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AGT Food and Ingredients Inc.
Third Quarter 2016 Financial Results Conference Call Transcript

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Speakers:

Murad Al-Katib
President and Chief Executive Officer

Lori Ireland
Chief Financial Officer

Omer Al-Katib
Director, Corporate Affairs and Investor Relations

OPERATOR:
I would now like to turn the conference over to Omer Al-Katib, Director, Corporate Affairs and Investor Relations. Please go ahead, Mr. Al-Katib.

OMER AL-KATIB:
Thank you. Good afternoon and thank you for joining us on our Third Quarter 2016 conference call. On the line with us today we have Murad Al-Katib, President and CEO of AGT Food and Ingredients, and Lori Ireland, our Chief Financial Officer.

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

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

MURAD AL-KATIB:
Thanks Omer. Welcome to everyone on the call with us today. We're into the start of the traditional shipping period in AGT's business, withQuarter Three leading into our Quarter Four and Quarter One supply coming from harvest in North America, upcoming harvest in Australia and key consumption markets looking to start to fill import demand from new crop products. There's a significant harvest from North America that we feel is shaping up to be a strong shipping season, with initiatives in place targeted at utilization gains, growth in sales programs and continuing with the steady performance at AGT as reported in recent periods.

Overall, we're pleased with the results of the quarter with respect to volumes, margin and earnings. Before I speak about some of the other business segments and units, I'm just going to ask our CFO, Lori Ireland, to give you a brief summary of the Quarter Three results. Lori?

LORI IRELAND:
Thanks Murad. Adjusted EBITDA was $27.4 million for the three months ended September 30, 2016. This was an increase of 18.1% over $23.2 million for the three months ended September 30, 2015, and it was $117 million for the trailing 12 month ended September 30, 2016 compared to $92.4 million for the trailing 12 month ended September 30, 2015. Cash flow from operating

activities was $8.7 million for the three months ended September 30, 2016, compared to cash used of $2.7 million for the same period last year.

AGT has taken steps to streamline the use of cash; however, there are still periods where inventory and sales are expected to increase and cash flows expected to decrease. As a result, we monitor working capital as a percentage of revenue to ensure that cash is being used effectively. At September 30, 2016, working capital dropped slightly from $254.7 million at June 30, 2016, down to $250.8 million at September 30, 2016. In addition, the percentage of working capital to trailing 12 month revenues decreased from 13.99% to 13.19% and decreased from 17.81% from the same period last year.

As a result of the late harvest in North America, significant inventory was received, processed and shipped, however remained in AGT's pipeline of September 30, 2016. Approximately 75,000 metric tonnes of product was processed and shipped and remained in transit at the end of the quarter. In addition, there were large quantities of product that stuffing and port facilities have not yet invoiced due to timing of the shipment.

Net debt totaled $490.8 million at September 30, 2016 compared to $480.4 million at June 30, 2016. This was due to significant inventory receipts later in the quarter due to the delayed harvest in North America and the subsequent cash payments related to the contract execution. The ratio of net debt to trailing 12 month EBITDA, however, has improved to 4.19 at September 30, 2016 compared to 4.26 at June 30, 2016.

Although general and administrative and marketing, sales and distribution costs for the three months ended September 30, 2016 have increased in absolute dollars when compared to the prior quarter and compared to the same quarter in the prior year. When looking at the cost on a per tonne basis, there has been a reduction for the three months ended September 30, 2016, and this is due to significant fixed costs that AGT businesses have.

Metric tonnes increased in the current quarter compared to the prior quarter and also compared to the prior year, and this is due to a significant increase in bulk handling and distribution tonnes shipped and invoiced, as well as an increase in tonnes invoiced in the food ingredients and packaged foods segment. This was offset by lower tonnes invoiced in the pulses and grain processing segment compared to the same quarter last year, again resulting from the North American harvest delays.

Gross profit and adjusted gross profit increased in absolute dollars when comparing the three and nine month periods ended September 30, 2016 to the same periods in the prior year. This is due to overall invoiced higher tonnes, largely in the bulk handling and distribution segment, as well as improved margins in both the pulses and grain processing and food ingredients and packaged goods segment.

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 bonds. This is a non-cash item and fluctuates depending on the strength or weakness of foreign currencies when compared to the Canadian dollar, and this is excluded from Adjusted EBITDA calculations due to the non-cash nature. AGT has treasury processes in place to ensure that the need to purchase foreign currencies to settle debt will be minimized if it will result in cash losses on foreign exchange.

