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Alliance Grain Traders
Fourth Quarter and Year-End 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, Operator. Good morning and thank you for joining us on our Fourth Quarter and Year-End 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 AL-KATIB:

Thank you, Omer. Thank you everyone for joining our conference call today.

The current year has been a positive one with respect to a return to healthy market conditions and the type of earnings and results we believe AGT is capable of through the past few years where our business was affected by many macro-environmental issues globally.

The positive results we are reporting today are certainly in part are a result of initiatives we have undertaken as a Management team to operate a more efficient business focused on working capital and cost management. These initiatives provide an opportunity to maximize earnings in a high fixed cost environment and in a market for our core legacy business that has struggled through supply demand imbalances.

These conditions provided a framework to implement many of the programs we are now benefiting from, positively impacting on our earnings. As well, the diversification initiatives, particularly those in our new Food Ingredient and Packaged Foods segment—one that we feel will become the future of AGT—appear to be showing great promise.

We expect this segment will be transformational to our business and positively complement our core legacy business in pulses and staple foods commodities.

I'd like to share with you some of the things we are excited about in our business and some of the things we are certainly monitoring with respect to market and economic conditions; however, first I would like to ask our CFO, Lori Ireland, to share with you an overview of our Q4 and Year-end 2013 results. Lori?

LORI IRELAND:

Thank you. Hello, I would like to focus on a couple of key items. This quarter, AGT has begun reporting three segments, being Pulses and Grain Processing; Trading and Distribution and our newest segment, Food Ingredients and Packaged Foods. We are pleased to report that this segment showed adjusted gross profit of $121.06 per metric tonne and EBITDA of $90.77 per metric tonne for the quarter ended December 31, 2013. AGT is in the final stages of commissioning the 2nd line in our Minot, North Dakota facility and product shipments are going as expected.

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 relating to the high yield bond as well. Note that this is a non-cash item and will fluctuate depending on the strength or weakness of foreign currencies when compared to the Canadian dollar. When you look at the Statement of Comprehensive Income, you will see two foreign currency numbers: $27.6 million relates to the mark-to-market adjustment on accounts receivable, accounts payable and intercompany balances. The other comprehensive loss of $14.8 million relates to the foreign exchange differences on our foreign investments. AGT has a treasury processes in place to ensure that the need to purchase foreign currencies to settle debt will be minimized if it will result in realized losses on foreign exchange.

Adjusted earnings per share were $1.09 basic and $1.08 fully diluted. This is an improvement over adjusted earnings per share of $0.28 basic and fully diluted for the year ended December 31, 2012.

I wanted to remind our investors and analysts that AGT tracks adjusted earnings per share 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. General and administration and marketing sales and distribution expenses have increased over the prior year due to the increased global platform and increased volumes. For example, AGT has expanded operations to include sales offices in Russia, Ukraine, India and China. In addition, the food ingredient segment has ramped up and additional research and development staff have been added. The general and administrative expenses for the quarter ended December 31, 2013 includes costs associated with a private placement as well as market development costs and accounts receivable allowances.

Although inventory and trade accounts receivable values increased in absolute dollars, we consider this to be a positive indicator. Demand is strong in the majority of AGT's subsidiaries. Inventory and accounts receivable turns decreased for the year ended December 31, 2013 when compared to the year ended December 31, 2012. Trade accounts receivable days outstanding decreased from 68 days in 2012 to 52 days in 2013 and inventory days outstanding decreased from 86 days in 2012 to 74 days in 2013 for a total of 126 days in 2013 compared to 154 days in 2012, a decrease of 28 days year-over-year.

Net debt decreased from $319.6 million at September 30, 2013 to $318.5 million and increased compared to $267.2 million at December 31, 2012. Continued monitoring and improvements in inventory and accounts receivable turns have allowed AGT to decrease the level of net debt from September 2013 through accounts receivable and inventory increased as a result of growth of the Company.

Metrics continue to be calculated for each facility and performance targets are being tied to inventory and accounts receivable turns at each plant and country operations level. We feel that continued focus on cash collection will help AGT decrease net debt. Thank you.

