From Producer to the World

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Alliance Grain Traders
Second Quarter 2013 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:

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

OMER AL-KATIB:

Thank you. Good afternoon and thank you for joining us on our Second Quarter 2013 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. I'd like to thank you all for joining us on an August summer day for our conference call.

This quarter continued the positive trends we've seen in the sector in our business for the past few quarters with signals continuing to point to the ongoing normalization of pulses and staple foods markets.

In this quarter, we saw buying activities from India and Turkey in a very non-traditional period, after the March/April Indian harvest and before the May/June harvest in Turkey, pointing to short supplies in these regional consumption and distribution markets and the need that appears to exist for the supply of the quality non-GMO, nutrient dense, gluten-free vegetable protein to these regions.

North America, Canada in particular, has been in a good position to supply these markets in advance of new crop supply from the surplus stocks being carried in from past harvests. The higher than expected import volumes in the period appears to have acted as a demand catalyst for the sector overall; this has positively impacted our earnings in this quarter with higher margins and greater metric tonnes invoiced in our pulses and grains segment when compared to the same period in 2012.

While our Company is working on diversification of our business from a concentration on lentils to increase the quantities of other pulses, staple foods and ingredients we handle through our system, lentil markets currently are still a very important one for our business.

Through erosion of the current surplus supplies, we expect a continued—however gradual—recovery in global lentil margins that may continue to positively impact our earnings as the relative balance of supply and demand is achieved and margin improvements over time are expected and realized.

Supply and demand have been out of sync for some time, with the low or depleted local market stocks, our network of agents, merchandisers and customers have indicated in their local markets going unfilled in the normal manner as markets were hit with successive global economic strife and political unrest. As the global economy has improved and stabilized, importers have begun to buy this, and this has contributed to the relative balancing of supply positions going forward.

Regarding North American supply, harvest is shaping up positively with good conditions prior to harvest. Saskatchewan government reports are indicating good-to-excellent crop quality with some areas on Western Canada and the Northern Tier states already in the field desiccating or even some at the start of harvesting. Customers in consumption markets are receiving this information with optimism. We expect new crop product to begin delivering to our facilities within the next few weeks. Harvest is expected with good quality and ample quantity to continue our sales programs in the upcoming traditional shipment periods.

Overall these increasingly positive conditions, we expect, may have positive outcome and impact on our business and therefore our future earnings.

I want to turn things over to our CFO, Lori Ireland, for some comments on our second quarter results. Lori.

Lori Ireland:
Thanks Murad. We're pleased to report that the quarter ended June 30th, 2013 showed an improvement in gross profit, adjusted gross profit and EBITDA per tonne when comparing this quarter to both the prior quarter and to the same quarter last year. Although there was an overall reduction in invoiced tonnes, EBITDA improved a $13.9 million for the quarter ended June 30th, 2013 compared to $13.6 million for the quarter ended March 31st, 2013 and compared to $9.3 million for the quarter ended June 30th, 2012.

The two reporting segments show a relatively consistent gross profit and EBITDA per tonne when comparing the quarter ended June 30, 2013 to the quarter ended March 31, 2013. This consistency is reporting in a quarter which has shown seasonal weakness in past years. It is important to note that the consolidated margin data is inclusive of all tonnes transacted on an intercompany basis. There was in excess of 65,000 tonnes shipped between AGT subsidiaries during the quarter. Overall results for the quarter ended June 30th, 2013 showed a 12% improvement in EBITDA and gross margin per tonne when compared to the quarter ended March 31, 2013.

We saw an overall reduction in the combined general and administrative and marketing sales and distribution expense in the amount of $464,000 when comparing the quarter ended June 30th, 2013 to the previous quarter. In addition, marketing, sales and distribution expense was slightly lower in the six month period ended June 30th, 2013 compared to the same period last year. We feel that cost savings initiatives have allowed this expense to remain consistent in spite of the fact that tonnes invoiced for this period increased by 23%. General and administrative expense increased in the six month period ended June 30th, 2013 when compared to the same period last year, and this is due to growth in regions including India, China and Russia.

