export sector, believe me when I say we have never seen conditions like those that we are now emerging from. These conditions are about as bad as they could get. We as a company though are better, stronger, and faster because of what we've been able to do in dealing with these headwinds. From this experience we have a clear strategy and the operational means to execute on the opportunities ahead.

I'd like to discuss the main points of our strategic implementation.

The first: we'll continue to focus on operational efficiencies and cost management. We plan to continue our initiatives aimed at cost containment and reductions. The market slowdown at 2011 and into 2012 provided our management team with a great opportunity to look at our business costs in their entirety and implement measures to make each of our global plant managers and business unit directors accountable for costs within their areas and further measure them on their cost reduction programs and overall reductions in processing costs per metric tonne.

We feel that by continuing to focus on management and fixed costs, boosting utilization of AGT's asset base, will indeed deliver a higher contribution to earnings per share and earnings overall.

Second is perhaps the most transformational in the long-term of our business. That is to work on improving margins through a combination of changes to our product mix, focusing on more value-added processing and products like split lentils, split peas, size and colour sorted chickpeas and beans, but also new platforms for growth such as our pulse ingredient initiatives focused on proteins, fibres, starches and flours.

The markets that we're shipping to already, such as South America, Caribbean and South Asian markets, already provide opportunity with a renewed focus on sales programs and product that these markets are already consuming, but new ingredient markets like North America, Europe and Southeast Asia including China, Malaysia, Philippines and Indonesia, we expect can provide new opportunities we were not in a position to capitalize on previously.

Our investment in our Minot, North Dakota and Tianjin, China ingredient processing plants and in our laboratory facilities in Saskatoon, Saskatchewan are expected to create opportunities in the pet food, aquaculture, food and industrial uses of pulse markets, as well as allow us to supply quality ingredients for food companies derived from pulses. We like the profile of pulses as ingredients and many of our customers agree with us on this. They're nutrient-dense, non-GMO, gluten-free, high protein and fibre products. That is the desirable combination from the global food market.

These new platforms are expected to transform AGT from a processor and shipper of agricultural commodities and agri-food products such as whole and value-added pulses and to a supplier of ingredients critical to food companies producing branded products for retail and foodservice sale to consumers around the globe. And with the scale and size of operations, margin improvement on existing tonnes handled through AGT facilities and new market opportunities from the ingredient platform will have a material impact on improved earnings.

Thirdly, AGT management will continue its focus on increasing inventory and receivable returns to ensure that working capital debt is reduced as a percentage of revenues and as a percentage or on a ratio basis to equity capital.

As AGT's business grows and earnings improve, debt optimization strategies will ensure that our company maintains a health balance sheet to fund its growth and expansion from free cash flow and debt while maintaining its yield to our shareholders.

As well, we're working with our banking partners around the globe to leverage our healthy balance sheet to pursue strategies that increase the time and duration of our global credits and global cost of debt capital across our mixed of operating geographies. Access to capital in a capital-constrained global marketplace is a strength AGT has. This is a strength that we expect will continue to allow us to execute our strategy above and beyond that of our competitors.

Our growth and acquisitions over the past years have allowed us to build an enviable asset base that is the fourth component of this strategy. This fourth component is to continue our efforts to increase utilization at all of our facilities. This is expected to come not only from operational efficiencies but also through expanding the products we handle, such as examining opportunities for processing in existing facilities of soybeans, cereal grains and oilseeds and expanding our focus on chickpeas, green peas, flaxseeds and canary seeds. Diversification into new products such as these, we expect, may allow us to utilize our Canadian facilities more effectively and also to boost our pulse and grain processing utilization in Turkey through origination programs from Russia, Ukraine, Argentina, Canada and Australia.

Finally, we're continuing our efforts to report the segments of our business to give meaningful disclosure to our shareholders in the capital markets globally. As our business has grown and matured, we've been in a better position to share information about our business without losing competitive advantages over our smaller regional competitors in markets around the globe.

These initiatives began with disclosure regarding metric tonnes invoices and gross profit and EBITDA per metric tonne measures. These initiatives on segmented reporting will continue with the unveiling of the segmented reporting that allows us to better communicate our gains in diversifying our business and earnings through a diversification in our origins, products and markets. We believe it will also allow shareholders and capital markets to better understand this diversification initiative and see the margin gains in the segment that we're achieving them.

