From Producer to the World

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AGT Food and Ingredients Inc.
Third Quarter 2017 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 Mr. Omer Al-Katib, Director, Corporate Affairs and Investor Relations. Please go ahead.

OMER AL-KATIB:
Thank you very much, Operator. Good morning and thank you for joining us on our Third Quarter 2017 Conference Call. 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 with the call, 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, the 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.

I'd like to ask Murad to make some comments and then we'll go to questions. Murad?

MURAD AL-KATIB:
Great. Thank you very much, Omer. Welcome to our conference call this morning.

Our business has continued to be impacted by market conditions noted in recent quarters, impacting our volumes and margins, especially in our core pulses segment, where we have seen decreases in our metric tonnes invoiced, as well as a reduction in our grain margins. While earnings are temporarily constrained, our business remains very liquid, and we believe in the long-term profitability of our diversified product offerings, global origins and logistics solutions for our global clients.

The market dynamics we see today are the markets that have been impacted by an oversupply in production and consumption markets, volatility in prices, including low prices overall, and a disconnect between expectations of value from the farmgate to market pricing in consumption markets, affecting margins overall. Non-tariff governmental import policies in India have resulted in relatively uncertainty in markets, and a sense of general malaise in the commodity markets and uncertainty in the global economy are resulting from geopolitical forces in many regions in the world.

I'd like to discuss the market dynamics and their impact on our business, but first I'm going to ask Lori, our CFO, to provide an update on the quarter. Lori?

LORI IRELAND:
Thanks, Murad. AGT continued to be impacted significantly by global market conditions, as Murad said. This was identified in earlier periods, and it affects global pulses and staple food markets. This impact affected volumes and margins in all areas of AGT's business, particularly in AGT's pulse and grain processing segment, with decreases in metric tonnes invoiced, as well as in grain margins, when comparing Q3 this year to Q3 of the prior year, as well as to the prior quarter.

In the Food Ingredients and Packaged Foods segment, adjusted gross profit per metric tonne increased in Q3 of 2017 compared to Q2 of 2017, and decreased when compared to the same quarter in the prior year. The results were, overall, relatively consistent with the prior quarter, due to consistent margins on sales from both the Minot facility and pasta. In the Q3 period, customers in this segment typically enter seasonal summer slowdown and maintenance cycles during the July and August months, resulting in a reduction to shipments.

The Bulk Handling and Distribution segment showed increased adjusted gross profit per metric tonne for Q3 2017, compared to Q2 2017, and compared to the same period in the prior year. This is due primarily to strong margins on sales out of AGT's Indian subsidiary. Adjusted gross profit per metric tonne and Adjusted EBITDA per metric tonne in this segment for the nine months ended September 30, 2017 were relatively consistent when compared to the nine months ended September 30, 2016. Adjusted EBITDA per metric tonne for Q3 2017 decreased when compared to Q2 2017, and to Q3 2016, due to lower metric tonnes invoiced, as well as consistent expenses offsetting this.

AGT's balance sheet and liquidity are improved as a result of recent capital transactions. The recent Fairfax Financial Holdings no-call preferred securities in the amount of $190 million, with a 99-year term, has provided capital that was utilized for the reduction of bank indebtedness. Net debt was reduced to $386.3 million at Q3 2017, compared to $543.7 million in Q2 of 2017.

Net working capital as a percentage of trailing 12-month revenue has decreased from 20.3% at September 2016, to 17.84% at September 30, 2017, and at September 30, 2017, AGT had total operating lines available of $255.1 million, with $22.7 million of the facilities utilized, leaving $232.4 million unutilized. The weighted average interest rate on available operating lines at September 30, 2017 was 3.6%.

AGT will continue to focus on the three pillars to our strategy, which are summarized as: one, developing an integrated farmgate to ingredient and retail consumer packaged program for AGT's customers, under AGT's brands and as co-packing supply chain partner; two, growing AGT's bulk handling business to monetize the earnings potential of its unique grain origination and logistical assets by linking these efforts with other assets in key consumption markets, such as Turkey, India and China; and, three, increasing AGT's facility utilization and evolving product mix to improve margins in a supply approach to AGT's core pulses business.