Finance expense increased in the quarter ended June 30, 2013 when compared to the same period last year due to a larger global platform and therefore larger debt levels. Finance expense increased when compared to the quarter ended March 31st, 2013 due to the high yield notes that were issued in February of this year.

Non-cash foreign exchange includes a snapshot of outstanding foreign denominated accounts receivable and accounts payable, as well as outstanding foreign exchange contracts and includes the contract related to the high yield bonds. The strengthening of the U.S. dollar at June 30th, 2013 resulted in unrealized foreign exchange losses when revaluing these derivative contracts. Note that this is a non-cash item and it will fluctuate depending on the strength of the U.S. dollar when compared to the Canadian dollar. Adjusted earnings per share were $0.25 and $0.24 fully diluted. This shows a significant improvement over $0.02 basic and fully diluted for the quarter ended June 30th, 2012.

I wanted to note the adjusted earnings-per-share number, as it is important for our investors and analysts to track this number, as it is reported exclusive of the non-cash foreign exchange effects of our global business. Early on in our reporting as a public company we decided to ensure that these effects were clearly stripped out of our results. Inclusion of both gains and losses that result from snapshot non-cash IFRS effects do not accurately reflect the cash flow generating ability of our business.

Net debt was $296.1 million at June 30th, 2013 compared to $319.1 million at March 31st, 2013 and compared to $267.2 million at December 31st, 2012. The decrease in net debt of $22.9 million when comparing to March 31st, 2013 is a result of decreased bank indebtedness resulting from the collection of accounts receivable and lower inventory levels. An increase in property, plant and equipment, mainly related to the completion of the Minot facility, also affected the net debt total as of June 30th, 2013. Metrics continue to be calculated for each facility and performance targets are being tied to inventory and accounts receivable turns.

Both accounts receivable days outstanding and inventory days outstanding improved when comparing to the year ended December 31st, 2012 and to the quarter ended June 30th, 2012. Accounts receivable days outstanding decreased to 69 days for the quarter ended June 30th, 2013 compared to 76 days for the year ended December 31st, 2012 and compared to 74 days for the quarter ended June 30th, 2012. Inventory days decreased to 73 days for the quarter ended June 30th, 2013 compared to 86 days for the year ended December 31st, 2012 and compared to 80 days for the quarter ended June 30th, 2012.

Management will continue to monitor these metrics by subsidiary and we would like to continue to see improvements in these numbers. Murad.

MURAD AL-KATIB:

Thank you, Lori. As Lori indicated, there are many positive trends in our business that are resulting from the management initiatives implemented over the past few quarters. As a Management team we'll continue this focus, which we feel will assist in growing our new platforms, with pulse ingredients leading the way on this. However, expanding pulses as a stable food product and geographical offerings, as well as retail business, are also part of this strategy. Overall we see these developments as positive for our Company and providing the solid base for our next phase of growth.

Regarding diversification, the most significant development in recent periods for our Company is the commissioning of new AGT food ingredient facility in Minot, North Dakota, producing pulses flours, protein, starches and fibres, and our new research and innovation centre in Saskatoon, Saskatchewan. This platform provides great opportunity to produce ingredients derived from pulses that major food companies seeking non-GMO, gluten free, non-soy, low allergen, high protein, high fibre ingredients are interested in as well as new products through our growing retail and packaged food segment.

This is attractive business for AGT, both as a final stage and value-added processing of pulses, but also because food companies may be less susceptible to volatility and commodity markets as the products and ingredients they require are year-round and at potentially higher relative values. This type of business may certainly assist AGT in providing more predictable earnings that are smooth throughout the year, as well as providing insulation from potential commodity cycles and macroeconomic volatility that may bring volatility to our earnings in the future.

Before we go to questions, I'd like to add that as a Company, we've worked hard at putting in place the type of controls and risk mitigation programs to allow us to move through difficult market periods that we are emerging from. With markets returning to normalized flow of products, the potential for a return to traditional margins and earnings levels is anticipated.

