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Alliance Grain Traders
Fourth Quarter and Year End 2012 Financial Results Conference Call Transcript

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Speakers:

Murad Al-Katib
President and CEO

Lori Ireland
Chief Financial Officer

Gaetan Bourassa
Chief Operating Officer

Omer Al-Katib
Director, Corporate Affairs and Investor Relations

OPERATOR:

Welcome to the Alliance Grain Traders conference call which is being convened to present fourth quarter and year end 2012 financial results to shareholders. At this time, I would like to turn the conference over to Omer Al-Katib Director, Corporate Affairs and Investor Relations. Please go ahead.

OMER AL-KATIB:

Thank you. Good morning and thank you for joining us on our Fourth 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 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:

Thank you, Omer. Welcome to everyone on the call this morning.

The 2013 year has begun with continuing signals of recovery in pulses and staple food markets which we've been forecasting throughout 2012. However, this recovery is appearing at a slower rate than we believed would have been the case. We are optimistic that the recovery will continue, however, and with it bring normalization to global markets through the first half of 2013 and into the normal North American harvest period.

Consumption demand for our products—value-added pulses and staple foods—we believe remains strong in consumption markets. While import demand has been impaired in the short term, as is evidenced by the decreased export volumes from Canada, the U.S. and Australia throughout 2012, we are confident in our belief that demand normalization as a result of macroeconomic improvement in 2013 may bring the earnings recovery throughout the year that we have forecasted. This may result in local markets replenishing their estimated low or depleted market stocks, resulting in improved and more normalized business operations for AGT.

The macroeconomic headwinds seen in 2012 certainly have affected our markets and, therefore, our company, in a dramatic fashion in 2012. While we stated our opinion that staple foods were typically less affected by these types of macroeconomic issues, the 2012 year has demonstrated no sector in any aspect of the economy is immune to the economic impact of a truly global economy.

We feel our thesis though that capital flows to staple foods is still valid; however, the food sector will recover more quickly than other discretionary goods. As economic conditions improve with regard to currency volatility and credit liquidity, we expect to experience improvement in our activities, normalization in our business, and with it improvement in our earnings and our margins.

We've seen a positive trend in the past few quarters, with EBITDA and gross margins improving, along with reasonable volumes in terms of metric tonnes moving through our global facilities. We're certainly optimistic that the trends we have seen in the latter part of 2012 may continue, and with it improvements to our business, showing the earnings potential of our superior global asset base and what that base may deliver in terms of earnings, potentially seeing a return to more robust levels of growth and profitability.

I'd just like to call on Lori Ireland, our CFO, to give you a quick summary of our fourth quarter and year end 2012 results. Lori?

LORI IRELAND:

Thanks, Murad. Good morning, everyone.

For the past two quarters, we've been saying that AGT is continuing to focus on the implementation of cost-cutting initiatives and continued tracking of metrics for cash flow management down to the subsidiary level. This hasn't changed. Although we are pleased to see a gradual recovery in the sales gross margins, this doesn't mean we will take our eye off discretionary costs and the cash collection cycle. Our view of utilizing synergies across our global platform to create additional value for our shareholders has not changed.

We continue to see gradual profit improvement, as gross profit improved from $65.73 per tonne in quarter three of 2012 to $73.70 per tonne in quarter four and adjusted gross profit improved from $79.16 per tonne in quarter three to $85.37 per tonne in quarter four. Although the increase is small, it's moving in the right direction. We are, however, still experiencing some margin compression resulting from macroeconomic issues.

In addition, there was approximately $400,000 of margin impact relating to a major train derailment in South Australia which caused delays in shipping and resulted in sales discounts granted to our affected buyers.

One-time costs include costs incurred during the quarter relating to certain financing and legal expenses, stock-based option expense and approximately $1 million in total costs relating to the train derailment in South Australia I mentioned earlier.

Although accounts receivable increased to $183.2 million at December 31st compared to $171.5 million at December 31st, 2011, and compared to $178.6 million at September 30th, 2012, this is due to overall increased sales tonnes during the latter part of the year.

Inventory levels increased to $188.9 million at December 31st, 2012 compared to $183.3 million at December 31st, 2011, and increased when compared to $141.8 million at September 30th, 2012. The increase in inventory levels is the result of increased grain receipts during the quarter ended December 31st, 2012 at many of our AGT facilities, as well as inventory storage and grain bank programs. This inventory is anticipated by management to be converted to cash during the first quarter of 2013 and as a normal season increase in inventory, largely attributable to Australian harvest and inventory received for the late quarter surge in demand for January and February shipments experienced in Canada. While we are aware of investor awareness of increased working capital levels, this inventory increase is a positive sign of the resumption of demand forecast to improve in early 2013.