At September 30, 2017, AGT remained in compliance with all financial covenants.

Thank you.

MURAD AL-KATIB:
Thanks, Lori. As evidenced by these results, imports to key consumption markets have slowed, based on supply and demand imbalances, that we believe do not appear to affect the underlying demand fundamentals of pulse and staple foods markets. It's simply that markets, like India and Turkey, are working through their own local production before moving to new crop harvested products from Canada and other origins in periods where they historically imported.

While our expectations were for a slow return to traditional shipping in our core pulse and grain business, this recovery to more normalized conditions is now expected to come more slowly than previously estimated. Today, we estimate volume and margin expansion to begin in Q4 2017, with a gradual recovery expected to continue over the subsequent periods.

Now, it should be remembered that a large percentage of the world's population depends on sustainably produced vegetable protein from pulses, and nutrition from agricultural products and staple foods overall, particularly with increasing global populations and trends towards urbanization.

This period, historically, is the start of the traditional shipping period for global pulses and staple foods, with the end of Q3 marking the harvest period in North America and bringing new stocks into the marketplace. This cyclicality was the basis for our earlier expectation of return to traditional shipping volumes and margins later in this year. However, that oversupply of pulses from a large North American harvest last year, and upcoming Australian harvest, and higher than anticipated production in Russia, Kazakhstan and other Soviet Republics, and a high level of production in India and Turkey, were resulting in that supply demand imbalance.

Added to this is a disconnect between North American farmer expectations on their price of their newly harvested products and the workable price for importers in consumption markets. Global prices have been low because of oversupply and markets will need to work through available product to positively impact prices. The segment has demonstrated that the cyclicality, we believe, will be temporary.

I'd like to comment a bit on India and the pulses market. India is a major market for global pulses and has imported quantities of pulses over the past years to fill their own supply/demand gaps and requirements. This has been one of our issues that has affected volumes. With local supply high and prices in India being very low, importers have been hesitant to take positions on products where they may get caught on the wrong side of price movement, and this has affected the market psyche overall, not only in India but around the world. Government messaging and non-tariff trade policies are impacting that market psyche, as well.

It should be noted, though, that much has been made about fumigation policies. Whether granted a temporary exemption or not, this is in place for many countries exporting agriculture and food products to India. The policy is not unique to Canada, it's not unique to pulses, and it's not unique to AGT individually. This is a systemic agricultural issue for all countries exporting to India.

With regard to a resolution on these matters, I continue to have confidence. The Government of Canada is engaged on this matter. We're monitoring the developments and progress closely. We support the position of the pulse industry in its belief that it has a long-term future in supplying pulses to India and to all pulse-importing markets.

We should note that pulses to India from Canada may be exported still today, even with no fumigation exemption. It results in the payment by the importer of a $12 to $14 penalty for fumigation at cargo arrival.

In the quarter, we completed our agreement with Fairfax Financial as a strategic partner. This provides numerous advantages for AGT: for its business, including emerging markets growth potential, particularly as we look forward to the future in India and Africa; de-levering of our balance sheet to provide the necessary liquidity for current and future growth, including strategic investments and acquisitions; as well as strategic direction and input at their Board level. We're pleased to have them onboard and confident in our ability together to grow the AGT business. The recent Fairfax financing allowed us, as Lori mentioned, to reduce our net debt by 29%. This certainly has assisted us in this period of supply/demand imbalance of the world pulse market and allows us to continue to execute our strategy and business plan. As we've stated in the past, we believe that Prem Watsa, Paul Rivett and the Fairfax Team, and its affiliated investee companies around the world, provide us with exceptional partnerships.

AGT is a business that has many origins and market dynamics, and we've made strategic investments in key areas that we believe will well-position us in periods where market conditions are affected by these dynamics.