In conclusion, before we go to questions, we see markets and our business operations returning to a more normalized flow of products in the near term which has the potential to assist in our estimated return to historical margins and earning levels.

There are many catalysts in the market that we believe will assist in this recovery. We're committed to the long-term health and growth of AGT and the opportunities we see before us. We believe as our business normalizes, we'll see a strengthening of shareholder value in the long term.

I thank you for your interest in Alliance Grain Traders and assure you management remains very committed to this business. Thank you.

OMER AL-KATIB:
Operator, I think we'll go to the first question.

OPERATOR:
We will now begin the question and answer session. Anyone that wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. If you are using a speakerphone please lift the handset before pressing any keys. In order to accommodate as many callers as possible, one question from each person will be taken. If you wish to ask a supplement question, please press star and one again to rejoin the question queue. If time does not allow for the response to all of the questions, Alliance Grain Traders' Investor Relations group will follow up after the call. Anyone who has a question may press star and one at this time.

The first question is from Steven Hansen of Raymond James. Please go ahead.

STEVEN HANSEN:
Good morning Murad.

MURAD AL-KATIB:
Good morning.

STEVEN HANSEN:
Just as a general upfront comment maybe before my question, I just wanted to say thanks for the additional disclosure. I know I appreciate it as an analyst and I'm sure the investors will as well.

Just into the questions: Murad, can you maybe talk about the evolution of this ingredient opportunity in pet food and agriculture as it… you know, maybe contrast versus traditional human consumption markets, but just specifically looking at speed to market for the ingredient opportunity and then maybe just a quick comment on the size and breadth of the opportunity and margin potential?

MURAD AL-KATIB:

Yeah, the Minot, North Dakota investment is about $22 million. That facility is nearing completion so we'll expect by end January/February it to be into commissioning the fractionalization line. So what we're going to be doing in that plant is: we're going to be taking pea and lentils, chickpeas and beans and… yeah, and I guess faba beans, that will be into the bean side.

We're going to be able to take those… we're going to be able to remove the skin, which is the outer pea or the outer pulse fibre. We're going to be able to purify that fibre for pet food and food applications. We're going to then take the dehulled pulses and mill them into flour. So we're going to be able to sell flours into the different segments. And then we're actually going to take the flours one step further and divide them using mechanical separation technologies into protein, fibre and starch.

So when we look at the components of the pet food or human food markets, you know, there's a desired characteristic of the ingredient that they may be looking for. So in a pet food blend, they may be looking for protein but they don't want additional fibre because they have fibre within the other products within their blend. Or they may be looking for more fibre because they're doing a later-in-stage-life dog food where they want a fibre boost.

So the reason for the focus on the pet foods market and the agriculture market is we view that as low hanging fruit. It's opportunities there where the utilization is started in quite a large volume on the whole pulse side and on the flour side, but there's really no one doing large scale fractionalization in North America today to be able to give these companies the components that they require.

So to give you an idea of the size of the market, dog food is estimated at 5 million tonnes per year of meat consumption, just the dog food segment in the United States. If I look at the pet food market overall, $20 billion spent on pets in the United States market alone. Five million tonnes; if I look at a 10% inclusion of non-meat vegetable protein as a meat extender or meat replacement, we're looking at around 500,000 tonnes of protein. In order to generate 500,000 tonnes of protein, Canada has to mill 50% of Canada's production of peas just to supply the dog food meat markets, and that doesn't take into account any of the other animal feed and pet food markets.

Now, Steve, why we like it is the pet food segment is actually, in many cases, even more stringent in terms of food safety and quality standards than even human food. And you know, one of the reasons for that is pets consume the same food day after day after day from the same bag. And so there's a heightened awareness on food quality standards because one large dog food manufacturer said to me once: "You know, pets that get sick or die aren't good for my brand." So it was a very common sense thing to say but it really hit home the requirements for food safety.

Now, we're reacting to that. With Gaetan Bourassa's leadership and his team's leadership, we've achieved FCS 22000 food safety certification in four of our plants in North America and the Minot, North Dakota plant will be the fifth one. So we see this scaling up quickly. The food packaged food and ingredient segment that we mentioned is not material. Today it only contains the Arbella Pasta business. The food ingredient platform will go into that segment. So in 2013 we hope to be in a position to start to report that segment to you separately so you can start to see the margin profile we expect will be enhanced over the current business model, and it will be in a position to assist us in raising our overall average margin per tonne across our platform and I think that will have a very… it may have a very material impact on our earnings.