AGT tracks adjusted earnings per share is as reported exclusive of non-cash foreign exchange effects of our global business, whether that means a gain or a loss because Management feels that inclusion of both gains and losses that result from snapshot non-IFRS effects do not accurately reflect the cash flow generating ability of the business.

Adjusted basic earnings per share were fairly consistent for the three months ended September 30, 2016 compared to the same period in the prior year at $0.50 and $0.50 fully diluted compared to $0.51 and $0.51 fully diluted. Thank you.

MURAD AL-KATIB:
Thanks Lori. In our pulse ingredients processing segment, which is our core business, the foundation of our Company, this has allowed us to continue to develop and diversify with our other segments. We have another harvest substantially completed by the end of September in Western Canada and the Northern Tier States. While some farmers in these regions have struggled with the weather in recent weeks, pulses are typically a crop that is harvested first to preserve and maximize the characteristics and value they have. We expect that a large harvest of lentils and peas, and this was what was delivered, with approximately 9.3 million tonnes of estimated production in North America with 7.8 million tonnes produced in Canada alone. This is a record production volume.

Product is good quality, even with the late season and harvest weather, and is well within customer expectations in consumer markets and is expected to meet market requirements for shipments and sales through the balance of 2016 and into 2017. The 2016 harvest was by and large adhered to the generally accepted standard of about two-thirds of the production in the top two grades, the balance in the bottom two grades, number three in sample grade. Delivery from farmers to AGT facilities has been consistent with this, although perhaps we are seeing a variable nature of the quality, but very marketable products.

One of the misconceptions as we know in the media and with our analysts is regarding quality of lentils specifically. I just want to explain that sample grade is sometimes referred to as feed. However, this should not imply fed to animals, but rather this is product that has more than 10% damage and in a typical harvest may be in low in quantity and have a reduced market potential. In a season where there's some product quality variability, AGT facilities are able to take these lower grade products and through value-added processing create a marketable product that in some cases have margin gains due to low raw material cost that they carry. This is an example of the strength of our platform and our processing infrastructure, which should allow us to continue to have strong margins and earnings in a season where the amount of product variability is present.

While chickpeas were somewhat more affected by the weather conditions as they have a longer maturity, the crop in Canada is not significantly large in comparison to other pulses grown, and additionally, AGT benefits from its global origination in its chickpea platform with origination in Turkey, Russia and Australia, providing AGT with ample production for our sales programs.

It’s the growing production volumes and origination strength that provide a real opportunity for AGT in a period like Quarter Three, where the availability of harvested product becomes available to match our customer needs that we didn't have back in Quarter Two and early on in Quarter Three. The pipeline was bare and the crop availability prior to the late harvest was extremely limited. Export programs to all key consumption markets are expected to be strong in the traditional Quarter Four and Quarter One shipping periods. Prices have come down somewhat in pulses, as evidenced by the wholesale price index in India showing a 30% reduction. This is expected with a large harvest coming, and we in Management expect that this will further stimulate import demand to consumption markets positively impacting our sales and merchandising programs in the coming quarters.

Ongoing strong production volumes from Canada, the U.S. and Australia is expected to alleviate short-term availability and supply constraints for these later shipping periods. We expect our bulk handling and loading assets and our short-line rail and port investments to allow us in this traditional shipping period with these types of volumes available and demand available to use the most efficient transportation mode available for customer programs on bulk lentils, as well as our own raw material supply of lentils and durum wheat to our own operations. This will be augmented with our continued focus on bagged and containerized shipments and give us an advantage to get the product to market.

Our core business segment continues to report steady performance and we continue to view that utilization activities in the balance of 2016 and '17 will give us strong performance in this pulse and staple foods segment of our business.

Our food ingredient business continues to advance. Line Four is targeted to be completed in Quarter One 2017, with no material delays expected. Our processing output from our enhancement lines installed are being well received as food companies recommence their own development and product production testing after summer maintenance in summer periods where R&D activities and production activities are somewhat slower. Minot is continuing to run at around 90% utilization, with a good mix of fraction sales and flour sales. We see this as continuing to transition to more food ingredients demand by focusing on the monetization of our starch, flour and fibre fractions to complement our protein sales.

Many of our analysts continue to ask, when will we sell more human food? This segment of the market continues to advance. We have strong market development pipelines in commercial and industrial quantities going into the normal product development cycles of household CPG companies. Not diminishing this focus is our paramount targeted program of ensuring the maximum value for all production streams from our mills. You're somewhat familiar that we have four main products to sell: flours, proteins, starches and fibres. To give you a quick illustration on the impact of our value-added initiatives on starch, fibres and proteins, I want you to see how a focus on new lines of production will advance and allow us to show margin gains.