I just want to note a few things to kind of close out.

The earnings constraints we see as temporary. Management believes that margins are bottoming, signs of recovery are beginning to be evident, as the market and crop supplies of pulses available from the North American harvest and local supplies reconcile more into a supply/demand balance. Our utilization of our factory assets is expected to gradually rise as 2017 closes out and into 2018. Local stocks are going to be consumed, and new crop supplies will be constrained in the future, we believe, as market dynamics lead to less acres being planted in other origins.

I also want to note that our underlying profitability model is unchanged. We went through this cyclical pattern once before, in 2011 and 2012. Prior to the cyclical impact of the current environment, we had relatively stable and consistent profitability in a period spanning 11 quarters, from June 30, 2014 to December 31, 2016, where we averaged over $55 EBITDA per tonne, compared to the $23 that we saw in this quarter. The results in Q3 match the trough of the last cycle in Q1 ’12, after which our margins recovered to the levels seen during that 11-quarter period. During the relative period of stable and growing earnings, our Food Ingredients and Packaged Foods business was ramping up. Management is confident that the fundamental earnings power of our strategically located assets in our five continents is not materially changed when considering our long-term future.

Sub-5% Adjusted EBITDA margins have been rare in our historical context and more common in a commodity price decline market where sharp decreases in the international wholesale price of pulses and grains are magnified by the reluctance of North American farmers to support international sales. Prices are beginning to show signs of stability, with international prices moving within a tight band, and North American markets are adjusting to such pricing. Management expects the convergence will become more visible early in 2018, as crop conditions in India become better known to international markets.

Our Food Ingredients business continues to advance. When we look at it now, four production lines are commissioned and operating at approximately 90% utilization on four lines. Tonnes are up when comparing Q3 2017 to Q3 2016. Margins are stable, and the utilization of starches, flours, fibres and proteins are increasing both in petfood and food applications. The different market dynamics in this segment—the buying decisions of large food, pet food and retail clients—they’re not impacted by the same sentiment and supply/demand conditions in our traditional pulse consumption markets. We like that diversification. When we look at the segment, it contributed over 50% of our earnings in 2017, with only 18% of the tonnes handled. This will allow us to continue to be stabilized and continue to see the benefits as we go forward.

As Lori mentioned, our operating liquidity is at an all-time high, with net debt reduction of 29% and with available credit lines, utilization of our current operating credit at $22.7 million out of a total of $255 million available.

So, just to conclude, as AGT can't control the timing of market recovery, we're going to continue to focus on our strategy of being streamlined, efficient, responsible with our production, inventory and purchases, we're going to do our best to maximize cash flow and safeguard our capital in this period. Ultimately, it's our goal to remain competitive and position the Company to ensure that we have the ability to be the first to respond when the markets call for more pulses, and we expect that to come soon.

I thank you for your interest in AGT Foods and I'm going to turn it back over to Omer for questions.

OMER AL-KATIB:
Thanks Murad. Operator, I think we'll start the Q&A, please.

OPERATOR:
Our first question comes from Jacob Bout from CIBC.

JACOB BOUT:
Good morning.

MURAD AL-KATIB:
Good morning.

JACOB BOUT:
You talk a bit that margins, that things seem to be bottoming here. Can you talk a bit about the evidence behind that? I know you are saying that the first quarter of 2012 was the last time you saw this bottom, is this a five-year cycle, and how long do you think it's going to take for the industry to work through the current inventory?

MURAD AL-KATIB:
Yes, let me break that down, Jacob, into the parts of it, I guess. The first part, in terms of our view of the potential for near-term improvement in the margin profile, what we're seeing is—we're now seeing a bit more stability in terms of the local price in consumption markets. Where we were fighting over the last number of months is, international markets were declining while local farmer level in North America was actually stable and farmers were resisting letting stocks go. Old crop stocks were at

higher levels. When new crop came in, in August/September—and by the way, you know, we didn't make much commentary, but slightly above average in yield—but, literally, perfect quality, the best quality we've seen in the last decade in the Canadian crop. What that's lead to now is—it has led to markets coming more into balance on pricing. So, farmer level in Canada is coming down, international markets are stabilizing, which we think will assist us in executing the processing business model that we really focus on. That's one data point that I think gives us a relative level of confidence.