We planned to couple these expanded new business lines to our traditional businesses so that they may provide new opportunities for sales, earnings, synergies and margin growth in future periods. We continue to be focused on the core competency and strength of our business, which includes the strength of our Management team, the geographic diversification of our asset base, our global reach for sales and distribution to virtually all pulse consumption markets around the globe. These strengths combined with a clearly defined and executed risk management program and adequate access to capital in a capital-constrained global market provides us with the optimistic view we have regarding our ability to grow our business and strengthen our shareholder value in the long term. I thank you for your interest in AGT, and Omer will open it up for Q&A.

Omer Al-Katib:
Operator, if we'll go to the first question…

Operator:
Thank you. The first question today comes from Steve Hansen of Raymond James. Please go ahead.

Steve Hansen:
Good morning everyone. Murad, it does strike me that the commissioning of Minot marks a whole new chapter in exciting growth aspect to your business and certainly helps with the cyclicality. I just wanted to go back and ask, if you can give us a sense, of what the business could ultimately contribute over the next year or two, recognizing that you've got the ability to pull the trigger on some expansion options and potentially conversion options over the next year.

Murad Al-Katib:

I think, Steve, we're certainly focused on getting the Minot facility ramped up on the first line of protection. So as we've indicated before, the infrastructure for the Minot, North Dakota facility was built for roughly around 100 to 110,000 tonnes of capacity. But on the true what we call fractionation, so the ability to separate the protein, starch and fibre into its components, the first line capability is around 35,000 tonnes. That's installed, it's commissioning, and we had our first commercial sales shipped out of the plant on the 20th of June, so right at the end of the second quarter. So, you know, that's really our focus at this point. As we ramp up the sales under both the Cargill agreement for pet food, animal feed ingredients, and aquaculture, we'll also be, of course, complementing that with AGT's own marketing initiatives for those products outside of North America, but of course more importantly for us long-term is the development of the food sector opportunities for our high viscosity flours, our protein concentrates and our fibre and fibre-purified ingredients.

So, you know, our focus, Steve, in terms of the impact is to get line one running, to be in a position to announce line two and line three expansions. To be, we hope, commissioning in 2014 and then from there we're going to look at the opportunity to convert surplus capacity in both Canada and Turkey into the food ingredient platform. So we end up in a position where we actually get what I would consider to be a double effect of this initiative. One is move us up value, insulate us from the macroeconomic type of volatility that we've seen in our traditional markets, move us up value in terms of margin and utilize open capacity.

So if you subscribe to the view that AGT is a high fixed cost component business, this strategy is going to have a fairly major impact on earnings going forward. We remain very optimistic in our ability to commercialize; of course, the marketing is going to be the key element of this. You know, I'm happy to report to the market that our product that is shipping is meeting spec, so we're having continued initiatives on optimization of production, but I would expect that by the end of the third quarter, we should be in full production on that first line and we'll be looking at moving on expansions there.

In terms of giving you any guidance on the real earnings side of it. Steve, we'll start to report a segment for you guys—I believe we may do it in quarter three or certainly by quarter four—we are looking at the introduction of a third operating segment, so you're going to have full P & L data there. So you'll be able to track that as it goes ahead.

Steve Hansen:

Okay, very helpful. Thank you.

Operator:

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

Christine Healy:

Hi, guys.

Lori Ireland:

Hi.

Murad Al-Katib:

Hi, Christine.

Christine Healy:

Hi, this is for Murad or maybe Gaetan. I'm looking for some colour and just industry conditions that you've seen so far in Q3. There's been some industry articles talking about pulse imports declining, giving increase supply and the depreciation of currency in several of the key markets, including India. Also, I've seen some reports of some shipment defaults. Can you talk about what you're seeing there, if it's had any impact on your business, when you expect these conditions to normalize?

