From Producer to the World

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AGT Food and Ingredients Inc.
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Speakers:

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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, Operator. Good morning and thank you for joining us on our conference call this morning. On the line with us today, we have Murad Al-Katib, President and CEO of AGT Food and Ingredients, Lori Ireland, our Chief Financial Officer; and Gaetan Bourassa, our Chief Operating Officer.

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

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

MURAD AL-KATIB:
Thank, you Omer. Welcome, everyone, to our call and thank you for your interest in AGT Food and Ingredients.

We're pleased to report a consistent performance for AGT in 2016, with revenue growing to $1.97 billion and Adjusted EBITDA at $118.8 million, a significant increase in the total handle in our global system, reaching over 2 million metric tonnes in the calendar year. All of these numbers are significant milestones for our Company. It demonstrates how AGT is growing, expanding and maturing in our business units.

Our core business in pulses and grains, and our newly renamed bulk handling and distribution segments, are continuing to grow as a significant amount of product available in the market from Canadian and Australian harvest is moved to key markets in the traditional shipping periods to fill what we view as strong demand for the second half of 2017.

Our food ingredient and packaged foods segment continues to advance and show consistent overall performance and growth, as well as market development efforts to customers in the food and pet food sectors for inclusion of our pulse ingredients, which continues to advance as per our expectation.

I'd first like to discuss our segments and the market overall, but before I get to that I am going to ask our CFO, Lori Ireland, to give you an overview of the quarter and for the full year 2016. Lori?

LORI IRELAND:

Thanks, Murad. As Murad mentioned, AGT finalized our year-end with Adjusted EBITDA of $118.8 million. This was an increase of 17.6% over $101.0 million for the year ended December 2015, and also increased when compared to $117.0 million for the trailing twelve months ended September 2016.

Net working capital was $386.6 million at December 31, 2016, a decrease from $388.3 million at September 30, and a decrease from $424.4 million at December 2015. Net working capital as a percentage of trailing 12-month revenue has decreased from 20.43% at September, to 19.59% at December 2016, and also decreased from 24.9% at December 2015.

AGT has adjusted the net working capital calculation to better reflect the key indicators that are a focus for Management. AGT defines net working capital as trade accounts receivable, inventory, prepaid and other, less accounts payable, accrued liabilities and deferred revenue. AGT Management monitors this metric and has set a target net working capital to trailing 12-month revenue of 17% to 18%, and will achieve this by focusing on increased earnings, as well as continued focus on improving our collection cycle.

Capital projects this quarter included our continued development of the global software system, expansions to food ingredients technology, costs associated with the rail consolidation yard, and an expansion to the cogeneration system in Turkey. Approved capital projects consist of those that will either increase efficiency, improve productivity or reduce costs for AGT.

The ratio of net debt to Adjusted EBITDA increased to 4.53 in Q4 of 2016, which is often the case when harvest is in full swing and product is purchased and shipped but not yet sold to contribute to the Adjusted EBITDA of AGT. The ratio of net debt to Adjusted EBITDA decreased, however, when compared to 4.69 at Q4 2015.

Although general and admin and marketing, sales and distribution costs have increased in absolute dollars year-over-year, when comparing Q4 2016 to Q4 2015, the cost per tonne has decreased. This is due to the significant fixed cost nature of AGT's business. Overall invoiced tonnes have increased from 1.7 million in 2015 to approximately 2.2 million in 2016, and on a metric tonne basis, general and admin and marketing sales and distribution costs have decreased from 45.39 per tonne to 41.39 per tonne.

Gross profit and adjusted gross profit increased in absolute dollars when comparing the quarter and year ended December 2016 to the same periods in 2015. This is again due to higher overall tonnes invoiced, largely in the bulk handling and distribution 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 related to our high yield bonds. It's a non-cash item and fluctuates depending on the strength or weakness of foreign currencies when compared to the Canadian dollar and is excluded from Adjusted EBITDA calculations due to the non-cash nature. 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 cash losses on foreign exchange.

AGT tracks adjusted earnings per share as it is reported exclusive of the 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-cash IFRS effects do not accurately reflect the cash flow generating ability of our business.

Adjusted earnings per share were $0.72 basic and fully diluted for the quarter ended December 31, 2016, which was an increase over the prior quarter and the same quarter in the prior year. Adjusted earnings per share were $1.98 basic and $1.96 fully diluted for the year ended December 2016. This was slightly lower than the prior year, largely due to higher earnings and, therefore, additional income tax expense, which is not backed out of the adjusted earnings per share calculation. Thank you.