Before I get to the illustration though, first of all I have to be very clear. On the view of the pace at which we're moving in this segment, it is nearly unprecedented in the world to do what AGT has done in the past three years in the food ingredient business. To successfully develop the process engineering, trade secrets that are operating effectively within our $75 million state-of-the-art, quality certified factory and to produce in markets 100,000 tonnes of food ingredients to the world in just our third year is an improbable outcome.

Our focus, though, is now evolving into continued growth of our production. But equally and possibly more importantly, is the development of these value-added opportunities for our raw flours and fractions as we transform them into differentiated food ingredients. This will bring us higher margins over time and longer-term commitments from major global partners and purchase contracts as they launch successful products under their brands and the brands of their successful retail partners. Particularly as our Line Four comes onto stream, this provides us the capacity that will become available for sale to feed the ongoing pipeline of differentiated food ingredients that are being sold as deflavoured, pasteurized with low microbiological counts, and are being marketed as safe vegetable protein, non-GMO and gluten-free ingredients. This is our future. We'll guide our decisions on additional commercial production, the ability to produce products that fit the needs of our innovative buyers.

This is not a grain handling business. It must be judged on a combination of volume and margin growth. This will be our key performance indicator, not just how many more tonnes we process. AGT has a growing bulk handling business, so for those interested in that type of business we have that segment as well.

The metrics are compelling and will prove to continue to build scale and diversity in our sales platform. If you assume our starch products make up 50% of our production, at our current production we're selling over 50,000 tonnes of starch. Any margin improvement and the current sales go directly to augment our current margin profiles. If you sell 10,000 tonnes of deflavoured flour as a tapioca starch replacement to a pet food company instead of current feed use, we can see a margin improvement that could be more than $100 a tonne as compared to a current sale. This million dollar margin improvement will be driven through the food ingredient sales of 100,000 tonnes, driving an additional $10 EBITDA per tonne. So this illustrative example shows the impact of increasing the value of these ingredients that will importantly drive free cash flow and return on our invested capital.

Driving more margin from our current clients through increasing penetration will also fuel the need for capacity enhancements. We're now seeing the benefits of deepening our sales relationships. When a company succeeds with one of the pulse ingredients in a formulation at launch, we're seeing application pipelines rapidly expanding with multiple uses and projects. This is the basis for our optimism in 2017 and '18. We'll continue to see this as a focus.

Raw material supply from our significant harvest is having the effect we expected with raw material costs reducing, thereby having a stabilizing effect on margins and providing opportunity for working capital reduction in subsequent quarters. This was the reason we're so clear in the last quarter that margin compression in our food ingredients and packaged foods segment was temporary and a timing issue. Rectification came as planned this quarter.

The packaged foods business continues to grow as well, benefiting from AGT's global origination strength to supply raw materials for production package and canning. We expect seasonal trends to give way to volume recovery in the traditional consumption periods for pasta, staple foods, rice and pulses, and the packaged foods business unit globally is going to continue to perform as we expect.

We saw seasonal performance in the newly renamed bulk handling and distribution segment. This segment has been renamed to more accurately capture the business being done in the segment: our Canadian bulk handling business, AGT India, Switzerland and some of the products in Turkey for aid programs and staple products not processed in our facilities, like sugar and other non-core commodities.

In Quarter Three 2016, we saw limited impact in earnings from our Canadian bulk handling business. With the late harvest, there was a large amount of product, as Lori mentioned, that was in transit to buyers or in our intercompany distribution business. Remember, these metric tonnes are not invoiced in the quarter. They will be recognized in Quarter Four and Quarter One 2017. The order of magnitude of this timing delay is approximately 75,000 tonnes or $50 million in revenue. We expect this segment to continue to grow as a contributor to earnings in a steady and regular fashion, augmenting earnings with minimum capital requirements to finance this business unit.

As we ramp up our unit train programs to buyers around the world of lentils, peas, chickpeas, flax and durum, each unit train, 45 weeks per year, reflects 400,000 tonnes of sales potential. It is our target to scale the platform until 2020 by adding a unit train per annum each and every year, creating a material platform of growth for AGT to augment our core containerized pulses business and our food ingredient and packaged foods business.