Secondly, new crop supplies of green lentils, chickpeas, crops that weren't available in the July/August period in this quarter, are now available. Our order book, when we look at our October/November/December order books, and those types, we have a good mix of pulses, which should lead us to an improvement in margin. We're seeing the Turkey market stabilize as well, which I think this quarter was a tough quarter there, as their market came down dramatically as we were working through the stocks that were remaining from the old crops.

So, all of those things give us a relative level of confidence.

In terms of the trough commentary that we gave, we feel that it could be relatively similar to the last time, but I do want to say, the last cycle that we went through was a geopolitical macroeconomic cycle, you know, related to Arab Spring, European debt crisis. It took a little bit longer in that one, in our opinion, because the forces were so diverse, you know, generational political change in the Middle East, Mubarak regimes, Gaddafi regimes fell, all those kinds of things, and then the European debt crisis and liquidity crisis followed. This year, we have a demand/supply imbalance. I mean, these things resolve themselves quite quickly. With boots on the ground, we're starting to see anecdotal evidence of lower seed sales, for instance. We expect the cycle to run in the way that high prices lead to record acres, oversupply leads to market correction, market correction leads to less acres, and the cycle begins again. So, we feel quite confident that we're getting back into that more normal period.

OPERATOR:
Our next question comes from Joel Jackson from BMO Capital Markets.

JOEL JACKSON:
Hi, Murad. I think I'll follow up on that line of questioning. I understand higher prices lead to lower prices, but there also could be something going on structurally in India, where—I mean, you can read about this every day—where the Indian government—if acres of pulses continue to be over 20 million tonnes—sorry, production of pulses be over 20 million tonnes, as they achieved in the last cycle, and they're down about a million this year after kharif, but it didn't keep doing that, and if a government wants to focus on them being more domestically self-sufficient for pulses—I'm not saying they can do that, but if there's a focus on that and a focus on more acres and better production, couldn't this be a structural problem that you are facing for years?

MURAD AL-KATIB:
Yes, it's a good question, Joel, and this is not a new focus for the government. Fundamentally, nothing's changed. They have a continued reliance on monsoon rain collection systems for agricultural irrigation. The pulses market is growing by 1 million tonnes per year of consumption. How we calculate that figure is: 38 million population growth, an average of 16 kilograms per person, leads to an average of about 550,000 tonnes per year of annual growth just from population, and then if we factor in a small factor on income growth at 150 million middle-class, we're over 1 million tonnes per year of growth in consumption in India.

Even the—I've got to tell you, if government there wasn't focusing on local production increase, they would actually be in a critical problem within 10 years. If the current consumption is 23 million to 24 million tonnes and the five-year average—I mean, this year, they did produce 23 or 24 and they imported. But, if we look at the last five years' production, it averaged 17.5 million or 18 million max.

So, from that perspective, we expect that we're going to see a shift in acres. What we're going to see is we're still going to see production, but it's going to move into crops that are more sure and easy for growers. We're expecting more wheat, more cotton, less pulses coming up for the March harvest. That's the key one for us, is the lentil and desi chickpea harvest, as it affects lentils and yellow peas.

So, we don't believe that there's a structural shift. We believe that the population and income growth needs both sides. Imports are going to grow and local production will grow, as well, as India attempts to have a regulated food inflation and self-sufficiency in pulses from both import and local production.

OPERATOR:
Our next question comes from Steve Hansen from Raymond James.