MURAD AL-KATIB:
Thanks, Lori. As I mentioned earlier, these are positive results as our business grows and matures, providing a stable platform for our operations, sales and earnings. We see strong demand for our pulses and staple foods products in the second half of 2017, as well as a positive outlook for our pulse ingredients, reflected in strong demand for protein and increased opportunities for our flours and starches and packaged foods and retail business.

There are developments in our core business that I would like to discuss, as this segment is foundational to our business, providing the base of earnings AGT. A record harvest in North America and large volumes produced in Australia have resulted in significant volumes shipped from our facilities in Canada, US and Australia in the Q4 traditional shipping period. Markets have been importing large volumes in this period, as they traditionally do, to fill local market demand and pipelines for pulses and staple foods to supplement local production expected in the Q1 and Q2 periods.

Local production in India and Turkey, as key consumption and production markets themselves, come to their market in the late Q1 and in Q2, resulting in a reset of the global pulse and staple foods markets. Production volumes are expected to be average and both are expected to continue to require imports to fill local demand.

Volumes in our core segments may fluctuate somewhat from quarter to quarter due to global supply, production dynamics and quality for commodities, as well as local production and market requirements.

Overall, metric tonnes for the 2016 full year are viewed as positive, as it demonstrates the strength of AGT's farmer origination and processing facility strength, particularly in the bulk handling and distribution segment where volumes are, and will be, a key driver to earnings contribution.

However, while production volumes were high in this quarter, there were some conditions I wanted to note.

First, the late harvest. With it came some quality feedback from customers, which did impact our ability to fully capitalize on volumes in the traditional Q4 shipping period. The quality in Canada was more adversely affected than our original estimates. While the crop is still useable quality, it did, in fact, reduce the velocity of our shipping programs and exposed AGT to quality claims and margin pressures. These are largely behind us now.

Along with the wholesale prices in the world, we're adjusting with high volumes in the markets.

These factors combined, and given that pulses and grains are agricultural products with the quality specifications affected by weather at harvest, volumes and margins were affected in the quarter. However, they were positive for the year, and we expect them to be positive going forward. We expect these conditions to pass as product moves into the market and a new season comes upon us. The core segments of our business are expected to continue to perform well in the second half of 2017, with import volumes forecast to remain high, as global pulse and staple foods markets return to a traditional shipping period.

The issue of fumigation in India of agricultural products has been in the media extensively and there have been some questions on the impact of our business. I'd like to comment a bit on this and the expected resolution of this matter coming soon.

Canada has been exempt from these regulations for a variety of reasons in past years, and an extension of the exemption, we believe, is coming, as India and Canada both recognize an acceptable solution to allow uninhibited access to pulses from Canada for Indian trade to continue uninhibited is a benefit to both countries. We view this matter as politically motivated by the Indian government, in part to support their local production and to try and show the market that they are not dependent on imports, as they are in reality, with the supply-demand gap continuing high and growing.

However, should resolution of this matter extend past the March 31 deadline, it should be noted that AGT, with its global operations and diversified origination strength to purchase and ship products from a number of origins, including Australia, will take measures to minimize the impact on our business. In addition, Management estimates only 5% of net earnings, or less than 5%, actually result from Canadian pulse exports to India, as AGT can illustrate with that. The impact of a prolonged non-resolution will have a minimal impact on our results, as we are very diversified globally.

This is an important component of our business that is sometimes overlooked, allowing us, in some cases, to increase margin, minimize risk, and other advantages of the diversified global platform. Additionally, we expect our investments in short-line rail, transportation, bulk loading and port facilities to further benefit our core business to diversify, with volumes shipped to key consumption markets and efficient modes of bulk transport of goods available to us to supply our customers and our own operations globally.

I also wanted to touch on our food ingredient and packaged foods segment. We see this segment continuing to perform consistently in terms of volumes of metric tonnes invoiced and margins.

I just wanted to remind everyone that within this segment is the food ingredients business, the retail packaged foods business and our South African processing and export business. So, volumes in this segment are certainly more than just Minot, North Dakota facility. Within this quarter, volumes actually came down quarter-over-quarter, largely attributable to South African volumes, with a significant drought and significant dry conditions there, as well as pasta sales. Production was done, invoicing would have happened in quarter one.