MURAD AL-KATIB:

As you can see from our results, we're really seeing the impact of the trend towards normalized conditions we've spoken about for some time. Exports from Canada to key markets like India, Turkey and the Middle East have been strong throughout the year to record levels in some cases. We expect strong performance and exports in the traditional shipping period in 2014 which may be viewed as evidence for the normalization of the pulse markets globally. With supply and demand coming back into balance, we expect our legacy Pulses and Grain Processing and Trading and Distribution segments to continue positive earnings contributions to AGT. As well, many of the metrics we have focused on in the past few quarters are also demonstrating positive impacts on our business, as Lori discussed.

Margins and volumes in these segments are tracking as we expect and this is positively impacting our global capacity utilization in our traditional processing operation. As I have mentioned, in high fixed cost environments, incremental increases in capacity and utilization can have a significant impact on AGT's earnings.

We have been watching volatility with respect to currencies closely; however, our risk management programs provide us with mechanisms to deal with this in our export business and operations. As well, we are optimistic that recently announced legislative remedies by the Government of Canada will assist in clearing the grain transportation system backlogs and return shipping to normalized seasonal flows. We are further optimistic that a rapid resolution will be found with respect to the strike by truckers at the Port of Vancouver, certainly an important port for grain and commodity shipments from Canada.

The early successes in our Food Ingredient and Packaged Food segment is a significant development for AGT as we transform our Company with a rollout of this new segment. This segment is being driven particularly by our Minot facility producing pulses, flours, proteins, starches and fibres. Sales programs in these areas are tracking as per our expectations and our margins have been focused currently on protein and fibre sales. These are particularly driven by our marketing agreement with Cargill; however, also more broadly in the global human food, pet food and animal feed and aquaculture markets as customers focus on the positive non-GMO, gluten-free, high fibre, high protein, environmentally sustainable ingredient characteristics that pulses ingredients provide for their applications and formulations.

Starch and high viscosity flour sale volumes are also being sold as well, allowing AGT to offer a full line of pulse ingredient food and feed ingredients for companies in their search of new novel ingredients.

Our sales approach for all of our food ingredient products has been simple: target food and feed companies with ingredients that offer advantages to their business in terms of functionality, cost or another advantage potentially related to allergens or other types of utilizations; ensure the facility capacity to produce them is in place with capacity expansion tied to sales results and customer demand; grow the business opportunities through collaborative R&D programs, such as those underway at our R&D Centre in Saskatoon, Saskatchewan. This approach has resulted in many cases of test sales and application research leading to conversion of test quantities for products into real commercial sales and volumes.

The expansion in Minot is expected to be fully completed for line two expansion by the end of this month, with commercial production currently underway. The added capacity in Minot is important to grow our business, as it is needed to continue to expand our sales program, both with Cargill and through our own sales programs aimed at global industry and the global food industry.

We have begun the process of evaluation of line three installation. We will continue this in 2014. Based on our sales program success, we plan to look further out at capacity conversions in Canada, the US and Turkey to ensure that our capacity remains on pace with customer demand and sales opportunities.

Conversion advantages provide opportunity to commission capacity with lower capital costs and a shorter time-to-market. As well, conversion of some of the capacity in these locations will positively impact AGT's overall utilization, which, given the high fixed cost nature of our business, can have incremental earnings benefit as scale and utilization targets are reached.

The second component to our expanded Food Ingredient and Packaged Foods segment is our AGT CLIC retail operations, formed from our earlier acquisition of assets from CLIC International, a major Canadian ethnic and traditional retail food packager and canner and retail and food service distributor. For some time we have operated successful retail brands and distribution in Turkey, Europe, Middle East-North Africa and Southern Africa.

For example, our Arbella pasta brand, we estimate may be one of the most widely distributed brands of pasta in global markets, being sold in over 85 countries and a leader in the Turkish domestic market based on available market data. We have products that are also widely distributed at retail throughout Southern Africa and our Arbel brand of rice, pulses and bulgur are being distributed throughout Turkey, Central Asia and the Middle East.

Expanding this business in North America provides many benefits and opportunities for the packaging and distribution of what had been categorized as ethnic foods: the lentils, peas, chickpeas and beans we sell to markets every day. But these same products are becoming more and more mainstream as consumers are increasingly focused on the non-GMO, high protein, high fibre, gluten-free characteristics that make pulses unique.