STEVEN HANSEN:

Okay. Thank you. It's very helpful, and just one other if I may: just in terms of characterizing your working capital and debt reduction initiatives here, are we in the second inning here or are we in the eighth inning?

MURAD AL-KATIB:

You're in the … probably the second or third inning. I mean to me, Steve, the key measurable will be to continue to monitor net debt as a percentage of revenue and net debt as a percentage of equity.

So we want to ensure that as we grow the book that we actually are maintaining our debt levels, we're continuing reduction initiatives. And that'll all be achieved through inventory turns, receivable turns and optimization programs in our distribution.

So you know, this is a focus where I will … you know, never's a long time, Steve, but it won't come off the ball ever. And you know, our focus now is to maintain and reduce debt levels as we continue to grow this company into a multi-billion dollar company.

STEVEN HANSEN:

That's very helpful. Thank you.

OPERATOR:

The next question is from Anoop Prihar of GPM Securities. Please go ahead.

ANOOP PRIHAR:

Good morning. Just two questions. First of all, of the Q3 inventory, can you give us a sense how much of that has been already sold? And then secondly, you talked about carryout stocks earlier on in your comments. How much are the current carryout is made up of product that was taken from the 2010 harvest?

MURAD AL-KATIB:

Let me answer from the first question, Anoop. On the inventory, we estimate that on any given quarter, about 60% of inventory that would be listed as inventory is already presold. So the balance 40% would be just in the system, ready for sale, or product that's… I mean, we have a big global platform so when you're looking at 40% of the inventory not sold, it's not that big of a number when you're considering 29 factories around the world. So the big portion of that is already sold off and done.

I think what I'm going to do is, I'll… there're two aspects to your question. The other one was the carry-in stocks and things like that. Gaetan, maybe you can give a comment on our overall global position and the level we're at today versus how we've been in the past and then maybe continue on carry-in stocks…

GAETAN BOURASSA:

Can you repeat the question on the carry-in Anoop?

ANOOP PRIHAR:

Yeah. I mean, I've been reading various different people's thoughts on the current carry-in positions and I was curious to know of the current Canadian carry-in, how much of that is comprised of product that was harvested in 2010, in other words fairly poor quality product?

GAETAN BOURASSA:

Well I guess the biggest one was the off-grade red lentil and green lentil issue, and I would say it's probably down to around 150,000 tons. That would be our best guess at this time. And some of that is the carry-in that came through, and some of that's already been dealt with in the first two months in South India and through milling and feed projects and whatnot.

ANOOP PRIHAR:

So 150,000 tons, as a percentage, what would that represent?

GAETAN BOURASSA:

Well, the carry-in on lentils, for example, is about 750,000 tons, so about 150,000 top of that.

ANOOP PRIHAR:

Okay. Thanks.

MURAD AL-KATIB:

And then on our global positions, overall in terms of… he wanted to know about unsold, where is our status now?

GAETAN BOURASSA:

Unsold?

MURAD AL-KATIB:

Like, our global position in terms of global longs and things like that.

GAETAN BOURASSA:

Yeah, I mean, we're keeping a very tight position globally. The buyers overseas are hand-to-mouth and accordingly with the credit liquidity problems and whatnot we're… we're keeping a very tight position.

MURAD AL-KATIB:

So most of everything right now, if I look at a snapshot in time, we're largely sold on our inventory position?

GAETAN BOURASSA:

There's paper behind almost everything.

MURAD AL-KATIB:

Yeah.

OPERATOR:

The next question comes from Christine Healy of Scotiabank. Please go ahead.

ALEX PALAZAN:

Hi guys. This is Alex Palazan calling on behalf of Christine Healy. The Canadian September export data that came out yesterday showed lentil exports to the Middle East continue to be weak. I was just hoping you could give us a quick update on how you see demand in that region going into Q4 and 2013.

MURAD AL-KATIB:

Yeah, I think that the way I would characterize it is a couple things that are going to play in here. One is the conclusion of the holy month of Ramadan is done; the Eid holiday, the follow-on religious festival holiday, concluded the end of October. We believe that the Turkish crop that was harvested in June was average at best. So, as a result of average-at-best harvest, we're into traditional import and consumption period for Middle East, North Africa. So October, November, December, January, February, March, April, before Turkey's getting ready for their May/June harvest again, that's our traditional strong export period into that region.