The food ingredient business unit and the Minot facility program continue to advance in a positive manner. The production development cycle for customer adoption, and therefore purchase of increasingly larger volumes of ingredients, is one that is long in nature. However, we're moving in the right direction and we're into the cycle, we're well into the cycle. Customers are continuing to adopt these ingredient products with protein sales, as well as the by-product flours and starches, particularly as deflavoured products become available to customers for a broad range of applications and, we estimate, with higher inclusion rates.

In the segment, margins have been pressured by lower corn feed prices, which have been affecting the sales of starch and flour byproducts, and by higher raw material pea prices through the end of the shipping year. However, commodity prices have normalized. This has benefited our ability to procure raw material stocks for production and for customer sales programs. So, we're pleased overall with the advancement of the business. We have still more work to do to grow this area and we remain focused on achieving our successful goals.

Expansion for Line 4 and the additional milling operations in Minot are coming on stream commercial production, and the current three lines in Minot are operating at near full capacity. We expect to start the process for decision-making on additional commercial production capacity and enhancements later in 2017.

Before we go to questions, I want to conclude by saying we have set forward a clearly defined strategy; a structure for our business that is in place that will allow AGT to mature as a business and operate positively global conditions that vary with political events, crops, currencies, and other factors that are not in our control. What we need to do is structure ourselves to be ready for those challenges.

Our target will remain in 2017 on optimizing free cash flow, lowering our leverage profile to targets of less than 3.75 times debt to EBITDA, and continuing to ramp up our bulk sales program and our margins in our food ingredients and packaged food segments. We have superior positions and local market intelligence in place to complement our Management strength, facility operations and farmer origination advantages.

Our business has a lot of moving parts, each that contribute to the performance of the Company as a whole and provide the diversification that is needed in global agri-commodity sector business. Volumes and market conditions may fluctuate from quarter to quarter based on a number of factors, and this may affect prices and margins, but we are confident and pleased with how our business is able to demonstrate relative strength, providing positive conditions for sales, revenue and earnings prospects for our shareholders and all our stakeholders.

I thank you for your interest in AGT Foods. I'll turn it back over to Omer and we'll go to questions.

OMER AL-KATIB:
Thanks, Murad. Operator, can we take the first question, please.

OPERATOR:
We will now begin the question and answer session. The first question comes from Jacob Bout with CIBC. Please go ahead.

JACOB BOUT:
Hi, good morning. I wanted to dig in a bit more on the food ingredients side. If we take a look, total volumes are down year-on-year and quarter-on-quarter. Now, you did talk about some moving parts there between pasta, North Dakota and the packaging. Can you just flesh out a little more detail here? So, specifically, at your Minot plant, are volumes up or down quarter-on-quarter and year-on-year; and also maybe talk a bit about how the actual human food ingredients portion of that is actually performing.

MURAD AL-KATIB:
Basically, let's get into the Minot production side. We're basically, as I said in my comments, running at full utilization on the three production lines. From that perspective, we're actually looking quite forward to the fourth production line coming on stream in the second quarter, Jacob. We have sales commitments that are on our books and ready for execution, and we're basically not able to deliver any more product than we have now.

The one thing that we've got to recognize is that, obviously, production of the proteins, starches and fibres are all an integrated production process. I can tell you that what we saw in the end of the fourth quarter is very strong demand over the period, but we did see a number of clients that were not pulling product in the latter part of December, as a result of the fact, you know, whether it be holiday seasons, shutdown or slowdown of their productions. So, those production volumes were produced, they were sitting in our inventory and they were shipped out in the first quarter.

That is one of the things that—what we report in our segments, of course, is not production. Even if product is sold and sitting on the floor, it doesn't get indicated in any of our results until the subsequent quarter. So, we were not definitely able to produce any more product. Everything that we could produce was sold. So, that's positive.

The advancing of the food sector—on the protein side, we have a combination of food and pet food. Pet food demand has been very, very strong. We see margins improving in that segment as well, as we continue to see more inclusion, more customer bases in that side of things. On the protein side, a number of clients have been testing protein, in particular, in the dairy sector and other types of applications related to the production of protein-related products.

But where we're seeing some really positive moves is in the extruded snacks and extruded products segment. So, we certainly are optimistic about more wide-scale inclusion in the food industry and the production of extruded snacks, crisps, pastas. We like those applications, because they're high inclusion rate, higher volume food segments.