General and admin and marketing and sales and distribution costs are a combined $46.1 million for the year ended December 31st, 2012, compared to a combined $44.8 million for the year ended December 31st, 2011. Although the global footprint at AGT has grown when compared to the prior year, we feel that these costs have stayed in line as the result of our continuing programs aimed at cost savings initiatives. We saw an increase in the combined general and admin and marketing, sales and distribution costs in the fourth quarter as compared to the third quarter of 2012, largely as a result of one-time costs relating to the financing and to the derailment in Australia. In addition, AGT has additional legal and accounting services incurred during the fourth quarter.

Income tax expense for the quarter ended December 31st, 2012, was $1 million, an increase from $22,000 for the September 2012 quarter and was $4 million for the year ended December 31st, 2012, compared to $1.8 million for the year ended December 31st, 2011. Much of this increase is due to adjustments of inter-company advances receivables and AGT estimates that the overall corporate tax rate is in the range of 26 to 26.5% depending on the jurisdiction of earnings or losses each period.

Non-cash foreign exchange for the year ended December 31st, 2012, was a recovery of $4 million compared to an expense of $28.8 million last year, reflecting decreased volatility in the various currencies of which loans and receivables are denominated. Non-cash foreign exchange for the three months ended December 31st, 2012, was a recovery of $72,000 compared to a loss of $2.9 million for the three months ended September 2012.

We are pleased to report that, in January, AGT signed an agreement to increase and extend its syndicated credit facility. This agreement includes an aggregate amount of $270 million senior secured facilities and a $30 million accordion. The facility has an expiry date of January 24th, 2016, with an option to be extended for an additional year with the consent of the syndicate.

Also, in February, the Company closed an offering of senior secured second lien notes. These notes are due in five years. This agreement is for $125 million, with gross proceeds of $124,375,000. In addition to general corporate purposes, the proceeds have been used towards the retirement of high interest operating credits and has allowed us to de-risk our balance sheet by replacing short-term foreign subsidiary credits with a five-year facility and ensuring more interest rate certainty on our emerging markets operating credits, which has illustrated volatility in the past quarters with escalating interest costs.

AGT and its subsidiaries are in compliance with covenants at December 31st, 2012, and finally, dividends of $0.60 per share were paid out during 2012. Thank you.

MURAD AL-KATIB:

Thanks, Lori. We certainly feel positive with regards to the results we've been able to show during the difficult 2012 year. As a Company, we have undertaken many initiatives to strengthen our business in these difficult periods that we feel will benefit us greatly as and when conditions improve.

On the sales and merchandising side, most have traditionally looked to lentil exports to evaluate our business, but I can say that the diversification initiatives we have undertaken to add more products, like beans, chickpeas, milled wheat and pasta, have been increasingly successful to reduce our reliance on global lentil markets. We are focusing on new sales and distribution opportunities in markets we had considered secondary, or where our position was secondary, such as South America, the Caribbean and Southeast Asia. We now feel that these markets will show great growth potential for us in the future.

As we are developing new significant market presences in core markets, such as our planned entry into India with merchandising operations and potentially future processing there, and China, with our announced facility project in Tianjin, these activities spread our business over a number of products and locations. As markets improve, we feel that increased volumes of pulses and staple foods overall may have a positive impact on returning our capacity utilization incrementally to higher results. In our high fixed cost business, capacity utilization increases can positively affect our earnings and margins. And, of course, we continue to be focused on our core markets, like Turkey, the Middle East, and North Africa. We will continue to work towards making incremental margin gains in these markets as well. Strength in these regions is what keeps AGT strong in our business overall.

Our new pulse ingredient initiative, with our new facility in Minot, North Dakota commencing commissioning—in fact any day now—we expect will provide further benefit by augmenting and improving our whole and value-added pulses and staple food business by adding the ability to supply pulse ingredients, flours, proteins, fibres and starches. These products are attractive to food and feed companies producing branded products for retail and foodservice sale, as well as pet food and animal feed products to consumers around the globe: consumers demanding a high protein, high fibre, non-GMO vegetable protein source. We forecast these opportunities may be significant, and we feel as a Company we have taken the correct steps to set up and implement this business unit.

Our recently announced agreement with Cargill, a multi-year exclusive supply and marketing agreement for North American pulse proteins, demonstrates recognition by major ingredient and food companies that pulse ingredients can provide nutritional benefits, cost savings and product advantages to food, branded feed and pet food suppliers. This is certainly a position we have held for a long time.

However, lentils are still a big part of our core pulses and staple foods. Increases in lentil exports from Canada, the U.S. and Australia, as well as distribution into key markets in Turkey and the Middle East/North Africa region, as well as India and the Indian subcontinent, are still important components to our expected normalization of our business in 2013. Our market intelligence through our network of customers, agents and merchandisers tells us that, in most key markets for lentils, we estimate that stock levels are at low or depleted levels. Importers are continuing to buy “hand to mouth”, supplementing lower local production levels with just what they need to keep their own programs going. Decreasing production potential in Turkey, as well as reports of a poor harvest in India, both of these countries as significant domestic consumers as well as suppliers, is an important part of the normalization of stock and supply levels globally.