Murad Al-Katib:

You know what, Christine, I think I would make the first comment as currencies, once again in the third quarter, devalued fairly quickly, but we have seen a bit of reprieve in terms of a bit of re-strengthening and retrenching of some of the currencies. So in terms of the slowdown in the imports that we've seen in the third quarter, I think that the one thing we cannot lose sight of is that in March, April, May, June and even into July, the demand and the exports that we did see were actually in a non-traditional period of consumption. So from that perspective, we're in a position where I think that the bit of reduction—everybody's talking about the currency and all this slowdown, but it's a predictable slowdown. Now, where we see consumption returning back to normal is in the traditional shipping period of September, October, November, December, January, February. We cannot forget that pulses are largely a seasonal winter consumption, that when the temperatures start to come down, pulse consumption goes up as a result of the fact that it is staple protein and, you know, the dishes in which it's consumed, where it be lentil soup or stews or casserole types, are hot dishes that are consumed in lower-temperature environments.

So in terms of the defaults and things like that, this is not an uncommon phenomenon that we see. I keep talking about it quarter after quarter after quarter that risk management is a major element of AGT's strategy, and I can tell you that, yes, there have been reports of significant defaults and other things from markets where currencies were very volatile. What I can tell you is that, as a result of the fact that we have a very tight-knit group of clients and various established risk management programs, we see no material effect on our business.

So that's, again, one of the core competency strengths, I think that we're building, is our ability, you know, in 2012, in a macroeconomic hangover year, for us to be claims-free on our Export Development Canada insurance policy on our receivables, is an extraordinary thing for my Management team and I was very, very proud of that. So we managed to get over those risks, Christine.

Christine Healy:
Great. Thank you.

Operator:
The next question comes from Steven Aldridge of BMO Nesbitt Burns. Please go ahead.

Steven Aldridge:

Good morning, everybody. You mentioned earlier about retail trade. I was wondering how AGT gets involved in retail trade.

Murad Al-Katib:

Well Steven, the retail segment for us is largely focused on our Arbella pasta business, so we're currently exporting and selling in the retail our branded Arbella pasta in 83 countries around the world. Now, in addition to that opportunity, we are actually developing out the packaging and retail distribution business in southern Africa. So when we acquire the Advance Seed platform, we actually have a division of Advance Seed called Pouyoukas Foods, and that division is packaging for Woolworth's, Marks and Spencer, for Pick and Pay, so a number of well-known southern Africa retail chains. We do private label and our branded distribution of pulses and of bulgur wheat, couscous, spice blends and those types. We see that as a segment that I think will continue to grow over time as we move higher up the value chain, we'll be looking at further opportunities for taking our products more into the consumer base.

Steven Aldridge:

Will you be doing that in North America as well?

Murad Al-Katib:

We're always looking at opportunities. At this point in North America, we focused much more on supplying the packagers and canners. So if you look at the major suppliers of almost all of the major packagers in North America, we would be among their main suppliers. At this point we haven't taken a step further. Can't say we won't. But we'll continue to build point of sale opportunities to ensure our product gets as close as it can to the consumer. If that strategy is to partner with a packager who’s packaging for Wal-Mart, we'll do that. If it ends up being packaging for Wal-Mart ourselves in the future, we'll look at that. At this point we haven't made that step in North America.

Steven Aldridge:

Okay, thank you.

Operator:

The next question is from Anoop Prihar from GMP Securities.

Anoop Prihar:

Good afternoon. I'm just trying to understand the role of Minot a little better. Line one is up and running. You have the ability to put two more lines in there. I'm curious to know, what are the metrics you're going to be tracking as you decide when to put lines two and three in and specifically what levels associated with those metrics sort of signal to you a go versus no-go decision?