So, the business that we have in Minot has to be built on velocity and volume, as well as a diverse customer base. So, we're not necessarily as set up and able to deliver 3,000 pounds of material to somebody. We're looking for clients that are looking at large-scale inclusion in large-scale applications, and that's been our targeted focus.

Overall, I'm pleased with the R&D program. The collaborative R&D program is growing. So, we have the who's who of the global food industry collaborating with our R&D lab in Saskatoon, and with our partners that we have on commercialization.

So, once again, this year, 2017 is going to be a year of focus on margin expansion. Whether or not we add another production line immediately in late '17 or '18, right now we're really focused on increasing the profitability of the current production stream of four processing lines, additional fibre processing that we're bringing on line, so that we can actually process the fibre from other factories that we own. The Williston, North Dakota fibre will be coming to the Minot plant now. So, that'll be coming on stream here in the second half of 2017.

So, the volume decline in that segment would be largely due to our other businesses that are in that segment. It wasn't Minot. It would have been pasta-produced. It's not an uncommon thing for us to see a little bit less pull in the late fourth quarter and then volumes resuming in our pasta business in the new year. So, we're expecting that there could be catch-up here in the first quarter.

Then, I mentioned the South African drought situation. There's really a drought that was a very material drought. Now, that being said, our South Africa business is largely reliant on export of South African product in their popcorn segment and other things in certain parts of the year, but, really, they rely on import and distribution. So, the Canadian harvest and the refilling of their pipeline would have happened a bit late, because of the late harvest, so they really do have strong quarter one, quarter two sales in their business.

OPERATOR:
The next question is from Steve Hansen with Raymond James. Please go ahead.

DAN CHEW:
Hey, guys, it's actually Dan Chew proxying for Steve this morning. Just a quick one from me on some of the margin pressure you guys saw in the pulses and grain processing segment. You noted that it was largely attributable to the rapid price decline in pulse prices. When I look at some of the historical trade pricing data, the seasonal decline in the fourth quarter didn't seem to be all that anomalous, and, actually, the quarter-to-quarter average realized price in the segment was only down $28 per tonne. So, I'm just wondering if you might be able to provide a little bit more colour on what you guys are seeing on the ground there, and whether you've seen a recovery so far in the first quarter on that front?

MURAD AL-KATIB:
Well, first of all, I guess I'd like to understand. The decline of $28 you're talking about, what are you referring to there?

DAN CHEW:
I'm just looking at the total revenue in the pulses and grain processing segment divided by the total tonnes invoiced.

MURAD AL-KATIB:
Oh, sorry, Dan, you're talking about on our side, okay.

DAN CHEW:
Yes.

MURAD AL-KATIB:
So, the reality is that we had sales on, you're correct. The new crop sales, let's say in our lentils segment, would have started around $800 a tonne. I could tell you that today the market is in the mid-to-high $500 per tonne delivered to a destination in the world. So, the decline that we're referring to is the decline in the delivered wholesale price of pulse commodities. The pressure on our margins—and, really, on the margins, in general, for the trade—came from the fact that, you know—listen, we buy our commodity and we sell it on a largely, you know, close to a back-to-back basis. So, when commodity prices accelerate very quickly, they're rising, we don't get the benefit of rising commodity prices because we bought the material and sold it. But, I can tell you that a tough part of our business is when we buy the commodity and wholesale prices come down dramatically, and, really, a 30% to 40% reduction in wholesale prices is not a normal scenario.

So, this rise in '15 and decline in '16 was as a result of major shortages in consumption markets in the world. Importers suffered millions and millions of dollars of losses, and as a result, what happens is you have a certain number of defaults, potentially more than what we would consider to be normal, demurrage, detention charges, and then the late harvest left the Canadian trade in a position where September/October and October/November shipments were in a very, very tight window, and so logistical challenges were in a position where certain shipments didn't make the contracted periods, and when you didn't meet the contracted period, because of the late harvest, discounts were very, very deep. So, we weren't talking about $10 a tonne discounts, we're talking about $100 a tonne discounts, $200 a tonne discounts.

So, from that perspective, it's just a reality of the matter of mix of factors, late harvest, massive price decline, led to some margin pressure. Now, all that being said, it's worked through our system now. We don't see sustaining and lasting effects into the new year. What I can say is that when I look at the resiliency of our earnings, I would predict that many of our private company competitors aren't in the same position. We have a very diverse base.