Rationalization of acres in Canada, as the largest exporter of lentils, and the U.S. and Australia as well, we expect may help to correct the supply/import demand imbalance that currently exists, as well as having a positive impact on our capacity utilization as global market activities increase. A return to approximate 2008 production and supply levels, we expect, may assist global markets to correct themselves with regards to price and import volumes.

Lowered production is not a bad thing for AGT. In fact, as we have consistently maintained, AGT requires only adequate production in its major operational origins, while production and supply would currently be more than ample. However, when May seeding in North America is viewed, it’s still a long way off and a lot can change in the period coming up.

Economic conditions in emerging markets are reported as improving. This steady and gradual improvement, as reported by the Institute of International Finance, a global association of major banks, is another sign of global “healing”, with trade finance improving. This is a hopeful signal for developing countries hit hard by Eurozone recession and financial turmoil. As the consumption regions begin to fuel their low or depleted market stocks, in part aided by these economic improvements, we expect that we will draw down the high carry-in stocks and, in the medium term, this will assist in returning margins and volumes to more normalized levels, having, we expect, a positive impact on AGT's earnings.

The next significant event in global pulse markets is India, and from market reports we receive as well as the media, conditions look, in our estimation, to be impaired in the current rabi season as they were in the kharif season before, when the monsoon rains were deemed deficient. I was just in India in the past few weeks with our COO, Gaetan, and conditions there were actually wet for this type of year, with significant rainfalls reported just prior to the harvest periods, which may have the further effect of decreasing already reduced pulse production. Reports in the media of heavy rains in northern regions may have that effect of affecting the production in India, and available stocks within Canada and Australia, with its new crop, coupled with the potential for high imports to the region, are positive developments for the pulse sector and AGT's forecasted recovery in 2013.

As a management team, we've been focused on initiatives aimed at cost reduction, operational efficiencies and prudent capital expenditure management. This is included in our programs towards balance sheet initiatives, including working capital management and increasing inventory and receivable turn targets for all our global management, thereby shortening our cash cycle. With this, we are optimistic that debt issued to finance working capital may be reduced as a percentage of revenues, and operational efficiencies may be gained as our business flows normalize, along with global pulse and staple foods markets. We do anticipate debt levels to normalize in 2013 with these initiatives.

As our business grows, we believe our strategy to ensure the correct level and type of debt will allow us to maintain a healthy balance sheet to fund our growth and expansions from free cash flow, additional debt or equity as required. We're pleased to have completed both the recently-announced $300 million senior secured credit facility and the $125 million senior second lien notes. Viewed together, our credit financing provides AGT with additional certainty on our balance sheet for both duration and interest rates. Access to capital, we feel, is an important strategic advantage for our company over our competitors.

Along with access to capital, strength in markets and a diverse asset base are essential components of the success of what we have built over the years and what we hope to enjoy as global staple food and ingredient markets continue their recovery in 2013. These steps were critical in building the advantages and opportunities that we have in our sector. We've taken the steps. We are now ready to show the earnings power of our asset base. As markets normalize, we're confident in our ability to execute the strategy, and we will demonstrate the earnings potential of our assets by increasing our utilization in our global system, providing for the improved margins and earnings.

I thank you for your interest in Alliance Grain Traders, and I'm going to open it up for questions.

OMER AL-KATIB:

Operator, can we go to questions?

OPERATOR:

Certainly, sir. The first question today is from Jacob Bout of CIBC. Please go ahead.

JACOB BOUT:

Good morning. A question on asset utilization: you made a few qualitative comments here about things are improving, but just help us out, what the improvement has been like in 2012 and expectations into 2013 from a numeric perspective, and maybe if you can talk a little bit—or differentiate between Canada and Turkey?

MURAD AL-KATIB:

Okay, let me take that question for the first part. To comment on 2012, looking at utilization over October and November, utilization kept going at levels quite equivalent to the quarter three period, where we reported to be running around 52 to 53% utilization. So really quite sluggish in terms of demand, Jacob, for traditionally a higher seasonal period of quarter four, and so while we started to see margin improvement in late 20—late quarter three, into quarter four, it was kind of business as usual but nothing stellar, that's for sure, and the export stats show that.

But, you know, at some point, we have to continue to make decisions about utilization of our assets versus strategies to improve margins, and we actually did take the conscious decision to hold back a little bit in terms of our desire to deliver product in at those margin levels, and towards the end of November to early December, we started to see demand improvement. So we started to see with the Australian harvest starting and India starting to recognize that the crop potential there was actually potentially impaired, we started to see activity, Jacob, towards the end of the year. So if we look at our December utilization, I'd say we certainly had an improvement in the last, say, two to three weeks of December and I think that the positive thing was that we were able to actually put sales on in that period for the first quarter.