So I expect that local stocks have been pressured enough that we're going to start to see enhanced quarter 4, quarter 1 shipments into that region. We're seeing flows of some of our products starting up again. Faba bean sales out of Australia have been very strong. And lentil sales are starting into areas in North Africa.

Any other comments, Gaetan, at all?

GAETAN BOURASSA:

No, I think that that's quite accurate. We're starting to see some more inquiries, and a lot of the price and the people requesting would be for a January shipment, which makes a lot of sense.

MURAD AL-KATIB:

Yeah. So that's… the traditional period right now is… when it's winter and it's 15 degrees they eat a lot more lentil soup. So that's really good for consumption and that's the period we're getting into now.

ALEX PALAZAN:

Perfect. Thank you very much.

OPERATOR:

The next question is from Sean Pratt of the Western Producer. Please go ahead.

SEAN PRATT:

Hi, Murad. I heard that… that the pigeon pea crop in India is in dire straits, that it has had some pest issues and there's some reports that it may be 25 to 30 per cent… yields will be down 25 to 30 per cent. So I'm just wondering what you've heard about the Indian pigeon pea crop and what this means for green and red lentil demand.

MURAD AL-KATIB:

I think, Sean, in general, all kinds of reports of adversity within the cropping scenarios in India are out there. And we look at, starting back … you know, the monsoon deficit in August was measured all the way up to close to 30 per cent deficit at the time, really affecting crop development into their October/November harvest season that we're in right now.

And even with the monsoon recovery, we feel that there're challenges in terms of the existing crop and there will be challenges on the follow-on crops in terms of subsoil moisture for establishment of the crops, especially when we get to the March/April harvest.

On the pest side, there've been media reports about worm infestation that has caused some significant damage and yield loss, as the worms are affecting the pods and are actually consuming some of the available crop that's there. So pretty widescale reports.

There's a differing view, I think, within the trade on how significant that impact is. But the fact that you start to compound all of these factors, we think that there will be a sustained demand event in

India that will last through until the March of 2014 crop. So for a full year of consumption we think that the challenges that they're currently under will affect the production.

On the other side, when you look at lentil and pea crops … you've asked that question on how it will affect … we think in general the lagging prices in lentils in particular will lead to a contraction of acres around the world and won't just be a Canadian phenomenon. We talk about contracting acres in Western Canada.

But, you know, cereal prices and oil seed prices are high in every geography, so these are global crops. And we think that acreage competition will reduce the amount of lentil acres around the world, but with very substantive carry-in stocks and stocks available in the market, it may be just what the doctor ordered in terms of a supply contraction scenario to allow for the economics to reset and allow growers to make money on these crops and allow processors like ourselves to improve our margins.

SEAN PRATT:

Thank you.

OPERATOR:

Next question comes from Marc Robinson of Cormark Securities. Please go ahead.

MARC ROBINSON:

Hi guys. I notice you… you're disclosing your EBITDA a little different, including what looks like interest income and to the top line. Just curious why you're doing—if that is the case and why you're doing that this time around.

MURAD AL-KATIB:

Actually, it's been the same every quarter, Marc, no change. So all the comparative quarters are the same treatment. Interest income for us is a combination of interest on our bank deposits in emerging markets, but also interest collected from clients in our regular sales program. And part of that on our working capital management has been to ensure that we're collecting for overdue accounts; you know, compensation.

MARC ROBINSON:

Okay. So let's just… let's move on to this segmented trading division. Can you just provide a little bit more clarify on exactly what it is you're doing in that segment? And to the extent you can, comment on how volatile those margins have been historically within that group?

MURAD AL-KATIB:

Well, yeah, interestingly you can see… I mean, these are a couple of platforms that have only been with us for a couple of years because we acquired the Poortmans Europe platform two years ago and the Advance Seed platform a year ago. And I think a very important thing to note in this segment is this is not trading in the traditional definition that people may talk about the fact that we're taking speculative positions.

It's really a merchandizing platform whereby we have long-established relationships with canning companies, packaging companies, food processing companies and retailers. And we're actually bringing product into the regions of operation and we're actually providing warehousing, logistics, delivery, quality management services.

So it's really a supply chain management platform. So this would be, you know, for providing navy beans from alternate origins around the world into leading European canners for English breakfast beans.