The three pillars represent our future growth strategy. Number one, increase our utilization and evolve our product mix to improve our margins and our supply chain approach to our core pulses business. Number two, grow our bulk handling business to monetize the earnings of the unique grain origination logistical assets that AGT has assembled with its trucking, rail, containerization and bulk vessel programs linking these to our efforts in destination country assets, like Turkey, India and China. Number three, grow both the scale and margin in our food ingredients business and continue in our packaged foods business to develop a completely integrated farmgate to package program for our clients and retail partners in both our core brands as well as cold packers' supply chain partners in their brands.

Overall, our business is returning to normalized volumes and stable margins. I would like to make a couple of comments on leverage and balance sheet. We remain committed to an efficient and long-term capital structure, balance sheet that is reflective of our changing company. We are a different company today than we were when we raised capital in the debt and equity markets in past years. We were building a company you see before you today, and we've been rewarded with positive stock performance, a re-rating of both our company on a notch upgrade on our bond issue that matures in 2018 and a two notch upgrade on the issue itself.

It's been a difficult period in the world where we were in a commodity downturn environment. The Canadian pipeline of product was empty. We had a late harvest. But our earnings were acceptable. It's a direct result of our plan of diversification and focus on building out the three pillars our company has going forward. Our leverage profile has been improving with this marking the third quarter in a row, where debt to EBITDA and working capital as a percentage of revenue are declining. We will be smart and manage with our growth capital. We'll work diligently to reduce the leverage by growing our earnings, maintaining our focus on using working capital efficiently. We'll add certainty to our balance sheet by ensuring the terms of our debt match the positive strides we've made in our business and we're optimistic that the outcomes for AGT in the coming quarters are positive in this front. We're going to focus on free cash flow. We're going to see the benefits in the business that we've built. I'm very confident in that regard.

We'll focus on our immediate opportunities and build for the tremendous growth opportunity we see in the coming years in places like India. It's an exciting time to be in our business to see the years after the United Nations' 2016 International Year of Pulses. We are hopeful this will be the *decade* of pulses. The strength of our core business in pulses provides the foundation for growth and growing opportunities for our business as we continue to grow, service our customers and create value for our shareholders.

I thank you for your interest and I'm going to take some questions.

OMER AL-KATIB:
Operator, we'll take the first question, please?

OPERATOR:
The first question comes from Jacob Bout with CIBC. Please go ahead.

JACOB BOUT:
Good afternoon.

MURAD AL-KATIB:
Hi Jacob.

JACOB BOUT:
Yes. I wanted to dig a bit into the food ingredients and the packaged food divisions. So noticed that volume's down from second quarter, revenue's down, and just wanted to understand what are some of the moving parts. So when I think about this division, we've got the seed, the pasta, I think CLIC is in there, pet food, human food, what are some of the moving parts when you think about it from a EBITDA volume perspective?

MURAD AL-KATIB:
Yes. I mean as I mentioned in my comments, Jacob, the volume side of course, you've got quite a material amount of volume in that segment coming from the pasta business and from our South African processing business, and so from that perspective, the quick business being a retail isn't a big volume business, and then of course the other main component would be the Minot, North Dakota processing facility. I can tell you that volumes in the quarter in the food ingredients segment were actually up slightly. The pasta volumes were up a little bit and the South African segment was down. So when you look at the combination of those I think looking just at tonnage and attempting to look at utilization, it's a bit difficult because you're not given all that breakdown.

I think again, we ran at about 90% utilization in the Minot, North Dakota facility, and it's a very traditional seasonal period where all of the major manufacturers are taking downtime in the summer, they do their maintenance, they've got holiday periods. We have a very material reduction in call-offs in July and August, but then they resumed back in September with regular productions and fall production periods are usually quite strong for a lot of the manufacturers. So what happens in that period is at times you may actually build some inventory, not in our food ingredient, but in the pasta business and our packaged foods business, and those would then ship out in the next quarter. So again, we'll see how Quarter Four looks, but usually you'll see a bump in volume in the fourth quarter because that's a very traditional ramping-up period for all of those industries.

OPERATOR:
The next question comes from Peter Prattas of AltaCorp Capital. Please go ahead.

PETER PRATTAS:
Good afternoon. I'm trying to gauge your Q4 here post-harvest and the pulse and processing group here. Obviously you had a record Q4 last year and this year you have a record crop. So how do you look at Q4 playing out here just given the strength of the crop and do we have any gauge of international demand and how that might compare off of a pretty high Q4 last year? Thanks.