In addition to the focus on our pulse products in our retail canned and packaged foods business, opportunities to introduce and distribute other products that we produce in our global platform, such as bulgur wheat, rice, popcorn and other products to North American consumers using CLIC as a distribution platform may exist and expanded presence in both the retail and food service sectors will add opportunities.

CLIC has retail listings with some of the largest Canadian retailers and some of the best-known food service outlets. Opportunities for private label packaging and canning certainly exist as well. Overall this business shows great potential for growth.

Additionally, as key consumption locations globally for our traditional products move from small local markets to mass retail groceries, we are increasingly being asked to ship to export markets not in the large bags we have traditionally used, but rather in smaller retail and wholesale type packages ready for grocery store shelves in the same way we do in North America and Europe. This may fundamentally change our core legacy business as well as create more opportunity with regards to margins.

The customers in both of these platforms, food ingredient and packaged foods, are highly specialized and appear to be less susceptible to the cyclical patterns in the global commodity business. Overall, the focus on this area and particularly these expansions and acquisitions accelerates our growth in this segment to expand and build on the success we've enjoyed in food ingredients and our pasta and other retail businesses globally.

Our focus in this area comes not only for our desire to expand, but also to support the initiatives to diversify our business, utilize our origination and processing strengths, increase our capacity utilization and ultimately smooth our earnings throughout the year.

With addition of our new lines of business, we are optimistic about our ability to create new sales and revenue opportunities while leveraging our strengths which we may feel assist in maintaining a healthy and more predictable earnings profile generating free cash flow to fund our growth, reduce our debt and provide value to our shareholders.

I thank you for your interest in AGT and I'll turn it back over for questions.

OMER AL-KATIB:

Operator, I think we'll take the first question.

OPERATOR:

The first question today comes from Jacob Bout of CIBC, please go ahead.

JACOB BOUT:

Good afternoon. The question here is on the pulse and grain processing margin and they're down here in the fourth quarter, I'm just hoping you can give us a sense here of how we should be thinking about—you made the comment that Australia was quite weak, there's some issues there, but maybe give us an idea how Canada and Turkey and Australia played out to get that to that blended number of EBITDA per metric ton of $37.90.

MURAD AL-KATIB:

Well I think a couple of points, Jacob. First thing is, of course we're now in a transitional quarter where we've reported to you a Pulses and Grain Processing segment which actually has the pulse ingredients and the pasta and the value-added pulse side moved out into the new segment called Packaged Food and Food Ingredients. So when you're looking at a quarter for legacy business Pulse and Grain Processing number, you can't compare it to quarter one, two, and three, necessarily in the same realm because it's not a blended number with all of them.

LORI IRELAND:

If we look at the year-to-date number, that would be more reflective at $62.51.

MURAD AL-KATIB:

Yes, exactly. But getting back to the general side of it, we saw margins in the segment improving in the North American operation towards the end of the quarter. I think that we saw positive tracking of margin as it became apparent that there were potential risks on the Indian crop harvest in March-April and there was a strong normalized demand in Turkey, North Africa, Middle East as a result of United Nations programs and other activities in that region. So what we expect is we're seeing Australia trending in a positive direction year-over-year, so their crop harvest in November-December was average and we're seeing operations there tracking quite positively.

One of the things in Australia that we're seeing as a benefit is—this is why we like global origin diversification. With the transport problems in the Canadian market in late December, January, and February, Australia is actually stepping in with an opportunity to fill quicker delivery into the Indian subcontinent on products and commodities, creating some margin opportunity.

So I'm optimistic that margin tracking in our legacy business, we're going to see an improvement in quarter one, quarter two of 2014 and we expect utilization to keep running fairly high. I mentioned the transport issues, the rail backlog and the container strike. We're concerned about them but we're optimistic that a beautiful, sunny day in Saskatchewan today is just what the doctor ordered to help to move trains and get product moving.

OPERATOR:

The next question comes from Alex Palivan of Scotiabank, please go ahead.

ALEX PALIVAN:

Hi, just furthermore on the rail issues in Canada. Would it be possible for you to quantify your financial impact in Q1 and are you taking measures to mitigate that impact?