We mentioned to you—I mean, India was one of the major decline markets. Less than 5% of our net earnings came from India in 2016. Now, part of that is the prudency of Management in pulling back in that market, recognizing that prices were at a historical high, we had a very large harvest, and that at some point these prices were going to adjust in a massive fashion, and they did. So, the prudency of Management is we retracted and pulled back and held back as much as we could, to ensure that we didn't have a really big problem on our hands.

So, overall, an effect on margins in the quarter, but it worked through the system, and we're optimistic about the 2017 period.

OPERATOR:
The next question is from Anoop Prihar with GMP Securities. Please go ahead.

ANOOP PRIHAR:
Yes, good morning. I have two questions. First of all, in the MD&A, you do make reference to the defaults. I'm wondering if you can quantify the impact that had, order of magnitude, on the reported EBITDA for Q4; and secondly, how much of the softness in Q4 has carried over into Q1?

MURAD AL-KATIB:
Anoop, we estimate around $5 million of earnings impact on the claims and ancillary charges. So, we would have been a position where we feel pretty confident that we would have exceeded $40 million or so. But, you know what, it's neither here nor there. That's the situation that we faced. It's largely worked through.

One of the things is Q1 is actually—when you look at our business today, we have balanced our business, but if you even look at the flow of last year's earnings, traditionally, people view our Q2 period as the slow period, but actually, you know what, the Q1 period is becoming a very material reset period for trade in the world on an annual basis. So, India pauses, because they're waiting for their March harvest, and then exports to India start to resume, the order pipeline starts to fill again in March, April, May, June for the new crop. So, the quarter two period is actually becoming a bit stronger than our quarter one period, I think. That's probably what we saw last year and what we'll probably start to see around this year, as well.

I think that relative weakness that we're seeing in Q1 would largely also be affected by these maybe intended consequences of the non-tariff trade barrier fumigation issue. We think it's going to be resolved imminently. So, I went on record as saying that whether we get it before the March 31 deadline or we get it early part of April, Canada and India will find a resolution. My expectation is it's a temporary extension of the allowance for Canadian fumigation in-country and a more permanent resolution, because the science doesn't lie. Canada does not have the pests of concern. Canada has the best natural fumigation in the world: minus 40 degrees Celsius.

So, from that perspective, it leaves us actually in a unique competitive advantage position. Canada product is not infested. Canada product does not have pests of concern. Canada product is reliable. From that, we're building our future on Canada products, as one of the main spokes in the wheel of what we're going to do to grow our bulk handling business. So, we remain optimistic that, even with a bit of softness in the early part of the year, that the 2017 year is going to be a good strong shipping season.

OPERATOR:
Once again, if you have a question, please press star, then one. The next question comes from Sean Pratt with the Western Producer. Please go ahead.

SEAN PRATT:
Hi, Murad. I just wanted to get your take on demand prospects out of India, given the large crop that they harvested; and also if you could comment—I heard that it's very dry in Turkey and I'm just wondering what impact, if any, that's going to have on Turkey's lentil and chickpea crops, and what that means for our growers here.

MURAD AL-KATIB:
Okay, thanks, Sean. Well, I'll do it as a two-part question. First of all, India harvests a large crop every year, but I haven't seen one in the last ten. So, you know, again, this is part of the estimation, to ensure that food inflation is under control. Our local market intelligence is telling

us that the crop in Madhya Pradesh is average, so deliveries have been average. The deliveries have been a little bit late. In Uttar Pradesh they have reported rains over the last week, which some say could have an effect on crop quality there. So, overall, we're going to expect that the crop there is going to be an average crop, slightly better than last year, but we are seeing import demand resuming for the second and third quarter period, and a strong desire by India to book forward for new crop. So, from that perspective, that gives me my best signal on what I think the prospects are. We're expecting that imports may not reach 5 million tonnes, but it will be somewhere probably in the range of 4 million, 4.5 million, just counting for a slightly larger crop there.

Turkey is dry, but I can tell you that—I'm actually off to Turkey on Thursday next week, so I'll have a better idea in a couple of weeks, but our opinion today is that Turkey is actually in a position where every year they need late March/April rains. Because, again, every region in the world, Sean, harvest, as you know, when it is getting hot—Canada is the only country that harvests as we're getting cooler. So, Australia, Turkey, India all rely on seasonal rains, in order to give them the moisture to hold up against the extreme heat. If Turkey doesn't get April rains, they always have a crop problem. I think that the best-case scenario in Turkey is an average crop, which when I look at strong United Nations demand and regional demand, I expect Turkey to be a net importer in the same type of range as last year, making it the second biggest export market behind India and Canada for lentils. So, that bodes very well for AGT's business, because we're obviously heavily invested in that market.