And so I would say—Gaetan, do we have a sense of the utilization in quarter four still running around that…

GAETAN BOURASSA:
Right around that, yeah.

MURAD AL-KATIB:
52, 53—so we would have finished, again, significantly under-utilized in the Canadian platform in particular. The Australian platform, of course, was also quite under-utilized because the harvest didn't come until end of November-December, and the Turkish asset base actually had a good utilization period. The pasta continues to run at, relatively speaking, Jacob, full utilization and the pulses business continues its efforts on diversification, expanding the chickpea and bean platforms and the split yellow peas and other products outside of the red lentil platform. So I would suggest the Turkish utilization was up slightly, Canadian was stable, but we started to see some very positive signs for quarter one.

We're expecting the 2013 utilization to build back up to two-thirds utilization by mid-year, and then we've been quite clear with our targets to increase utilization by a minimum of 3% per annum over the course of a five-year cycle to get our assets up to full utilization by the end of a five-year plan, just providing that organic earnings growth just from the utilization of our platform that we've currently built.

Now, part of that capacity utilization boost may be the conversion of assets into the food ingredient platform in 2014 and 2015. We'll have to see how that all goes as a part of the rollout of that strategy.

JACOB BOUT:

And if you don't see that improvement of the asset utilization, at what point do you start talking about rationalization of some of these assets in Western Canada?

MURAD AL-KATIB:

You know what, Jacob? When I can sit down with you as an analyst or as a significant investor and have a discussion about the fact that I would consider that the macroeconomic headwinds were manageable and there is still a significant under-utilization of my asset base, I'm not prepared to consider that. I believe strongly in our ability to get our assets back up, utilized in 2013, and I believe strongly that we'll have the ability to show that each asset was added for a specific processing or a freight or locational advantage and that when we get each of those assets running to its utilization—you know, you just look at the—in your model, if you look at each percentage of utilization, considering the high fixed cost component nature of our business, there's a very significant contribution to earnings of every percentage boost.

So we're still confident that that will happen and, frankly, instead of rationalization, I believe the more likely outcome, Jacob, is conversion of capacity into lines of business that are showing growth, and so that's where we're really focused today.

OPERATOR:

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

CHRISTINE HEALY:

Thanks. Hi, guys. I have a question on your revenue breakdown. Pretty healthy revenue for the quarter, but I notice that there was a significant increase in the sales of rice and other commodities and your miscellaneous, so that line item there is about $60 million in sales, which is about four times what it's averaged over the last couple of years. Maybe, can you give us some colour just as to why there is such growth in Q4, if this is, you know, rice, you're ramping up and—just whether or not this is—

MURAD AL-KATIB:

I can answer that. The rice, other commodities and miscellaneous is where we end up segmenting out some of the traded tonnes. So there are some very significant activities going on in the United Nations and governmental tendering sectors related to the North Africa post-crisis programs and the current Middle East refugee programs. So we expect that these revenues on the supply of items, basic commodity items—we're doing our regular tenders of lentils and pasta and rice, but we're also doing participation of different commodities like sugar, and we're also involved now with the United Nations program, on what they call Family Parcels. So we're actually assembling Family Parcels for aid programs which actually contain lentils, sugar, tea, salt, wheat flour, vegetable oil, tomato paste. So, we're actually assembling these Family Packs and we're delivering them to the Syrian refugee—or the Turkish side of the refugee camps for the United Nations for the Syrian refugees that are displaced as a part of the crisis. So, you know, these are good business opportunities as a result of a very sad and critical political event. So we expect those to continue into 2013, but that's the main reason for the boost, is large-scale tenders in other commodity items.

CHRISTINE HEALY:

Okay, and that wasn't there in past quarters, or was it and it was just reported in a different segment?

MURAD AL-KATIB:

No, it wasn't there. These are new business initiatives. You know, we always said that as a part of Arab Spring and as a part of the political unrest—in 2011 and '12, we had earnings effect of those political crises, which were the currency instabilities in the region, port disruptions in places like Egypt and other Middle Eastern destinations, but at some point, you know—you'll recall my anecdotal views—in order to build civil society and institutions, people must have full tummies, and so there would be food demand that would be a part of any post-crisis conflict program that would provide significant opportunities for the Turkish platform. We're starting to see that and we expect that to continue in '13 and '14.

OPERATOR:

The next question comes from Mark Robinson of Cormark. Please go ahead.