MURAD AL-KATIB:
Yes, good question. We tried to give you a little bit of colour on that by giving you the indication of—you know, we're talking about tonnes in our system. Lori mentioned them in her comments that I tried to clarify in my comments, we use the term 75,000 tonnes in our intercompany transfer system, meaning that that product is bought, sold, but it's transferring from a Canada to Turkey for on-delivery to the United Nations or to a client, that product is processed, we've incurred cost, we recovered cost only, but we don't show margin or sales on that product. Those

will get recognized in the Q4/Q1 period. In addition, Lori mentioned material amounts of product in what we would call stuffing or transloading facilities at the port, which again haven't been recognized until the subsequent quarters.

You know what, the pipeline is primed. By the time we got to the end of September, Peter, this was one of the material effects on the quarter was that the startup of the shipping period was delayed by about 21 days. So if you asked me back in August when we were looking at the last conference call, I would have said within 10 days the pump's going to be primed and it's going to be rolling in our shipping schedule. Rain came along and cool weather, delayed that harvest period by a couple of weeks, and as a result of that, shipping periods have been kind of shortened a little bit. What that's done, though, is it's given me very good visibility for the fourth quarter. We are going to be at very high utilization of our asset base, and this is the exact reason why we bought the bulk handling infrastructure so that we have that peak surge shipping capacity to meet these windows in the market.

Now the prices had come down dramatically, but they actually have recovered in a part of the market already as a result of some worries about the constrained shipping period and quality. So from that perspective, markets are active. When markets are falling, and again, importers get scared. With markets being active there's been renewed buying again for later in fourth quarter, Quarter One demand is coming. I'm not expecting Indian crop to be anything big in March. So from that perspective I think we've got a very good landscape for a Quarter Four, Quarter One period that will allow us to show the earnings power of the platform.

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

STEVE HANSEN:
Yes. Hi guys. Just a quick question, Murad, about sort of this interplay between human and animal related feed, and I don't want to dwell on it too much, but I'm just trying to get the context for the idea of human food might be attractive from a higher margin perspective, but then I presume that's going to be balanced against the idea of higher throughput coming from the facility as well in the context of providing good, strong, regular demand from a larger market base. Can you speak to that a little bit and how you want to sort of ideally position the mix for the complex going forward?

MURAD AL-KATIB:
Yes, that's a very interesting question, Steve. I mean, you know what, at the end of the day, we are looking to build a broad base of business within the different segments of this segment. So the human food is a segment, as is the pet food segment, as is the aquaculture segment, and I

can tell you that that is a very material consideration, and it was part of what I was trying to do with the illustration of monetizing the starch and adding value to it. That's one consideration.

As I've said in my comments, this is not a grain handling business to be judged by throughput. We have the opportunity to materially increase the value and margin on the products that we're shipping into the different segments. That will continue to be a focus. But we are balancing that with production velocity and with production efficiency. This is an extremely high fixed cost business and I can tell you that ramping up Line One, Line Two basically covered fixed cost. Line Three added margin. Line Four is going to add margin. Line Five is going to add margin. So we're going to balance that focus on the different segments.

The food business for human is obviously a long-term target. We're going to keep pushing it and it's going to come. But I can tell you that the continued inclusion of the pulse-based ingredients in a pet food, dog food market in the United States is estimated at $22 billion. You go flip over a bag of dog food and in most cases if you look at five brands you're going to find a couple of those that have lentils and chickpeas and most of them will say protein as well and most of them will say tapioca starch or potato starch or pea starch, so those are all big targets, big volume, and frankly the margin that you see ahead of you now that we think we can improve can be scaled even those platforms.

So we're going to take a balanced approach at ramping up the volume, focusing on those segments because we'll make a lot of margin as we ramp up the size of that. We're going to balance that with the human food side. We are not, in the near term, going to be focusing on opportunities that create eight to ten tonnes a year of demand because we have a very big production capacity and we're going to focus on those that generate that margin balance, volume and of course over time that creates a barrier to entry and sustainable competitive advantage.

OPERATOR:
The next question comes from Sean Pratt of the Western Producer. Please go ahead.

SEAN PRATT:
Hi Murad. A couple of questions for you; one is on the lentil quality comment. I talked to Greg Simpson earlier this year and he was irked with the Grain Commission's report on quality and believes that only a very small, 4% to 6% of the crop will make the top grade. You seem to have a different opinion. If you could comment on that? Also, on your—you said the outlook for the Indian rabi crop isn't anything special. A lot of people think it's going to be a big crop. Can you comment on or expand on your thoughts there?