MURAD AL-KATIB:

Alex, first off, your question about Q1, I can't really give you any guidance on Q1. There will certainly be an effect on a Q1—if you're looking at a Q4 quantitative impact on what the rail backlog started in, say, end of November, December, I'd probably say somewhere in the range of about 1.5 to 2 million dollars of earnings impact. Some of that will be caught up in quarter one, but really quarter one's been constrained. We're seeing more normalization, though, we're optimistic towards the end of March here and into April that these delays are going to be mitigated. As I said, to you, weather is a big issue where with the exceptionally cold winter across the country—so this wasn't just a Western Canadian issue—trains run at reduced capacities below minus 20 degrees Celsius. So from that perspective, we're seeing some normalization.

In terms of what we've done to mitigate, we're using all the gateways: we have cargo moving to Montreal, we have cargo moving out of Halifax, Vancouver, and we have product shipped into the U.S., utilizing U.S. ports of Seattle, Tacoma, and we're expecting an active program using Montreal, Thunder Bay and others going forward as well. So we're using all operations, containers, intermodals, rail cars to keep the factories running at the best of our ability.

OPERATOR:
The next question comes from Steve Hansen of Raymond James. Please go ahead.

STEVE HANSEN:
Good morning, everyone. It's pretty encouraging to see the ramp-up in Minot going well. But I was hoping, Murad, you could comment a little bit more on differentiated demand you might be seeing in proteins and fibres versus starches and flours and whether that difference might be some of—is that one of the key gating factors in terms of pursuing the expansions at a quicker pace, or is it something else that's keeping you from pushing it a bit more aggressively?

MURAD AL-KATIB:
Well Steve, as you're familiar with it, a guy who’s been studying this ingredient business, it is essential for us to market all of the components that we produce. So protein demand, fibre demand has been very strong, margins have been tracking as we expect. You know, our biggest concern in the ramp-up from line one to line two was how do we sell all of the starch products and the flour products that are derived from the protein and the fibre extraction. I can tell you I'm very pleased to report that all of our starch products that are high viscosity flours—as we call it, V-6000—is moving, and so we have sales commitments that are moving out that production as it's being produced. That's a point of optimism for us.

The efforts now are to develop alternative uses for the starch by-products that are in a higher value than maybe the current uses, so if we're using it in feed and pet food and some food applications now, how do we develop more meat analog, bakery applications, batters and breading applications, dairy applications, so that we can ensure we're using—extruded snacks is another great area where we see great promise. The pace of ramp-up is really reliant on our ability to convert these application developments into sales and we're seeing some really positive partnerships emerge. So I'm optimistic that we'll get line two running here. It's running. We'll try and ramp it up on the pace we did on the last one so three, four, five months we hope to get it ramped up and then we'll continue on with line three expansions and start to look at conversions in 2015.

OPERATOR:

The next question comes from Marc Robinson of Cormark Securities.

MARC ROBINSON:

Hi, good morning, good afternoon. In your segmented results in the financial statements, you provide some data on the new segments and then what the segments would have been had you not done this new segmentation. Hopefully that's not too complicated. But what I'm trying to get to here is, in the Pulses and Grain Processing, is the only difference between *what would have been* and what *was* disclosed the pasta business?

MURAD AL-KATIB:

Yeah. Lori you want to start on that? So really your question, Marc, if I can simplify it, is that when we reported what it would have been, it's really the old segment against the old segment?

MARC ROBINSON:

You've got a category that says what it would have been and then you show what it is. And the difference—I'm curious as to what is the difference, the pasta business? Is that the only thing that came out of Pulses and Grain Processing?

MURAD AL-KATIB:

Yes, that's right, the only thing that came out was—that's right. The only thing that came out was the pasta, yes, that's correct.

MARC ROBINSON:

Okay, and then in Trading and Distribution, the difference—the only difference is South Africa and the new Minot facility, is that right?

MURAD AL-KATIB:

That's right.

MARC ROBINSON:

OK, that's it, thanks.

OPERATOR:

The next question comes from Vitale Savitsky of Canaccord Genuity. Please go ahead.

VITALI SAVITSKY:

Thank you. Hello everyone. I've just got two questions here. The reverse on gross margin you realize adjusted of 8.5% in Q4. That's as you capitalize on some of the trading opportunities. Did you have any of those opportunities in Q1 and how do you see this evolving in 2014?