It would be for providing ground nuts that are roasted and blanched into the peanut butter markets in Southern Africa. You know, we have five packaging lines, Marc, running in our South African—I just about said South Australian—South African platform that are actually supplying 367 supermarkets in Southern Africa including the Woolworths chain in Southern Africa, including the Pick-n-Pay chain in Southern Africa. We would package peas, beans, lentils, chickpeas, couscous, bulgur, pre-spiced bulgur blends, that go into their retail packs. We're providing a packaging service.

So these are the type of activities, then. The margin volatility has … it's been quite consistent. And if you look at the quarterly data against the nine month data they're actually quite similar. So you can see that the quarters delivered a very consistent result compared to what we've delivered for the year.

So it's a segment that will grow for us. It's a segment that will assist us in utilizing our assets around Canada, US, Australia and Turkey. So, you know, there're large scale initiatives to increase our distribution platforms for bulgur wheat, rice, faba beans, white beans, pinto beans, black beans, chickpeas. So this will be a continued focus on growing that segment.

You know, we have sales and trading offices now in the UK, Netherlands, Spain. We have the origination offices in China, along with our factory. We have Russia, Rostov on the Don river, office open now, with active origination programs in chickpeas, lentils.

We have a birdseed distribution business where we're taking canary seeds, millets, sunflower seeds and other products and providing them as an ingredient to bird food packaging companies in Europe.

So these are the type of activities contained within the trading and distribution segment. And I see that segment growing in importance, hence the reason why we wanted to have it separated.

MARC ROBINSON:

Okay. And looks like temporarily the pasta business has been put into the processing bucket. The pasta business, I guess, would have a higher margin profile than the traditional processing business. So it's fair to say that those numbers then in the processing as it relates to margin per tonne are temporarily higher than they otherwise would have been just because pasta's in there?

MURAD AL-KATIB:

No, they're temporarily lower because the macroeconomic crisis –

MARC ROBINSON:

No, but excluding that, the –

MURAD AL-KATIB:

I don't think I can say that. Marc, starting in 2013 the pasta will be out and you'll see pulses and grains improving and you'll see a pasta and food ingredients platform blended.

MARC ROBINSON:

So let me ask you differently then. Pasta would have a higher margin profile than the traditional processing business?

MURAD AL-KATIB:

Yeah, it depends on the quarter. Of course, we had a durum wheat supply issue in Turkey. If you look at the production information we gave you, the production of durum fell from 2.5 million tons estimate last year to 1.7 million this year. So as a result Turkey is going to be a net importer of durum wheat this year. So I can tell you that the pasta segment was affected this quarter as a result of some short supply and escalating durum wheat prices.

MARC ROBINSON:

Okay, fair enough. Thanks.

MURAD AL-KATIB:

I wouldn't agree that this quarter is actually inflated. I think the pasta segment had a struggle quarter, but things have turned around because we… as we mentioned in our disclosure, we're actually importing vessels of durum wheat now and we're acting as a supply chain manager for a number of our competitors, where vessels are bringing brought in of durum, we'll take half and we'll parcel out the balance to our competitors in the pasta segments. So it's… I think that will be rectified for quarter 4 and quarter 1.

MARC ROBINSON:

Okay. Thanks.

OPERATOR:

The next question is from Robert Winslow from National Bank Financial. Please go ahead.

ROBERT WINSLOW:

Good morning.

MURAD AL-KATIB:

Morning, Robert.

ROBERT WINSLOW:

Just wanted to follow up on what Steve has asked earlier, talking about the pet food and aquaculture opportunities. Are these opportunities for you, obviously a higher margin business sounds like, would they be push or pull opportunities? I'm asking 'cause I'm largely unfamiliar with this market of vegetarian protein, displacing meat protein in food products for animals.

MURAD AL-KATIB:

Yeah, I think when I use the term low hanging fruit, Robert, I'm actually saying that in the pet food side it's a pull. They're pulling it in, they want the product, they need more supply, the supply is not necessarily available. So there's a lot of whole pulses that are already going into these pet foods, but they're looking for more refined blends because they're… interesting, you know, spend some time, Robert, in the dog food or the pet food in the large-scale retail and you'll see a very sophisticated segment that's emerging—gluten free blends, lifestyle platforms where you have everything from puppy chow to geriatric dog food. And the segments are changing where each one of the ingredient profiles are different for each segment of a dog's life.

We look at the aquaculture segment and farmed tilapia… tilapia grows from spawn to full-grown fish in about 112 days.

ROBERT WINSLOW:

Yeah.