So, overall, I think that it's good prospects for a stabilization of the grower markets here. So, we've had a major price correction. We're talking about wholesale prices coming down by—well, lentil prices have been down from the high 30s per pound. We're at mid-20s today. Now, mid-20 cents per pound for lentils is still penciling out as a very profitable crop. So, when I look at acres, I expect acres to be maybe slightly down from last year, but relatively stable.

OPERATOR:
The next question comes from John Chu with Laurentian Bank Securities. Please go ahead.

JOHN CHU:
Good morning, just a few questions here. Can you comment on the capacity utilization rates for the pulse processing assets; and then maybe talk about—on the bulk handling, you had about $50 million in transit from last quarter. Did you realize all of that this quarter? Then, lastly, just on the recently acquired rail assets in bulk handling, what's the seasonality for that, or should Q1 be a pretty good quarter for that, as well?

MURAD AL-KATIB:
Okay, John, I need to just get a clarification on your middle question about the $50 million, we couldn't quite catch it, so give us that one again.

JOHN CHU:
Sure. I think you mentioned in the last quarter there was about $50 million in transit on the bulk handling side, and that was going to spill into either Q1 or Q2 of this year.

MURAD AL-KATIB:
Yes, okay. So, let's get that question out of the way. We did, because of the late harvest, have quite a bit of product at the end of quarter three that had been shipped but not invoiced, and will again have the same thing in quarter four into quarter one. We always have a spillover. So, I think the spillover will be slightly less in the fourth quarter compared to the third quarter, because of that late harvest, but that was cleared out, and, again, we will have a spillover from one quarter to the next. That's the issue, is we are snapshotting one day for you. So, product that was loaded prior to Christmas season, that wouldn't have necessarily moved out to an invoice position, will get moved out into the first quarter. So, that'll clear itself.

The first question on capacity utilization, the harvest was very late. I can tell you—we mentioned, actually, part of our margin pressure was that the Canadian business was not able, with the contracted shipping window, to meet all of the shipping schedules that we had, that it largely spread over very high utilization for September, October, November and December. We ended up having to fit extremely high utilization into mid-October to mid-December. So, we shrunk, basically, from a period of let's say 13 weeks, we shrunk down to six weeks. So, I can tell you that there's not even a physical possibility that we could have shipped any more in our pulses business over the course of the fourth quarter.

You can see that reflected in volumes. The margin pressure was largely due to extraordinary price adjustments and the contracted shipping window. I think it bodes well to show, though, that the earnings power of our platform can be into the ranges higher than what we reported here, and I think that's a positive signal that you guys can take away from this.

The last question, just to remind me. John, go ahead, remind me your third question.

JOHN CHU:
Yes, just the seasonality on that. Is Q1 a busy period for that business?

MURAD AL-KATIB:
Yes, you know what, John, the seasonality, it's heavily a Q4/Q1 shipping. However, we did mention the quality issues in our MD&A. Durum wheat is a big focus for us in our bulk handling business, along with lentils and peas. Durum wheat quality in Canada this year, I don't know if we've historically ever saw durum quality worse than it is this year. So, we have a problem with what's called vomitoxin, and Canadian crop has a very high vomitoxin level. There's a limitation on what percentage vomitoxin can be shipped or consumed for humans, and even a limitation on what animal feed can consume in vomitoxin. So, that has slowed down the velocity of durum shipments. We're having to buy high vomitoxin, low vomitoxin and blends.

So, we'll continue to have shipments in the first quarter, but I think we may have a slower ramp-up on the Q1/Q2 period than what we would normally see, but we're quite optimistic that—again, the assets are there, the rail consolidation centre is built, so we'll be shipping through the year, and we're certainly going to be ready for our Q3/Q4 2017 period, where we think our port positions are more solidified, our handling capacity is built, and our origination, our farmer origination is getting stronger by the week.

OPERATOR:
We have a supplemental question from Jacob Bout with CIBC. Please go ahead, Jacob.

JACOB BOUT:
Yes, I had a couple of follow-ups. First, on the bulk handling side, can you just talk about the ramp you're expecting in 2017 and 2018? Are you still thinking upwards of 400,000 tonnes per year and $11 million EBITDA?