STEVE HANSEN:
Yes, good morning, Murad. Just a question on sort of the strategic options you might be pursuing through the downturn. You know, the common adage is never waste a good crisis. I'm just trying to get a sense for, with your added flexibility here now with Fairfax having come in and the balance sheet giving a bit more optionality, are you still looking at, or have you started to look, I guess is the better question, any of the strategic options that might be available? Are we still too early in sort of this sort of new cyclical part of the process, if you will, or is it better to wait, in your mind, or should you start looking now?

MURAD AL-KATIB:
Steve, I think that the strategy for us, because we believe that this is a supply/demand imbalance and it's going to be resolved relatively quickly over the coming quarters, we're not deviating from the strategy. We're really focused on, as Lori mentioned in her comments, the pillars of ramping up that Food Ingredients and Packaged Foods. You can't ignore the diversification benefit of that segment and how it balances our pulse business. We're looking now—Line 4 is running at 90% utilization. It's only been two quarters that we've been running it. So, we want a couple more quarters just to ensure that not only the sales will continue, but the margins will continue on the progression that we see, and then you're likely going to see expansion in that particular area.

We're looking at value-added production in some of our Food Ingredient streams. We've been talking about it in our MD&A, whether it be pasta production from pulse ingredients or food ingredient blending and mixes and pre-mixes, and those kinds of things, to get more inclusion into food products. We're going to be focusing on that area.

Then, of course, ramping up this bulk platform. Let's not forget that we deployed about $100 million in capital into our railway system and our bulk handling infrastructure. We had the CanEst acquisition in Montreal, which was a small one. We have Thunder Bay running. We're looking at west coast options now.

We're going to stick to the plan. The liquidity gives us flexibility as we look into that two/three/four-year cycle, but we're really going to stick to recovery, our plan on free cash flow. This is a bump in the road, it's not a change in the path, and we're going to focus on cost and efficiency, get through this blip, and return back to a very strong company.

OPERATOR:
Our next question comes from Greg Coleman of National Bank Financial.

GREG COLEMAN:
Hey, Murad. You mentioned there you had Line 4 kicking into gear, as we take a look at the Ingredients section. I was wondering if you could comment on the tonnage reduction that we saw sequentially in the Ingredients division, there down about 20% or so. I know it's up year-over-year, but we would have expected Line 4, being commissioned in Q2 and then kicking into full gear in Q3, to cause a tonnage increase, and that's not what we saw. Could you just give us a bit of colour there?

MURAD AL-KATIB:
Actually, Greg, what you don't see, and what we said in the MD&A, is that tonnage in the Food Ingredients part of that segment was up quarter-over-quarter, so the reduction was—this is the cyclical period where our pasta and our retail packaged foods business goes into a production cycle over the summer, and then those tonnes get invoiced out in the fourth quarter. People just don't eat as much canned, retail packed and pasta and things in the summer months, and so from that perspective, you really do have to look at a Q3 2016 over a Q4—or sorry, Q3 2017, to be able to look at the normal seasonal trend in that segment. So, tonnes were up, and they were quite materially. I think, if I remember correctly, the tonnes in the Food Ingredient segment were up about 25% year-over-year. So, we are seeing that benefit. The tonnage reduction in Q2 to Q3 is a normal cyclical thing that we saw last year, too, and so there's no change. It's really almost entirely pasta and a little bit of our South Africa side, but that tonnage reduction is normal season trend.

Margins were stable, which I think was a positive indicator in that we still had seasonally high prices on the pea stocks that were remaining in the July/August period, so we're expecting that new crop supplies and the sluggish demand on the export side could assist us in having both stability and the potential of some modest margin expansion in our Food Ingredient segment as we go forward over the next few quarters. So, we're quite optimistic that it's the right business, it's cyclically balancing, and we're going to focus on expanding that out in 2018 and 2019, for sure.

OPERATOR:
Our next question comes from Cihan Tuncay from GMP Securities.