MURAD AL-KATIB:

So they're looking for high protein, non-GMO feed with a positive lysine profile. And so we look at that and the food industry in the pet food and aquaculture side and then the… so let me finish there. They're pulling it in.

On the food side, so the large-scale global company, the Krafts, the Unilevers, the Frito-Lays, the Pepsi-Cos, these types of companies, it's not … I wouldn't say it's a push or a pull. It is an acknowledgement by these companies that they have… they're very intrigued and interested in these ingredients and it's largely being driven by the functionality of protein and their desire for fibre.

So the functionality of protein… in order to make what's called a complete protein, grains and rice those types have one type of protein and the pulses have a complementary type of protein. So what we're looking at with those food companies on collaborative product development is complementary protein. So the grain protein and the legume vegetable protein combine to make a digestible and effective protein for their food products.

So this was the reason for the laboratory in Saskatoon and the recruitment of two world-renowned scientists, Dr. Mehmet Tulbek, who was at North Dakota State University, and Davide Vitale out of Italy, who was a developer of commercialized blends for the food industry globally, including grains and pulses.

So those two have been brought together to work collaboratively with food company teams on developing products.

Now, what I like about the push and pull going together on the food side is the large-scale food companies are recognizing… not only are they interested, they're putting teams together internally and they're paying for a lot of the research and product development activities.

ROBERT WINSLOW:

Oh, that was going to be my next question. Should we at some point except a line item to be broken out here called R&D that would be supportive of this initiative in your financial statements?

MURAD AL-KATIB:

Yeah, I guess, we have to look at the materiality of that. That's contained within our marketing, sales and distribution today.

ROBERT WINSLOW:

Okay.

MURAD AL-KATIB:

And so we would have that in there. And of course, you know, we're pursuing all kinds, Robert, of offsetting and matching funding programs. We've been very successful with Canadian government, State North Dakota government, Saskatchewan government funding programs as well as the food companies contributing cash dollars and team members to IP. So intellectual property development of ingredient blends that are going to go into their products. That's where we see this initiative rolling out in '13 and '14.

ROBERT WINSLOW:

That's very helpful. Thank you.

OPERATOR:

There is a follow-up question from Steve Hansen of Raymond James. Please go ahead.

STEVE HANSEN:

Yeah, Murad. This is a follow-up on the pricing issue or the lentil pricing issue that you described earlier. How should we think about the trade-off between higher lentil prices or just pulse prices generally overseas versus the potentially lower volumes that you were speaking to?

It sounds like you would expect a margin lift, at least initially, but I'm interested that trade-off between utilization and pricing.

MURAD AL-KATIB:

I think that there're a couple of things here. Like, you know, there've been some comments on the fact that our tonnes are down if you compare quarter 3 '11 to quarter 3 '12. I think we have to be clear on one thing, Steve, with the macroeconomic environment that's out there, and the working capital of net reduction initiatives, and the fact that this company has managed with our risk management platform is non-negotiable, we have actually scaled back sales programs in certain geographies as a result of credit liquidity and financial constraints of some importers.

You know, for instance, our European sales program into, Greece, Spain, Italy, Portugal, those types of areas, I can tell you we're being very selective on the clients that we are supporting at this point as a result of our concern over credit and the financial health of some of the importers.

So, you know, over time I think the interaction of price and utilization and margin is… as price increases, it returns a bit more confidence to the importer side. We're hedging our risks off anyway. We buy it, we sell it, we hedge the currency, we use the trade finance instrument. We're not large-scale speculators on the commodity price. But it will do is it will shake it out of the farmers' hands.

Farmers are holding tight today because you could sell your cereals and your oil seeds, right? Why would you sell your lentils at a low price when you're looking at that type of interaction? Buyers, when markets are stagnant and deflated, they make their money off of importing and distributing and taking positions on commodities.

So we think that price recovery that's coming will lead to more fluidity, more fluidity of demand for us, leads in our ability to select geographies that have a more positive margin profile. That's that pull-push that Robert was talking about on the other platform, applies to our traditional business too.

When we're pushing product into the markets, right, margins get constrained. When they're pulling product into the market because there's both demand and positive fundamentals, margins can recover.

Now, we're seeing that already. I mean, I can see with volumes down slightly, still the positive gross margin and EBITDA improvement, combined by margin improvement and cost reduction, is a very positive fundamental that we can take away as a building block for quarter 4 and quarter 1 of 2013. So we're quite, you know, pleased with that progress.