MURAD AL-KATIB:

Yes, I mean, now Trading and Distribution is certainly something that we continue to see within our platform. We expect it to continue. Probably not necessarily in the magnitude that we saw in quarter four, so there were a few specific opportunities that we took advantage of related to marketing our core products versus a large governmental contract in pasta, came along with a contract in sugar that we executed successfully in quarter four. So that will be in and out opportunistically, Vitali, as we see the opportunity.

You know, one of the things, as we ramp-up the traded tonnes and the Trading and Distribution platform, is we do end up in a way skewing that gross margin percentage in that we are doing a larger handle. We have a very short cash collection cycle so it's positive dollar contribution but it may, in fact, reduce our overall consolidated gross margin by a percentage when you look at the revenue growth versus the gross margin growth. So I think that as we continue to disclose the three segments, you're going to have much more meaningful ability to calculate your gross profit percentages by segment to track those versus the consolidated.

OPERATOR:

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

JOHN CHU:

Good afternoon. Couple questions here. You quantified the impact that the rail had in Western Canada. Can you kind of quantify the impact that Australia had then for the segment and also Williston?

MURAD AL-KATIB:

Yes, I think that to give you an idea, Australia was in a position where—again, and this isn't necessarily uncommon, John, where you get into a fourth quarter, and depending on the position of their crop in New South Wales and South Australia, the timing of that, whether it comes in early October, end October, November, end December, depending on the timing of the harvest, affects how much goes into our quarter four versus quarter one. We did see a little bit later of harvest season this year. So the overall utilization of our Australian platform was quite reduced.

We have a number of fixed obligations there; like, for instance, we have to run trains to the container ports in New South Wales, and as a result of our rail agreement with the train service provider, we have to commit to a fixed volume of utilization in that lane, and what that forces us to do, John, is it forces us to trade cereal grains, sorghum, canola, those sorts of things even to fill the containers that go on that train, if there are no pulses that are fitting within the marketing program in that segment. We saw that in quarter four. Australia was, relatively speaking, a non-contributor to the quarter four performance, and so, as a result of that—I just wanted to look at the numbers quickly here. Yes, if we look at it, it's a relative non-performer; in fact, it might have been a slight drag on our overall earnings. We're expecting in quarter one and beyond for that to turn around and we're happy with the progress of margins in Australia.

In terms of North Dakota operations, Williston, North Dakota, also has been constrained by rail issues related to the Bakken oil boom, but we see a positive trend in Jan-Feb-March where they're starting to recover. We're optimistic especially for quarter two and beyond that North Dakota and our legacy business will also be a positive contributor.

JOHN CHU:

Can you comment maybe on just the food commercial sales that you're doing and obviously what—is that something where you could see that growing faster than what you were looking at originally on the feed and pet food side, and maybe just how the margins might compare to what you're looking at on the feed and pet food side.

MURAD AL-KATIB:

Oh, the pet food side, of course it's a positive margin contributor and the Cargill agreement was a big part of that. I think I can say at this point that I'm very pleased with the uptake that we're seeing from some of our food users and we're optimistic on potential of further sales with some very large food companies; as I mentioned earlier, meat and meat analogues, extruded snacks, batters and breadings, dairy applications, these are really where we're seeing the strong focus, and there's been some really good application testing happening in our labs. The way this works, John, is a food company will take one tonne and then they'll take five tonnes and then they go into a pilot production and then they take commercial quantities, and we're starting to get to a point where we have a number of uses that are starting to take some commercial quantities. We're optimistic.

OPERATOR:

The next question comes from Anoop Prihar of GMP Securities.

ANOOP PRIHAR:

Good afternoon, just two questions. First of all, is the margin profile comparable for the ingredient side for animal feed versus human consumption? Second of all, can you give us a sense of how much of your line two capacity at Minot is currently spoken for?

MURAD AL-KATIB:

Well, Anoop, I would certainly say that you really have to look at three divisions in that food ingredient. You've got true feed, which is really—feed is utilization in particular of our starch by-products for feed applications, whether it be pelleting or binding or some basic protein. There are some of our products that are going into that on the starch fraction in particular. That's, of course, your lowest margin use, and over time we expect to be able to replace all of that feed use into pet food, aquaculture and human food uses. When you look at the pet food margin, very positive pet food margins profiled compared to our legacy business in pulses. When we get to the human food, we do have a step-up again in margin where—and also not only a step-up in margin but less variability in pricing—where once we have a food company that is integrating that ingredient into a formulation, we end up in a position where we have very sticky revenue and sticky margins that are not susceptible to macroeconomics fluctuations. You know, it's really only tied to the sale of the products, which we like that profile compared to what we do normally.