CIHAN TUNCAY:
Good morning, team. Just a quick question for me and a follow-up on the Ingredients business point of discussion. You mentioned now in this MD&A and in the past couple of MD&As that you're seeing some pricing pressure due to the impact of lower corn feed prices on the Ingredients business. I'm just wondering where that stands now and how you see the impact of corn feed prices expanding into your results over the near term. Thanks.

MURAD AL-KATIB:
Yes, good question. Corn, obviously, has been also relatively price pressured. We saw that in terms of the reduction in corn and the high pulse prices were leading to that kind of pressure on the correlation of our starch fractions, in particular. That's the by-product from the protein production. But, what we've been seeing is relatively stable prices on that. We've been actually working quite diligently to ensure that we minimize the amount of that product going into any feed markets at all. Because, the minute we're subject to, let's say, the chicken feed market or the animal feed market for our fraction, we are subject to that corn price pressure, and I can happily report that we had very modest sales into the feed segment. We have managed to transition a few of those former, say, poultry feed opportunities into either flour opportunities for extrusion, for food, or for pet food.

So, we've been having quite a focus on the replacement of potato starch, tapioca starch, and other imported starch sources in particular, for food products on the gluten-free side and for pet food on the alternative diet blends. So, pretty modest effect of that corn pressure now, but it's still a pricing factor that we watch very, very closely. We're quite optimistic, though, that the stability in the pulse prices and that reduction that's been happening on the North American side to balance the markets, because of the sluggish export demand, is going to benefit this segment in the near term.

OPERATOR:
Our next question comes from John Chu from Laurentian Bank Securities.

JOHN CHU:
Hi, good morning. So, just on the pulse ingredients, it sounds like Line No. 5, there won't be a decision on that for a couple of quarters, based on what you said earlier. So, how does that compare to some of these new pulse fractionation plants were seeing popping up in Canada, where there's quite a bit of production coming online, and, in some instances, it looks like it may surpass what AGT has in total production? So, how do you kind of balance that competition that you're seeing there with your growth plans for what you're trying to do at Minot?

MURAD AL-KATIB:
Okay, well, let's just be very, very clear. To my knowledge, all of the announcements are for isolate plants. We're in the production of flours, fractions and granulated products that have not been put through a wet milling, you know, chemical solvent transformation process. We have natural, clean label flours and fractions for the food and pet food industry, with the proteins relatively intact. So, it's a very different product than the isolates that are being discussed.

When we turn around and look at the scale of those, you know, there's a strong market for isolates, and it may be something that we'll look at in the future, as well, it's growing, but it really doesn't affect the demand profile and the growth plans that we have at Minot. They are entirely different products and they're entirely different segments. For instance, we don't go into clear beverages. If you want a protein boost on a clear beverage, you're going to go with an isolate, because it dissolves entirely in water, but if you're going to go for an extruded snack with a protein boost, you're likely not going to use isolates, you're going to use a protein concentrate that's natural, so you can call it flour and have a clean label as you go forward, like Frito-Lay did with the Sun Chip, for instance. So, I don't see them being competition.

I actually see these announcements as continued proof of concept. I like scale. So, I never look at, you know, being a first mover, that scale is going to be competition. For me, scale is actually giving more incentive for the food companies to ramp up their production. We compete well, John, with the world, and we'll continue to prove that as we go forward. I've got to tell you, a five-year, first-mover advantage shouldn't be diminished by anyone. The R&D work that we've done at our R&D and Application Centre, and our partnerships that we have with the global food companies, certainly, it's not easy to replicate and jump into and circumvent. So, we're quite confident in our market position.

The Line 5 that you mentioned, look, we're two quarters into Line 4, it's running at high utilization. We like the margin profile. We want to be sure that that volume is going to continue. You'll remember, we have the plug-and-play model. The building is already there. Six months later, we can have a line running. So, those decisions will be forthcoming in the near term.

OPERATOR:
Our next question is from Joel Jackson of BMO Capital Markets.