Then, the second part of my—the second question I had was just on the pulse and grain processing side. We've seen a ramp here of a number of years, you know, strong growth in EBITDA, but given what's happening with lentil pricing right now, the Canada crop is going to be probably flat year-on-year, India is producing a little bit more, do we take a bit of a pause in the growth in EBITDA on the pulse and grain processing side?

MURAD AL-KATIB:
Yes, I'm going to address that question first, Jacob. I think that the margins that we saw, with the constraints and the compression that we saw in the fourth quarter, we're going to recover from that. So, we're optimistic that margins will continue to show a stability and potentially an improvement over the course of the 2017 period. The high utilization, the efficient shipping in our bulk segment on pulses—because, remember, the bulk pulses going through our bulk handling system still go into our pulse and grains processing business. They don't go into bulk

handling. Bulk handling is all the other crops. So, the cereals, sugar, sorghum, rice, all of those types of commodities go into our bulk handling and distribution segment.

So, I don't think that Management is viewing it as a pause or a risk that margins will take a material reduction. Our back-to-back purchase and sales strategy is one that I can tell you that even at the current commodity price levels, we're achieving margins that are consistent with the type of margins that we expect in our business. When we look at it from a return on invested capital perspective, the margins will actually, I think, be looking quite positive, in that with the reduction in commodity prices and a consistent dollar per tonne margin targeted, actually, our return on invested capital is going to improve in that particular segment.

So, we're very focused on free cash flow, return on invested capital in each one of our segments. We're optimistic that the profitability of that segment is going to look positive as we go forward. Our average margins have been running in that $55 to low $60s EBITDA per tonne and we certainly have a target to keep that in that range, or move it into that $60 to $70 range. So, we're working hard to do that.

Now, you can improve margin or you can improve your cost structure, too. A lot of the CapEx that we've doing isn't on expansion, it's been on improving our product costs. So, robotic automation of packing systems. Lori mentioned the cogeneration project. So, we've become totally self-sufficient on electricity. We're an efficient producer that's now selling into the Turkish grid, you know, power. We're totally self-reliant now on the production of steam for our pasta and our bulgur processing. We cold store, you know, cool our warehouses in our Turkish operations entirely from a recapture in a very efficient cogen system. These are all cost reduction projects, and ultimately that's what will continue to make AGT more competitive as we continue to build our scale.

Question one was?

JACOB BOUT:
Question one was on the bulk handling side and just what the ramp there looks like.

MURAD AL-KATIB:
Oh, yes. You know, Jacob, we've been very clear. The rail consolidation centre is largely built, track-wise. There're a few things to improve to get ready for the new season. So, from that perspective, the target is to deliver out a very consistent unit-train-a-week program, ramping to two unit trains per week during our seasonal shipping period. So, every unit train per week, on a 40-week basis, gives around 400,000 tonnes of handle, and so we'll be looking at ramping that from 400 to 600 to 800. Now, our key focus is profitability, though, it's not market share. So,

we'll have to look at the available quality, the available opportunities. We'll stay very focused on lentils, peas, durum wheat, and we are looking at whether or not there are some partnership opportunities with some of the larger grain handlers, to look at starting out in other cereals and oil seeds, and more on just a handling/fixed cost recovery basis, just to make us more competitive.

OPERATOR:
The next question comes from Anoop Prihar with GMP Securities. Please go ahead.

ANOOP PRIHAR:
Just to follow up on the bulk handling system, on an annualized basis, Murad, what percentage of volume would durum account for?

MURAD AL-KATIB:
Of our Canadian platform, of course, Anoop, but it's a relatively new business for us, so—yes, about 25% of our Canadian volume, or 25% of—let me just take a quick look here. Okay, sorry. Anoop, is your question, of the bulk handling business, what percentage is durum wheat?

ANOOP PRIHAR:
Yes.

MURAD AL-KATIB:
Oh, sorry, I misunderstood your question. Yes, it's about 25% of the bulk handling segment.

ANOOP PRIHAR:
Thank you.

MURAD AL-KATIB:
Yes, sorry, I misunderstood. I thought you were asking of the total volume in Canada only. But, yes, in the bulk handling segment, it's about 25%.

ANOOP PRIHAR:
No, I meant the Canadian bulk—

MURAD AL-KATIB:
No, again, I can tell you that—when you do a little bit more research on how bad the quality was, it was a very difficult quarter for durum. While we're new to the business—on the bulk side, of course, we're not on the pasta manufacturing side—I can tell you that margins were not positively contributing in durum in this quarter.