MARK ROBINSON:

Good morning. Yes, my question actually related to that. I notice you changed your trading and distribution business, the name, to supply chain management and distribution, and that's fine, but I also notice that there's been a material decline in the margin per tonne notwithstanding a material increase in the volumes. So is that because of this same issue that Christine just talked about, trading related revenue that—

MURAD AL-KATIB:

Yes, Mark, there's two components to that supply management and distribution. One is Poortmans and Advance Seed. Those are literally focused more on origination: bring it into a supply position, supply it into high-end retail food ingredient-type companies. The other side of what we do on that is things like the Family Parcel, United Nations. That, again, is originating products from different sources, including our own factories, and assembling them into Family Packs and putting them into tenders. Those types would have a lower margin.

Now, that being said, I want to caution all of you as analysts, we only reported you one quarter of these as a part of the segment and we did it only to increase the speed at which you would have comparative financial figures. So when we released one quarter, you know, some of the analysts jumped on the fact that we had a $160 a tonne margin in that segment. I think I'd really encourage you to look at a 12-month cycle and form your expectations. We believe that the normalized margins—because some of these tenders aren't going to be reoccurring all the time and they're higher volume and potentially some lower margin, although, those tenders, the money turns very quickly, right, so it's all about turning our capital, too. So if we can take a United Nations tender, assemble and deliver it, we get paid within two weeks, and no risk, so we like those types of operations.

The margin profile of that segment will likely be somewhere between the third quarter and the fourth quarter reporting. So I don't think it's going to be normalized as low as the fourth quarter, I don't think it's going to be as high as the third quarter, but, again, every quarter, you're going to have more data, and by the time you get to third quarter you'll have a Q/year-over-Q/year comparison and a Q-over-Q comparison, so that'll give you a much more meaningful basis from which to interpret data.

OPERATOR:

Our next question comes from John Chu of AltaCorp Capital. Please go ahead.

JOHN CHU:

Good morning, guys. Just related to the utilization focus that you're having here, I noticed that in the MD&A there's talk about potentially going into soybeans, cereal grains, oil seeds and what not. Can you kind of elaborate on that in terms of timing, costs, presumably using the existing asset base, and what that might mean for margins?

MURAD AL-KATIB:

Yes, I think the first part of that question, there is little to no incremental cost of utilizing our asset base for cereals, for oil seeds and for soybeans. The soybean one, we have to react to the fact that there were almost no soybean acres in Saskatchewan in 2010, but by 2013, there's a forecast there could be up to 50,000 tonnes available in southeast Saskatchewan. Now, we happen to have facilities that are actually gentle-handling facilities for our chickpea program and our green lentil programs that actually could be put into soybean processing for the higher end markets in Asia. The same thing with the cereals—I mean, with the Wheat Board coming down, just as a utilization initiative, we could do containerized cereals into specialty millers, and southeast Asia, again, is our focus: Indonesia, Thailand, Malaysia, the Philippines, Vietnam, those areas, and it complements, John, our initiative in Australia, to look at Australian containerized wheat programs. So while they're there and we mention them, they're part of the options that exist for us to boost the utilization of our asset base. That being said, I think it would be much more likely—our goal is to increase beans, chickpeas, right, and other higher value, fava beans and other higher value items that are in our current major product range.

Now, interestingly, when we look at product mix, we did the analysis for year-end—one of the things that many of you look at, and I think it's a very important point for our analysts, many of you think of lentils as the main part, and if I look at—when I became a public company lentils were 85 percent of my total book of products. In 2013, we forecast it to be around 35 percent of our total book of products. Now, if I look at what we've done in a very margin-constrained period, is we have built markets, facilities that are ready to rock and roll on chickpeas, beans and other value-added pulses that are not the lentil platform, that showed the volatility in 2012. I think that's very, very positive.

OPERATOR:

The next question comes from Anoop Prihar of GMP Securities.

ANOOP PRIHAR:

Hey, good morning. I just want to come back to the segmented disclosure you provided in the MD&A. So if I look at the EBITDA per tonne on the pulse and grain side, it was up about 50 percent, but if I look at it on the supply chain management, I mean, it was down precipitously. So are you telling me that the decrease on the supply chain management, on the EBITDA per ton, which went from $72 down to below $3.00, is all due to the fact that you're now doing refugee programs?

MURAD AL-KATIB:

No, no, no, no, absolutely not, no. There's a—Lori, do you want to make the first comment on that?

LORI IRELAND:

Yes, I guess there's a couple of things: in quarter three, we made some assumptions on how we're going to do some cost allocations and we looked at that again in quarter four. I think there is some attributable to the refugee program, but as well, we have some different allocations of general and admin, and things like that, that have moved between the segments in quarter four.

MURAD AL-KATIB:

Yeah, Anoop, listen, we have to be realistic here. Quarter three was the first quarter we ever did the segmented, okay, and as we roll it out, you know—we rolled it out to have comparative data—as we continue to refine the cost allocation, what I can tell you is that looking at quarter three, all the earnings we reported are accurate, but when we segment it out, we believe that when we look at the cost allocation model, that we may have under-allocated costs into that supply chain management.