Murad Al-Katib:

I can tell you, Anoop, that the ramp-up of line one has begun. As I said earlier in my comments I would have hoped that by the end of quarter three—so by the end of September I'll be able to make comments related to the fact that we're running it at optimal production, and the go/no-go is—the initial sales and the initial margins are very positive. And so the go/no-go is, I can tell you with quite a bit of certainty that we expect to go. The question is when, because I don't need to build the second line until the first line is committed. So when we announce the go on line two and line three is because, number one, we're meeting the specification of our production. So the commercially available equipment that we needed as the final pieces of the production are delivering both their desired separation ability of protein, fibre and starch. Secondly, we're getting the yield we expected. Thirdly, the sales program is delivering both the sales and the margins that we expected. So we need more capacity to keep moving along on the sales program.

Now, the strategy was clearly to sign the Cargill agreement to generate volume and cash flow in the ramp-up period to develop the food opportunities in the food industry. And so that's going to take a bit more time, and so as a result of that, I think it's the right strategy to get a volume partner like Cargill to be moving volume through the system while we ramp-up the rest of the platform. The go/no-go on line two and line three, we'll have much clearer picture of that in the coming quarter. And with about a three-month lead time to get equipment installed, we'll need to make that decision to be ready for 2014, where we hope to be at full production in Minot for all three lines.

Anoop Prihar:

Is it your expectation right now that Cargill will be involved in some of the volume that you'll put through in lines two and three?

Murad Al-Katib:

Yes, absolutely. I mean we expect that the pet food, branded feed ingredients and agriculture sectors are a tremendous opportunity, as is the non-traditional food industry, meaning the human food opportunities. So we would hope to see those two opportunities basically accounting for about—at the beginning you'll likely see the pet food branded feed ingredient and aquaculture sector accounting for 60 to 70% of the volume and then declining down to a 50/50 share as we ramp-up this platform globally. We can't also forget that the pet food branded feed ingredient and aquaculture sectors outside of North America are not under the exclusive purview of Cargill under the agreement. We are working on opportunities with Cargill but we're also working on opportunities with others and directly with manufacturers in other geographies. So we see that as a continued growth opportunity.

Operator:

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

John Chu:

Good afternoon. I don't want to beat this to death here, but I still want to focus on the Minot industry opportunity that’s there. I'm just trying to understand—maybe just taking back off of Anoop’s question here, about just what gets us to food? Is there going to be an announcement prior to the expansion into food that there is an agreement, that there's been some sort of volume locked up for that or some sort of uptick of some sort? Again, may, could just you talk about what your expectations are for margins for feed versus—sorry for food versus feed and pet and whatnot?

Murad Al-Katib:

I'm going to take that question in two parts. First of all, the food opportunity is already here. We're shipping—parts of the first productions that we shipped were outside of the Cargill agreement into the food industry. We see a very strong opportunity emerging in the semolinas and protein concentrate fibres and high viscosity flours. You will not see necessarily the type of exclusive agreement like we saw with Cargill on the pet food side. I mean, you have to understand, the food marketing side is going to be targeted very much more on what I call a closed loop revenue stream, where we'll be having agreements with food companies related to specific ingredient blend supplies related to commercialization that they're doing. So you may be working with a leading breakfast cereal company who is looking at launching a cereal that contains a pulse ingredient as a protein or fibre fortifier.

Just as an example, if that happens, you know that agreement won't be necessarily one where you're announcing publicly the contents of those agreements. John, where you're going to see it is, we're going to give you a clear segment disclosure. So you're going to be able to see as we ramp-up lines, we're going to announce the lines. The lines that are being ramped up are going to be the indicator that the sales program is moving along and you're actually going to see sales, full P & L disclosure on the segment, and you're going to be able to track the margins as they unfold.

So I can tell you with a fair amount of confidence, this will be the focus of our global growth strategy. The food ingredient segment is the natural extension of using the platform that we spent the last decade building. So I think that a very important element of this strategy is to recognize this is not something new. This is what we built the platform for in the first place. I can tell you, when I started this company at the beginning and the founding Management team came together, it wasn't to build a commodity company that was going to compete on the lowest cost level of protein in India with the global grain handling companies. It was to build an origination of processing platform in our own asset base, global distribution and move it up value over time. And so, you know, from that perspective, there's a big impact to this. The profitability we've set is going to be a more attractive margin profile than our current business and it's going to be susceptible to different risk factors than our current business, which is currency sensitive, it is liquidity sensitive, as is all business, but at the same time I like the fact that North America, Western Europe and certain Asian markets are really not—you know, their demand for these ingredients is not tied to whether or not India or Turkey has good crops. We like that. We like the fact that we can take that and develop it.