Now, later in the quarter, though, once the initial sales were satisfied and we bought up the quality that we needed to, we've turn it around and margins are now positive and we're looking forward to their contribution in 2017. So, we're not in the wrong business, we just got hit with a late harvest and a poor quality in that particular side of the new business.

OPERATOR:
Anoop, did you have a supplemental question?

ANOOP PRIHAR:
Murad, I just want to make sure I put my question to you correctly. I was wanting to know what the volume was in the Canadian bulk handling represented by durum. Is that the 25% or is that—

MURAD AL-KATIB:
Okay. So, if it's in the Canadian bulk handling side, it would be roughly about, I'd say 40% to 50%, Anoop.

ANOOP PRIHAR:
Okay, that makes more sense. Thank you.

MURAD AL-KATIB:
Yes, it was around 25%, just to be really clear here now. That's what I thought you were asking, that's what I was going to answer. So let's just be really clear. Of the Canadian bulk handling in this quarter, about 40% to 50% was durum. Out of the segment overall, it's around 25%.

OPERATOR:
The next question is from John Chu with Laurentian Bank Securities. Please go ahead.

JOHN CHU:
Hi Murad. Just one follow-up question here. I guess the UN has declared South Sudan a famine state right now and listed a bunch of other regions that are at risk. So with your Food Aid Program that you have going on—at this rate the volumes going forward in the next couple of quarters—at what percentage does Food Aid represent of the bulk handling, typically?

MURAD AL-KATIB:
Good question. I've got to tell you that there're a couple of things, of course. We've seen the most recent figures outlining around 64 million refugees now that are being cared for by foreign governments or by United Nations agencies. One of the highest—maybe the highest level recorded in history. So those refugee programs are continuing with a ramp-up of the drawing of

Food Aid products, so our business there is continuing quite robust. The famine side is another side that is actually showing its head quite materially. So, we do expect that in 2017 there will be an increase level of donor activity and that we do expect both the World Food Program and International Red Cross-Red Crescent to be active participants in those programs. So, we do expect that volumes in our Food Aid business may ramp up as we continue to look at that. The Food Aid represents probably in the range of about 15% of turnover in 2016 and we expect that level to be maybe slightly higher in 2017 even with commodity prices coming down, reflecting the higher volume.

OPERATOR:
The next question comes from George Doumet with Scotiabank. Please go ahead.

GEORGE DOUMET:
Hi Murad. Do you get a sense of working capital requirements for 2017, I guess in the context of the declining pulse prices and maybe share with us your CapEx expectations for 2017. Thanks.

MURAD AL-KATIB:
Thanks George. We're going to be with a very disciplined focus as we said. I didn't mention it, of course this is the first conference call since we raised the Corporate Bond of $200 million and we went out and did the marketing on the bond issue. We were very clear with the market. CapEx budgets are going to stay in that $20 million to $25 million range in 2017. Target to keep a similar cap budget in 2018. We're expecting, as I said in my comments, that the total debt to EBITDA, we're targeting to come down to that 375 range and as Lori mentioned, the net working capital came in actually for the first time in a number of quarters at a below 20% figure. What was that figure Lori?

LORI IRELAND:
Nineteen…

MURAD AL-KATIB:
Nineteen and a half percent. Which is again showing when we look at year-over-year, net working capital has declined yet sales have went up materially. What we're doing is we're working capital management programs. We are not expecting with the commodity price reduction and continued focus of management on the use of structured trade finance and trade payables and accounts receivable and trade finance instruments to speed up our cash collection cycle, we do not expect working capital to be a consumer of cash. We expect it to be a contributor to free cash flow over the course of this coming year. So this will be a year of optimization of the working cap and the reduction of leverage and growth in some free cash

flow. We're excited about keeping that focus on free cash flow and net earnings, not on necessarily just on EBITDA. For us it's all about free cash flow and earnings per share.

OPERATOR:

This concludes the time allocated for the question-and-answer session. I would now like to turn the conference back over to Omer Al-Katib for any closing remarks.

OMER AL-KATIB:

Thank you. That brings us to the end of our questions in the session. I'd like to thank you all for joining us today. I'd like to remind anyone who is 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. Again, thanks for joining our conference call today, and I wish you all a very good day.

OPERATOR:

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