I think that you'll see again as the food uses ramp up on line two, you're going to see that overall margin profile in the Packaged Food and Food Ingredients segment ramp up. We have a very small percentage of that segment that actually is accounted for by food ingredients because we've only installed line two—it was only starting, so really line one was in the fourth quarter of 2013. So very limited revenue, but still positive earnings contribution. With a high fixed cost in that segment—we have the R&D lab, the scientists, the marketing programs, all the staff being trained up, we're running line two, we still ended up positively contributing to earnings. Line two will have a strong impact on profitability.

As far as line two sales being spoken for, we're expecting the ramp-up—we're optimistic it may follow a similar pattern to the first line where it took us around three, four, five months to get it ramped up and utilized. We do see good sales visibility in protein and fibre and, as I mentioned earlier, all of the starch is selling, so we're optimistic we can ramp that up over the coming couple of quarters.

OPERATOR:

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

STEVE HANSEN:

Oh, yes, thanks. Murad, something you could elaborate on a little bit on your commentary at the outset, that you're suggesting increased demand for exports in smaller bags. I think you suggested that could change your legacy business. I'm trying to understand exactly what's driving that change and how quickly that could change the existing platform.

MURAD AL-KATIB:

Well Steve, it's a great question, and we're seeing markets changing before our eyes in that it's all about, understanding what retail really means. I mean, when we say to our analysts and our investors, we want to be more involved in the wholesale food service and retail sector. Sometimes people get nervous thinking it's about having a brand that we're pumping millions of dollars into advertising. No, the actual truth is, in our case, we're doing what's called a supply chain push strategy. We produce very high quality, attractively packed product that is available in the market segments in which we play, and that will drive sales over time.

So for instance, we're seeing markets like Egypt in North Africa, the usual packing a decade ago was 50-kilogram bags, so 110 pounds, then it went down to 25-kilo bags which is 55 pounds. Well today there's a very significant segment that is being packed and sold in 10-kilogram bags. So 10-kilogram is now a cash and carry, where a family actually purchases a 10 kilo bag, takes it home, puts it in their pantry and uses it in a month, and then buys another 10KG bag. We're seeing in markets like India, we're starting to see the emergence of a retail sector, where all of a sudden now it's 2KG, 5KG, 10KG, 15KG are starting to be readily available in the markets. In fact, there's been quite a bit of publicity around large players; Tata Chemicals is an example where they've actually launched a home delivery service for pulses. So they're actually delivering retail packed quantities for home delivery. This shows you that the Indian market is changing over time.

The CLIC acquisition allows us to be in a position where we can start to utilize the Port of Montreal as an export location into North Africa-Middle East, even into Europe where we do see opportunities to pack 1KG, 2KG, 5KG, and Gaetan and his team will be looking at further initiatives throughout our legacy business to reduce our packing size and be more able to react to the changing food trends in markets.

OPERATOR:

The next question comes from Vitali Savitsky of Canaccord Genuity.

VITALI SAVITSKY:

Thanks a lot. I just wanted to follow up on the cost side of things. So there is a G&A of approximately 32 million after all adjustments this year. How do you see this going into 2014 and then the same question for marketing costs, interest costs and tax rates, if you could?

MURAD AL-KATIB:

Yes, I think you know what, you've certainly seen a fully loaded cost base here and Lori, if you want to give a couple comments on G&A and then I'll give some summaries at the end so go ahead.

LORI IRELAND:

Yes, our global footprint is obviously growing, as I mentioned in my notes, we have new sales offices in Russia, Ukraine, China's getting up and running and India and they've all been really good, starting to contribute really well to our bottom line, but obviously causing an increase in the G&A costs and also the food ingredient platform ramping up. I think going forward that's likely going to be a fairly consistent number as we continue to grow. We've got the new CLIC acquisition now that's come on board in January which will add to that but, of course, also add to our earnings profile.