MURAD AL-KATIB:

Yes. So let me take the first one. Again, in terms of the lentil quality comment, I think that we have to really delve into the different segments of the lentil crop. I think I would agree that on our large green lentils, that there is less than 10% in a number one grade, so that was I think some of the comments that were made by other industry people; but, really when we look at the composition of our lentil crop today, it's largely red lentils. So from that perspective my comments on the two-thirds, one third is really focused on the small red lentil category, but I think that two-thirds of the crop is falling in the top two grades. The green lentil business is completely different, focused on our colour sorting and that I think that that variability is higher, but we're still seeing quite a strong number of number twos that we're able to use colour sorting and other means in which to generate number one quality.

So I think it's going to be a really good crop in terms of having a strong availability of all grades. My comments, Sean, on the feed sample grade there's a lot of folks who aren't agro importers, like yourself, that think that when you say it's feed lentils that humans can't consume it. In fact it's the opposite. We have buyers around the world asking us if they can buy 10% damaged lentils because they have an ability to deal with that when they're splitting and dealing with them.

On your question around the Indian crop, when I look at—again, monsoon rains ended up at around average. I think that the 30% decline in the Wholesale Price Index in pulses will cause acreage in pulses to be lost, and when we see price variability in pulses when they come down, it usually results in planting of wheat and other crops. So I think that acreage is going to be less than what people expected. I think that again the susceptibility of the Indian crop to weather variability and availability of water for irrigation is a risk, and my comment of it not being anything special is—I think that they're going to produce 18 million tonnes like they have in the five-year average, which means that with 24 million tonnes of consumption, there's going to be 6 million tonnes of import, and I think it's growing by a million tonnes a year. So we can count on in the very near term and even beyond that the demand-supply gap is going to continue to rise and we'll have a great window to market, a very big crop out of Canada.

OPERATOR:

The next question comes from Cihan Tuncay of GMP Securities. Please go ahead.

CIHAN TUNCAY:

Hi guys. It's Cihan on here for Anoop. Just two really quick questions for me. I think you may have alluded to this already, but I just wanted to confirm what I heard. When we see the total tonnes in the pulse and grain processing essentially flat quarter-over-quarter, and given the drop in pulse prices towards the end of September, we expected to see a shedding of non-cash working capital but we saw consumption of $7 million. Is that just a function of timing or what was in transit at the end of the quarter? The second question would be we saw CapEx at about $16 million to $17 million. For the quarter if you could just talk about where that money was spent. That's it for me. Thanks.

MURAD AL-KATIB:
Okay. So let's take the first question. So I'm going to attack the working capital question first. Definitely within our comments—you have to connect the dots here. Dot one, crop is materially late, weeks late, revenue recognition is we don't recognize revenue until risks of transfer from seller to buyer, we had to bring in the inventory that's sold, we have to pay for it, but we haven't generated the sales yet on that, and we basically rammed seven weeks of deliveries into the last three weeks of the quarter. So I do foresee that we will see a reduction in the consumption of working capital in the Canadian platform in the fourth quarter and the first quarter as we go through with significantly lower commodity prices than we had at last year the same time.

The $16 million to $17 million of CapEx is a combination of growth CapEx, so that would be related to the Minot project, the installation of the new processing line and the fibre milling line. It's also the finish up of the sixth pasta line in Turkey. So that project, along with an augmentation of our bulgur wheat processing capacity, and it is also the construction of the bulk rail consolidation centre at Delisle, Saskatchewan under our new Mobil Grain bulk handling business. That CapEx is done, the assets are ready, food ingredient I think will be done by the first quarter in 2017. So that has basically left working capital on an absolute dollar basis. We went up $9 million or $10 million, but when we look at debt to EBITDA we went down. So I'm expecting this leverage profile with the commodity price reduction even with the significant ramp-up of tonnes we're going to see flat to declining working capital going forward, and I think that we're going to see strong cash flow from operations as we go into Quarter Four and Quarter One, and we're pretty dedicated to showing the cash flow-generating ability of this great platform that we've built.

OPERATOR:
This concludes the time allocated for questions on today's call. I would now like to turn the conference back over to Omer Al-Katib for any closing remarks.

OMER AL-KATIB:
Thanks Operator. That brings us to the end of the session that we have booked here. I'd like to thank you all for joining us. I'd like to remind everyone still on the call, 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. Thank you for attending our conference call today, and I wish you all a good afternoon and a good day.

OPERATOR:
This concludes today's conference call. You may disconnect your lines. Thanks for participating and have a pleasant day.