JOEL JACKSON:
Hi, and thanks for taking a follow-up. Back on the Food and Packaged business, I think in your release you talk about the four lines at 90%, so I have a couple of questions on Minot. First, were the three—like, is that an average of the four? Like, what were those different lines doing? Then, if I extrapolate properly, it seems like your non-Minot volume growth was about flat year-over-year. What should we expect going forward in '18 for the non-Minot volume growth?

MURAD AL-KATIB:
Just to understand your question, Joel, I'm going to answer what I think is the first part. When I say 90% utilization, that would infer that three lines are running at full utilization and the fourth line is running at 90%. We take our total capacity, which we've kind of said is around 140,000 tonnes, and we are talking about where we're running this quarter in terms of that overall quarterly utilization. So, very high utilization, even in a period where we had relatively seasonal demand. I mean, a lot of the pet food manufacturers, for instance, do their summer maintenance shutdowns in July/August. We produced the product, it's ready, it's been shipping—or it's already shipped now, because we're in November, but that side is going well. Again, that last 10% capacity, we expect to be moving out in 2018, and then we still have some granulated flour and fibre capacity that we added last year that we'll be able to continue to fill as we move forward.

The non-Minot Packaged Foods business would be pretty much the pasta, and then the retail business in both South Africa and Canada, those tonnes were stable year-over-year, but we do expect growth, as we did add a pasta line earlier this year, and sales programs are emerging in that particular area. You'll notice a number of new President's Choice offerings in the Loblaw system, which were—some were just production initiatives for us. Others are innovation initiatives. So, if you go to the Loblaw shelf now you'll see Outer Space, Zoo Animals and Under the Sea pasta, which are pea protein, oat fibre, fortified pastas, which are children's pastas, that were part of our innovation program. So, that is the linkage of our Food Ingredients and our pasta business, which is an area which we see in the future as a potential growth area for us, being both the major pulse ingredients producer and a major pasta producer in the world. So, that flat result, I think we will see a boost in those tonnes and that utilization as we go forward in 2018.

OPERATOR:
Our next question comes from Steve Hansen of Raymond James.

STEVE HANSEN:
Yes, Murad, just a quick follow-up on your strategic relationships in the Food and Packaged ingredient space. How do you feel about the existing relationships today? Ingredion, in particular, are they providing the value you'd like to see? Are there additional partners that you might want to see tackling different markets? Can you just give us an update on the status there, because you have had some different relationships change over time in the past? Thanks.

MURAD AL-KATIB:
Yes, our Ingredion relationship, we're three-and-a-half years into a five-year agreement and annually, and, actually, every quarter, we evaluate that relationship and we look at the effectiveness of that. One of the things that I've said from very early on is that we're not just a supplier into a marketing agreement to Ingredion, or to anybody else. We're an active participant in application development, we sit at the table, and at many of the tables, we lead the relationship, we don't follow the relationship. I'm very happy with the breadth and depth of the contact that we have with the major global CPG companies.

We are not only an afterthought, but we're actively involved in pipeline developments for a number of major global food companies and pet food manufacturers around the world in their innovation pipelines, and so that's the position that you want to be in. That's the position that safeguards your market position against the emerging "competition" that comes into the market as the market expands. Because, you can produce, but if you can't sell and you don't have the sophistication on innovation and application, you won't survive in this business. We expended a tremendous amount of capital and resources on R&D that is leading to not only those strategic relationships, but there's some intellectual property that's being developed, some patents are pending already for AGT, and we believe that that will give us a very strong position as we go forward.

So, we evaluate those relationships, and I will tell you that no matter what those relationships are, AGT is going to be at the forefront of driving our own growth and prosperity in that sector. We believe it's part of our future, we believe that we've done relatively well, and we believe that the future is going to be even brighter on that.

OMAR AL-KATIB:
Thank you very much, Murad. This brings us to the end of our questions available in this session. I'd like to thank you all for joining us on our call this morning. I'd like to remind anyone that's 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 more than happy to follow up with you. So, again, thank you for attending our conference call this morning 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.