I'll give you an example. If the trading and distribution business of Arbel in Russia, Ukraine refugee programs, trading tender business for the governments is in that segment, then a portion of Arbel's corporate overhead need to be allocated to that segment as well.

So over the course of this coming period, we're refining the cost allocations into those segments. I think that what you need to do, as I said earlier, is—it's not as high as quarter three, it's not as low as quarter four, you want to model it—

LORI IRELAND

Look at the—I would say look at the—

MURAD AL-KATIB:

You look at the year to date, right, the year-to-date number, on page 15 of this printed version of our MD&A. It shows the supply chain management at gross profit of $88, adjusted gross profit at $90, and EBITDA per metric tonne at $33. So that gives you a good indication of that business.

Now, this shouldn't surprise you, and it did surprise some of the analysts which, of course, just took one quarter of data and made some conclusions. We are not utilizing our assets in this supply chain management and distribution. So, while we believe it's going to be a very interesting segment to continue to build, we still believe that our strongest margins are going to be in the segments in which we utilize our assets over time.

OPERATOR:

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

ROBERT WINSLOW:

Good morning. Can you hear me?

MURAD AL-KATIB:

Yes, I can, Robert.

ROBERT WINSLOW:

Great. Murad, I just want to follow up on your opening comments here about the emerging markets and a lot of the countries out there, you believe the stocks are diminished, and I believe you're probably right, we've seen that for a couple of quarters now, and so there's going to be a replenishment period, kind of a catch-up, but at the end of the day—and maybe I'm misinterpreting what you're saying. I think in the MD&A, you used the words "hand to mouth." If that's true, doesn't that imply that consumption, or at least imports in these parts of the world are matching consumption, so technically, that's the run rate level of consumption and therefore the run rate level of throughput we should expect to see at your facilities, excluding what might be a period of catch-up to fill up the depleted stocks around the world. Am I looking at that correctly or am I misinterpreting you?

MURAD AL-KATIB:

Well, there's two aspects to that. I mean, one aspect is that, yes, there needs to be a catch-up to have the sustainable level of stocks in the market to be able to have a normalized functioning market. You know, Robert, in markets like India, the consumer consumes what is available in the wholesale markets. So the fact that lentils, let's say, haven't been imported doesn't mean that consumption isn't there if the product is available. So what we're looking at on a go-forward basis is: we expect that Indian, Turkish, and other areas, are going to continue a stable to declining local production and a heightened level of import. So from that perspective, we expect that the utilization of our assets will boost over time back to those more normalized levels.

So, while I was using the words “hand to mouth” in the MD&A, that was describing the prior periods. I mean, they were buying only what they required to be able to— well, “required” isn’t even the right word—only what their risk appetite was willing to accept in a declining commodity price market in an unhedgeable commodity. Now, we believe that consumption actually came down not because of the consumption coming down, but because of product availability in the markets.

We go consistently into market—we sit down with an importer in Dubai and we say, “Well, what’s the demand like?” and he says, “Oh, there’s no demand today.” And yet you to say to him, “Hey, if I had 20 containers, 500 tonnes of Laird lentils sitting in the warehouse here today, at this price, could you sell it?” and he says, “Well, absolutely I could sell it.” So really, what you’re saying then is that your risk tolerance for import means you don’t have the demand for import. It doesn’t mean there’s not a consumption demand for that product if it’s available in the market.

Now, as currencies have become more stable and as the markets are continuing to have legs in terms of activity, we’re starting to see regular forward buying to facilitate orderly distribution in the markets. That’s where we see “normalization” of the business coming back in.

Now, oversupply has that tendency, Robert. When you look at global S&D, we were at around 3 million tonnes in 2008, up to 5 million tonnes by 2010, and if you look at forecast S&Ds back in 2013, we’ll be back somewhere around 3 million tonnes again. So 2 million tonnes of production out of the market, that’s a big overhang. So for investors to understand, if there’s a stock you’re trying to sell or buy in the stock market, if there’s a big overhang the price comes down. The same with lentil stocks: if there’s a big overhang, prices come down, there’s no more overhang.

OPERATOR:

The next question is a follow-up from Christine Healy of Scotiabank. Please go ahead.

CHRISTINE HEALY:

Thanks. I think the next question is for Lori. I just want to get a sense for what your balance sheet will look like in the first quarter. Can you give us just some detail on how much of your credit line you've paid down with the proceeds from your senior notes and what remaining cap ex for Minot was left in Q1-- and maybe, Murad, you can talk about your strategic cap ex plans for the remainder of the year?