STEVE HANSEN:

That's great. That's helpful. And just a last one, if I may, is just quickly on the credit update, or the credit facility update. I know you're been working on more of a global facility. You have any timeline on stage of development there?

MURAD AL-KATIB:

Yeah, discussions are ongoing. You know, the facility… the current global syndication facility that is lead by Scotiabank with HSBC and Rabobank involved in a substantive manner. It expires April 30th of 2013, but it has a plus one year term-out feature. And so, you know, with that timing, I would expect resolution within the next eight to twelve weeks. So the process is ongoing and I'm very optimistic that we're going to get the consolidation of some global credits done, get them termed out, in terms of duration, fix up our emerging markets interest rate side. Because interest rates in emerging markets have been escalating.

STEVE HANSEN:

Sure.

MURAD AL-KATIB:

We need to use the strength of the AGT balance sheet to do credit replacement. So we're going to be moving credits up to the AGT level and we're going to be taking those interest savings directly into earnings per share.

STEVE HANSEN:

Care to quantify that or take a crack at it?

MURAD AL-KATIB:

Not at this point, Steve. But you'll start to see it coming up in 2013.

STEVE HANSEN:

Okay, fair enough. Thank you for your time.

OPERATOR:

There is a follow-up question from Marc Robinson of Cormark Securities. Please go ahead.

STEVE HANSEN:

Thanks. Just quickly, so the lentil export figures for the whole quarter we're in… and I think you sort of touched on this a little bit. I just want to get a little more clarity. They were up close to 19 per cent for the quarter and your volumes were down year over year, 8 per cent. There's usually been a pretty good correlation between your volumes and those lentil export figures. So any reason why there'd be a deviation this quarter? I'm just trying to better understand that.

GAETAN BOURASSA:

Well, from the Canadian side, our lentil exports actually were flat to normal market share. I think there're a few things. Our Australian operations maybe were a bit down in volume as were Turkish operations, just slightly down in sales.

And I think, on the lentil side itself, the number was really big to India. You must have noticed.

MARC ROBINSON:

Mm-hm.

GAETAN BOURASSA:

I think it was almost 100,000 tonnes of the 160,000 tonnes. And there was probably 2 to 5 bulk vessels in there, type of thing, with either a hatch of 5 to 10,000 tonnes of each one that would have boosted the number for that period.

MURAD AL-KATIB:

Yeah. So that number maybe won't be in necessarily a normal flow. But, you know, Marc, the number being down, I mean, if we look at it, Australia's in their last… you know, the end of their crop. If I look at the 2011 carry-in versus the 2012 carry-in in Australia, they had more product last year in this period than they had this year. So, you know, from that particular perspective our Australian numbers account for a big part of the reduction.

LORI IRELAND:

Yeah.

MURAD AL-KATIB:

And the Canadian business was actually quite strong. Now, the good news on that is that traditionally, the Turkish business is second half quarter 3, quarter 4, quarter 1, first half of quarter 2, that's kind of their three strongest quarters, in that half quarter and half quarter at the ends.

And so we saw good recovery in our Turkish platform, the end of the quarter, Canadian platforms improved and Australia was down. But Australia in quarter 4 we're going to see an improvement again. So, you know, the areas where we were down, it's just a seasonal thing, we'll be back up.

And then also I said the selectivity, we will not compromise our risk management program to go after short-term sales in markets and areas where we see there being undue credit risk.

So over time, some of our competitors may be keeping with their payment terms that they were doing before. We're tightening them up. We're not allowing full cash against documents in certain markets. We're saying 20 per cent cash advance, balance cash against documents. If you don't like it, go buy from our competitor. But, you know what, sooner or later they're going to be back at our door, asking to buy product on our terms, and we're seeing that happening

MARC ROBINSON:

Okay. Thanks.

OMER AL-KATIB:

And that brings us to the end of questions in the session. I'd like to thank everyone for joining us. I'd like to remind everyone that's still on the call if you have any follow-up questions, you can feel free to contact us at our Regina head office. We'd be more than happy to follow up with you.

As well, I'd just like to make one more note. AGT is planning an investor tour and a visit to our facilities in Mersin and Edirne in Turkey at the end of November. It's quite tight from a timing standpoint now, but if you are interested in participating, please do feel free to contact us at our office to discuss it as soon as possible.

So, again, thank you for attending our conference call and I wish you all a good day.