MURAD AL-KATIB:

I think certainly if you look at our table at our MD&A, the quarterly financial disclosure table on page 14 of the MD&A, you can see actually that if you remove out the listing or you normalize the one-time costs in quarter four, we saw an average of around, say, $8 million of G&A. So the $32 million I think is a pretty good proxy for what you're going to see going forward because the G&A costs already ramped up—the food ingredients, Lori mentioned China. We officially opened the new Chinese processing plant in Tianjin on the 9th or 10th of January of 2014. So the ramp-up of costs there to be able to deliver the bean processing in the new 160,000-square-foot processing and warehouse distribution facility we built. You know, that's already fully loaded and baked into our cost structure.

So our focus right now is, I think if you look at the G&A costs in '12 versus the volumes handled and then you look at the G&A costs in ‘13 versus the volume handled, we have a very consistent profile of G&A, yet we had a 40% increase in tonnes. This is showing that our G&A initiatives are holding the line on costs, when as margins start to improve, this is all go to bottom line earnings—a significant contribution. That's, I think, the positive takeaway. Our cost containment initiatives work, and I think I want to mention another one, no one's asked, but I want everybody to understand that net debt remained constant—I think it went down a million bucks.

LORI IRELAND:

Went down $1 million, yes.

MURAD AL-KATIB:

But if you look at the significant growth in inventory and receivables that happened in the fourth quarter because of the turnover increase, for net gain to be constant shows that again our working capital initiatives are working, we're containing debt. and as the receivables and inventory convert to cash, you'll see debt reduction coming in 2014.

OPERATOR:

The next question is a follow-up from John Chu of AltaCorp Capital, please go ahead.

JOHN CHU:

One question on CLIC. Can you give us a sense on what run rate in terms of sales and margin was and then maybe the second question just being with you focusing more on pushing through more beans, chickpeas and green peas and seeds and whatnot, can you give us a sense of how you envision that trend going, I know you've talked about that before, but maybe give us some numbers for 2012, 2013 and then where you see that going for the next couple years?

MURAD AL-KATIB:

Well, John, first of all, there's no CLIC in the quarter four results, right, we only completed acquisition in quarter one of 2014. So going forward, I think that the public disclosures on their website, we didn't disclose any revenue figures, but I think they were disclosing prior that they were around $45 million in revenue. So that revenue run rate is going to certainly increase as we put our supply chain and our capital behind increasing the distribution throughout North America and starting to export. We expect to have a very strong focus on our core items. So lentils, chickpeas, beans rice, bulgur, pasta; these are really core driving items that we're going to be driving the retail to food service strategy there.

You know, I think you'll have to stay tuned for a bit more clarity as we continues to disclose the segment you'll see. But I'm very optimistic into our third month running that we have a good management team we're building and the strength of the brand actually, in particular in the ethnic market, is strong, and with the national retail distribution, it's all about being competitive in our supply chain to drive margin. That's our focus, drive margin through what they're already doing by taking control of our own supply chain.

OPERATOR:

The next question is a follow-up from Alex Palavin of Scotiabank, please go ahead.

ALEX PALAVIN:

Thank you. Last year lentil exports to India were very strong. Do you expect a repeat this year?

MURAD AL-KATIB:

Do I expect what, Alex, repeat that?

ALEX PALAVIN:

A repeat of the strong Q2 lentil exports to India.

MURAD AL-KATIB:

So you're talking about 2014 versus 2013—do you want to make a comment?

GAETAN BOURASSA:

With the—this is Gaetan Bourassa here. With the reports of Indian rain and whatnot, there will be another strong export year to India from Australia and Canada, probably more than last year.

MURAD AL-KATIB:

There was actually a view from the statistics that are being released up until the end of February, there is a bit of a view that exports would be consistent or maybe down year-over-year. We do see the potential of significant crop quality and yield issues. We're seeing strong demand in the second and third quarters already booked out for India, so we're very optimistic that's going to be a positive driver in the business, Alex.

Omer Al-Katib:

Operator and everyone else still on the call, this brings us to end of the questions and this session. I'd like to thank everyone for joining us on the call and I'd like to remind everyone that's still on the phone with us 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, I'd like to thank you all for attending our conference and I wish you all a very good day.

OPERATOR:

This concludes the conference call. Thank you for participating and have a pleasant day.