In terms of earnings impact, John, I'm not in a position to give that guidance, but again, I keep reiterating, the disclosure is going to be there, that over time you're going to be able to model it and I think it's gonna be quite intriguing.

John Chu:
Murad, the food ingredient that you're shipping, is that testing or is that more actual sales?

Murad Al-Katib:
They're sales as well, absolutely. I mean, it's not just testing. The testing, you know, some of the testing stuff that's going on, that's ongoing, but we actually have large household name food-cos that are starting to buy ingredients right away. So it's--and this is, again, John, it's the fruit of two years of ramping up a facility. I mean, we had test production built in our Williston, North Dakota plant putting out 4-500 tonnes of ingredients that we were test marketing with. We had people taking sample quantities. So that when we started to ramp up, we had sales from the first day. And so we're quite pleased with the response so far.

John Chu:
All right, thanks, Murad.

Operator:
As a reminder, anyone who has a question may press star and one at this time.

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

Steve Hansen:

Yes, actually two follow-ups, if I may. One is; can you give us a sense for the cost for, I suppose the initial expansions, and probably more importantly the conversion opportunities that you have in Canada, just rough numbers?

Murad Al-Katib:

Yeah, I don't have those exact figures yet, Steve. What I can tell you is that we spent—I think we've kind of said publicly if we spent somewhere between 25 and $27 million on the Minot facility to build all of the infrastructure; to triple the capacity, it would cost us 7 or 8 million more. So you could see that you have a very heavy infrastructure outlay at the beginning, and that's normally what you would expect, buildings, storage site works, cleaning, splitting, all of that, colour sorting equipment all is put in for the full capacity and you add the fine milling, kind of value-added equipment as you ramp-up capacity. We expect the cost of conversion to be—again, I could give you just a gut feel estimate, would be somewhere between 50 and 60% of a Greenfield, and that would be based on—that's a bit of an educated guess, but I'm just thinking in my head, Steve. I don't have to build the buildings. All the storage, all the receiving systems, you know, we're actually going to take surplus capacity and convert it, or we're going to take capacity that's in a low margin use and convert it to higher margin use. We expect that cost to be more cost effective than the Greenfield.

Maybe you raise a question in your head, why didn't we do that at the beginning instead of building Greenfield? We still believe that a U.S. manufacturing facility located where we could source Canadian and U.S. product, so for those of you sitting in Toronto and other places, from the area of the southwest and southeast of Saskatchewan to Minot, North Dakota is about 170 kilometres; from the southeast of Saskatchewan to Regina is about 220 kilometres. So it's a plant that is well located for capturing both U.S. product and Canadian product, and more importantly, that U.S. food ingredient companies we felt would be more accepting of a U.S.-manufactured ingredient for the first phase because they had no border issues, no FDA issues, no approval issues. U.S. ingredients in the U.S. food products, that's our target. That's why we did what we did.

Steve Hansen:

That stands to reason. Just a last one, if I may, there have been several inaccurate accounts of some of the major integrated players in the pulse sector, I guess, particularly on the trading side, stepping back in recent months from their operations. I'm wondering if that presents an opportunity for you or if it’s sort of a neutral effect—I guess I’m speaking of the southern hemisphere in particular?