LORI IRELAND:

Yes, I think, in terms of our balance sheet, we've got about 5 million or so to go to complete the Minot project that you'll see in quarter one. We don't have a huge amount of cap ex other than that in quarter one. We have paid down—with the proceeds of the high yield notes, we paid down approximately 40 million of our operating credits, and as well, in January-February—I don't obviously have March results yet—but we've seen our receivables turning quite well, a lot of cash collections. So I'm anticipating that we're going to see a definite improvement in our receivable and inventory levels in quarter one.

MURAD AL-KATIB:

Now, on a net debt basis, remember the transaction that we did, the $300 million syndication, has multiple tranches available depending on what we're using it for. So we have the $150 million revolving borrowing base facility, which is our working capital facility; we have a $90 million term debt financing, which finished Minot—largely finished Minot and refinanced all the long-term debt; and then we have a $30 million cap ex, you know, growth cap ex line that can be utilized for cap ex projects, if we choose to, in the next three years under the committed program. The $125 million retired all of the debts in Turkey. So, you know, all of the operating credits, with the exception of a couple of those short-term financings that we have, the avalized drafts…

LORI IRELAND:

Yes, you'll still see those in quarter one on the balance sheet, just because of the due dates of them.

MURAD AL-KATIB:

Yeah, the due dates, they're due in quarter two and quarter three, so when they're due, they'll be paid off, as well, so the cash proceeds are there. So this was a debt replacement exercise, Christine, to ensure that we had term-out on our debt and interest rate certainty, because, in particular, our Turkish credits cost of debt was escalating dramatically and we didn't want to be subject to that volatility. So we expect, you know, good strong results on our debt management going into '13.

OPERATOR:

The next question is a follow-up from Anoop Prihar from GMP Securities. Please go ahead.

ANOOP PRIHAR:

Yes, just a two-part question. First of all, what is your total cap ex budget for 2013? And then second of all, in your earlier comments, Murad, I think you had said you would expect debt levels to normalize over the course of 2013. Can you give us some context for how we go about clarifying that comment?

MURAD AL-KATIB:

Okay, yes. Anoop, thanks for helping me to remember the second part of the last question, because cap ex was a very important thing. I want to just ensure everybody unequivocally understands there will not be a resumption of large-scale cap ex until our earnings improve and until we're in a position to fund those largely from free cash flow. So we will continue in 2013 to look at the reinvestment of our depreciation amounts in the maintenance of our existing infrastructure. So that, you know, depreciation figure—can one of you guys help me out, roughly? Have we got a rough figure?

LORI IRELAND:

Annually: 12 million a year annual.

MURAD AL-KATIB:

So it's 12 million a year annual, and that's spread, Anoop, between—part of it, which would be consider to be maintenance cap ex and part of it is—if we look at the 12 million depreciation, sorry, our cap ex budget won't all be maintenance at 12 million. We're looking at portion of that depreciation reinvestment as maintenance cap ex and then there will be small-scale asset improvements to improve our earnings potential related to some of our assets.

So if I look at 2013, I would anticipate cap ex budget to be around $10 million for the entire year, and that includes the 5 million to complete Minot, if we choose to expand the lines. So line one will be commissioning— in fact, I think they may have started motors yesterday on the plant, so we're pretty much on schedule on that, and we can add line two and line three, depending on the ramp-up of our sales program in the Cargill agreement, and then we're looking at small-scale improvements. For instance, I can tell you that our marketing program on our high quality chickpeas and bean programs, we are at full capacity utilization today on those programs as a result of this diversification initiative to bring our lentil platform down, and we may need to spend some small amounts to improve our capacity in some of those areas. So this is all positive stuff but I expect that to continue out through '13.

Normalization of debt levels, you know, if you calculate out, our target will be to reduce—any of our foreign operation, the cash cycle should reduce to below 100 days. So this includes the total inventory time dwell, so inventory period plus the receivable period should be less than 100 days, and in certain jurisdictions, like Canada, where we have a different system where they have on-farm storage, we should be in a position to reduce that to around 75 days. So those are the type of initiatives—could even be quicker than that, but anyway, we'll set targets.

Anoop, incremental targets at each sub-level have been established. They're now measurable and bonuses will be allocated on the country manager's ability to meet those targets, thereby returning capital into AGT to pay down debt, which can then be re-advanced to be opportunistic around the world. That's the plan of the refinancing and the plan of the working capital management.

Now again, part of the normalization of working capital is normalized demand. We need to be able to seasonally bump up like you saw in quarter four. Don't take the quarter four buildup as anything but a positive sign that we were building up for the sales program in Jan/Feb/March. So Australian harvest came, demand was robust, so we're starting to see improved demand conditions. We need product in the right spots to be able to deliver that demand.

OPERATOR:
The next question is a follow-up from Robert Winslow of National Bank Financial. Please go ahead.