Murad Al-Katib:

Yes I mean, there's been moves by—with this global consolidation with Cargill taking out assets in Australia, with ADM taking out assets in Australia, with Glencore buying Viterra, we're starting to see what we characterize as a predictable effect. The predictable effect is that the bulk grain handling companies focus on bulk grains. The specialty grain companies focus on specialties. So the opportunity is there because we've already built our core competency. We have assets. We have processing capacity in a place like Australia to react to what we expect to be the norm in the future, which is that pulses will be segregated in storage, pulses will be processed, and pulses will be traded based on characteristic. So from that perspective, we're seeing this, you know, rational, you know, exit of the bulk grain companies as a part of their strategy, and what it presents for us is an opportunity to utilize unutilized assets, and we hope over time get paid properly for the value-added differentiation that we make through our investments. So we hope over time it will lead to a margin improvement.

Operator:

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

Robert Winslow:

Hi, Murad. Just curious, looking back historically back to 2010 and '11, your overall margins, a different part of the cycle, but you were able to get upwards of 12% gross margin, and that's a with lentil prices anywhere from $0.24 to $0.28 cents a pound. Should we look at that as a potential driver of margin expansion for you as well? You say that in your words, but I want to be very direct here. If the lentil price is expanded in the next 6 to 12 months back towards $0.24

cents and higher, could we see you get back, all else equal, to close 12%, well maybe not, 10 to 12% gross margin range?

Murad Al-Katib:

You know what, Robert, I have to remind you that when you look at your commodity cycle in '10, in 2009 the commodity prices were actually up to $0.54 a pound for lentils. So by 2010 and into '11, prices were actually declining substantially period over period. So even in a period of declining prices, we were generating 12% gross margins. Now, what I can tell you is that one of the really encouraging things from this quarter is an overall increase from, I think—what was it Lori? 8.2 to 9.5?

Lori Ireland:

Something in that range.

Murad Al-Katib:

Somewhere around—up from the low 8s to the 9.5 on the gross profit side this quarter, Robert, in a quarter where you see seasonal weakness in margin, actually. So with all of that, gradual improvement, absolutely our target is to get back to margin levels that we saw late in '10 and into '11, and in fact we were looking at that, if you look at the comparative MD&A table, the quarter of September of 2011—I think it’s the last table in that., I was looking at it this morning. And on that table you've got adjusted gross profits three months ended Sept. 30th, 2011, were $89.42 adjusted gross profit per metric tonne, but we're back to $79.88. We went all the way down to $61. So we have started to see a gradual improvement and our target is to get back to pre-supply disruption, which was September of 2010, and pre-February-March 2011 financial crisis, where we started to see Arab Spring and the financial crisis follow. Those were crisis periods where margins constrained.

And I want to actually point out something else, Robert. I think the biggest effect on margins wasn't the price trend, but it was really dramatic oversupply. When I talk about the S&D, the supply and demand coming back in the balance, track out the acres. By 2009 we were around, you know, 3.5 million tonnes of lentils in the world. This is from my memory. Do we have the figures somewhere there? What are the figures?

Yes, so the chart here, we've got about 2008 and ‘09, production was around 2.9 million tonnes. By 2009-10, you were at 4 million; by 2010-11, up to 4.7 million; 2011 back to 4 million; 2012 back down to 3.6 million. And this year, if you look at estimates according to Stats Canada and others, we should be somewhere around 3 million tonnes again. So when you look at that production going from 3 million all the way up to 4.7 million tonnes and then coming back down to 3 million, the key figure in that whole thing on margin constraint was macroeconomic strength, of course, but also this overhang. I mean, look at the crop year 2012. We had around—somewhere estimates are up to 800,000 tonnes of carry out stock. That's a massive carry out. Now the good news is, in a non-traditional period, Feb, March, April, May, June, July, India and everybody else took product. So the relative S&D is back in balance now. We've got to have a show-stopping sale where product got liquidated, even if the margins weren't the best. It bodes better for future margins, Robert.

Operator:

There are no more questions at this time. I would now like to turn the call back over to Mr. Omer Al-Katib for closing comments.

Omer Al-Katib:

Thank you, Operator. I would like to thank you for joining us and I'd like to remind anyone still on the call, if you have 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. So again, thank you for attending our conference call and I wish you a good day.

Operator:

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