ROBERT WINSLOW:
Hi, Murad. I'm going to ask this question. I suspect you're not going to want to answer it, but I'm going to ask it anyway. A few years ago, we talked about the prospects given your platform to drive towards $100 million of EBITDA, and, obviously, we had an extraordinary event happen globally and no one could prepare for that, but today, I look at consensus on 2014, so two years out: it's around $70 million of EBITDA. Is that a number you're comfortable with given the platform you have today and what you see ahead of you over the next two years? Thank you.

MURAD AL-KATIB:
Leave it to Robert Winslow to ask that question. So, Robert, I will make one comment. As you know, we don't give earnings guidance; however, I was never one to be uncomfortable with the $90 million consensus that you guys had collectively back in 2010, and so when I look at the earnings power of the platform in which we have built, we are comfortable that there will be a

gradual recovery in margin and that there has not been a fundamental shift in the consumption and demand and supply side of our industry.

Now, I can tell you that what I like about our position in ’14, ’15 and ’16 is the clues that I’ve given you all now related to this diversification initiative that we executed. You know, we talked about chickpeas and beans and pasta and durum wheat, bulgur and rice and all these other things we’ve been doing, but for me to come out and say we expect it to be around 35% lentils of our business in ’14—in ’13-’14 shows you that we’ve achieved the diversification; we’re quite optimistic about our earnings potential. Food ingredients is also going to be a platform to watch in the rollout in Q2 and beyond, so really we’ll—by Q3, we hope to be fully rolling in that platform and we’re very excited about that new area that I think will become a very meaningful part of our business.

OPERATOR:

The next question is a follow-up from Jacob Bout of CIBC. Please go ahead.

JACOB BOUT:

Yeah, can you just provide a little colour here on the contribution you’re expecting from the North Dakota plant? You talked a little a bit about line one you think being up shortly, and maybe what the incremental will be with additional lines, both from a revenue perspective but also from an EBITDA contribution.

MURAD AL-KATIB:

Well, I think could take the first part of that, Jacob. I mean, you know, we’ve—we’re expecting, with three lines of capacity, the capacity of that plant will be somewhere around 115,000 tonnes, so 100 to 120,000, in that range. And if you look at the revenue side of this business, it’ll likely be somewhere in the range—at full, you know, ramp up, if we can achieve that in ’14, we’d be looking at somewhere in the range of probably around $75 million in revenue. And the earnings profile, all we’ve been able to say is that as that platform becomes material, we are planning the potential of a rollout of a segment so that you can track those earnings separately and you’ll be able to understand that and our branded pasta business together as a different margin profile than our current segment of pulses and grain.

What I can tell you is, is that we expect it to be the highest margin profile, followed by our pulses and grains, followed by our supply chain management and distribution.

OPERATOR:

Our last question today comes from John Chu of AltaCorp Capital. Please go ahead.

JOHN CHU:

Hi, Murad. Just wanted to follow up on this diversification strategy on both the product side and on focusing more on—in South America and Southeast Asia. Can you comment about how this might impact the marketing and distribution-related cost and what that might do to your inventory levels as well? I'm assuming, well both—we'll see them both go up as you roll out those strategies going forward?

GAETAN BOURASSA:

Yeah. This is Gaetan here. We won't see a major difference in the inventory levels because we just moved from one commodity to the other, so that's a part of our diversification strategy. It wasn't…

MURAD AL-KATIB:

Second part is marketing, sales and distribution cost.

GAETAN BOURASSA:

Yeah, and again, the cost won't change neither because, globally, our distribution channels are set with the same buyers globally and the same distribution channels.

MURAD AL-KATIB:

I mean, John, we're definitely attempting to look at—when demand is more normalized, our model is simple: it's what we just term as a capacity utilization model, where what we're trying to do is, in 108 countries around the world, we are skimming the opportunities that fit our asset base and our product mix. Now, when there is no demand, you have to force product in to make cash flow to cover your high fixed costs. When there is demand, you pick and choose markets.

Now if you want to understand this better, John, go back and look at the historical geographic distribution of our sales and you'll see wild swings in the geography, which actually shows our strength of our global distribution platform, where if India's not demanding, in 2011, for instance, I think it was, our India sales one quarter went down to $15 million; our regional sales went down to $18 million. The next year in the same period, it was like $100 million. So we can move around the world and you'll see the Middle East/North Africa as our main region where we can ramp up sales if we have to, but our ideal is to be more diversified across all of them. South America is a market that demands regularly, and Gaetan and some of his staff have been in market much more frequently in markets like Mexico, Columbia, Venezuela, Chile, Argentina. These are the markets that we think have very strong potential for growth for us.

OMER AL-KATIB:

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

Again, thanks for attending our conference call and I wish you all a good day.

OPERATOR:

Ladies and gentlemen, this concludes today's conference call. You may now disconnect your lines. Thank you for joining and have a pleasant day.