From Producer to the World

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AGT Food and Ingredients Inc.

Second Quarter 2018 Financial Results

Conference Call Transcript

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Speakers:

Murad Al-Katib
President and Chief Executive Officer

Lori Ireland
Chief Financial Officer

Gaetan Bourassa
Chief Operating Officer

Omer Al-Katib
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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 to everyone and thank you for joining us on our Second Quarter 2018 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, 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'd like to ask Murad to make some comments and then we'll move questions. Murad?

MURAD AL-KATIB:

Good morning. I want to thank everyone that's joined our conference call this morning. I'd like to discuss some of the market conditions we see in our business, as well as our performance in the past quarter, but first I'll provide a comment on the Management proposal announced on July 26th regarding the privatization of AGT.

On July 26, 2018, AGT announced it received a non-binding proposal from a group comprised of certain members of its Management Group, led by myself. Under the proposal, the Management Group would acquire all of the issued and outstanding common shares of AGT

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pursuant to a plan of arrangement, other than those held by the Management Group and certain other significant shareholders, for consideration of CAD$18 in cash for each common share. The proposal contemplates that Fairfax Financial Holdings Limited and Point North Capital Inc., together with certain other members of a buying group, will retain their equity interests in AGT, and current members of the Senior Management Team would remain in their current management positions with AGT after completion of the transaction. The Management Group has advised that the proposal has the financial support of Fairfax to provide financing to the Management Group for the transaction.

Yesterday, on August 7, 2018, it was announced that a Special Committee of independent directors to evaluate the proposal was formed, and details of the announcement by the Special Committee, including the retention of TD Securities, can be found on our Company website and also filed under AGT's profile on SEDAR. In this release, the Special Committee announced that they have not made any determinations or recommendations with respect to the proposal, and there is no set timetable for the Special Committee's review of the proposal and there can be no assurance that the proposal or any other transaction will proceed.

Neither AGT nor the Special Committee will make further public comment regarding these matters until the Special Committee approves a specific action or concludes its review. As a result, no updates to any timetable, details of the proposal or other statements respecting the proposal will be made or discussed during this scheduled Second Quarter 2018 Conference Call.

Regarding the AGT business in Quarter Two, we certainly see current conditions as predictably returning to what we view as a more traditional flow of markets for staple foods. Market conditions over the past few quarters have begun to show stabilization trends; however, we view the conditions as too early to determine the long-term impact on the business. We're closely monitoring a number of market conditions, including the upcoming North American harvest, global oversupply, planting progress and conditions in India, and with them, forecasts of local production volumes in India and Turkey, as well as governmental policy in agricultural

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commodity markets, including tariffs and what these will collectively mean for global trade flows in the coming periods.

Before we get into a bit more of that discussion, I'm going to ask Lori, our CFO, to discuss the Q2 results. Lori?

LORI IRELAND:

Good morning. Overall adjusted gross profit and adjusted gross profit per metric tonne improved in Quarter Two of 2018, compared to Quarter One of 2018. This is due to improvements in the bulk handing and distribution segments, as well as consistent results in the pulse and grain processing and food ingredients and packaged foods segments.

In the pulse and grain processing segment, adjusted gross profit and Adjusted EBITDA* per metric tonne were consistent. Stronger margins in the North American business were balanced by slightly lower margins in Turkey. Adjusted gross profit and Adjusted EBITDA* per metric tonne decreased when compared to the same quarter in prior year, due to lower relative performance in Australia resulting from constrained shipments, as well as margins of desi chickpeas to India and faba beans to North Africa. In addition, North American margins are gradually recovering, but remain lower than those in the early part of the prior year.

In the food ingredient and packaged foods segment, adjusted gross profit per metric tonne was consistent when comparing Q2 of 2018 to Q1 of 2018. This is due to positive sales programs related to food ingredients and packaging, as well as consistent margins in pasta. Adjusted EBITDA* per metric tonne decreased when compared to Q1 of 2018, due to specific marketing campaigns, but increased when compared to the same period in the prior year, due to the improved margins. Adjusted Gross Profit and Adjusted EBITDA* per metric tonne increased when compared to the three and six months ended June 30, 2018 to the same periods in the prior year.

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The bulk handling and distribution segment showed improvements in adjusted gross profit per metric tonne and Adjusted EBITDA* per metric tonne for 2018 Q2, when compared to Q1 of 2018. Strong margins on sales in the AGT Foods Europe trading platform, as well as improved earnings in operations of AGT India, were the main cause of the improvement. Adjusted gross profit per metric tonne decreased when comparing the three and six months ended June 30, 2018 to the same periods in 2017. Tariffs imposed on imports to India are now being reflected in sales prices of those products; however, the weaker results in Q1 of 2018 are impacting the year-to-date results. This is partially offset by positive earnings on trading business through AGT's U.K. operations.

Overall Adjusted EBITDA* for Q2 2018 was $17.2 million, which was an increase from $16.1 million at Q1 2018.

General and administrative and marketing, sales and distribution expenses for the three months and six months ended June 30, 2018 decreased when compared to the prior year. This is due to our continued focus on fixed cost reduction and cost savings initiatives.

Interest on short- and long-term debt for the quarter and year to date Q2 2018 was consistent to the prior year. Trade finance instruments are utilized to improve the cash collection cycle and interest charges remained consistent with the prior year. AGT continues to utilize LIBOR-based borrowing to lower interest rates incurred on the syndicated debt.

There's an income tax recovery in Q2 of 2018 in the amount of $3.9 million, resulting from losses in Turkey, India and Australia, many of these due to non-cash foreign exchange.

Net working capital as a percentage of revenue and in absolute dollars decreased in Q2, when compared to Q1 of 2018, and also when compared to Q4 of 2017. Accounts payable at Q2 2018 has remained consistent with Q1 2018; however, inventory levels decreased, which are typical in the Q2 period. Cash collections on Q1 sales have resulted in lower accounts receivable. In

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addition, AGT has expanded certain trade finance facilities, which has resulted in lower working capital levels.

Net debt was $464 million at June 30, 2018, a decrease from $507.2 million at March 2018, and from $543.7 million at June 2017. The decrease from the prior year is largely due to decreased working capital levels.

AGT's continued focus is on streamlined and efficient operations; efficient production management, including the management of inventory and purchases; and maximizing our cash flow.

In June of 2018, APP finalized its $400 million syndicated amended and restated agreement. The credit facilities now include the Mobil Group. In addition to other conforming amendments at the AGT consolidated level, the minimum Adjusted EBITDA* to interest expense ratio has been amended to suit the cycle of AGT's business. The financial covenants in respect of APP remain unchanged. At June 30th, 2018, AGT was in compliance with all financial covenants. Thank you.

MURAD AL-KATIB:

Thank you, Lori. As I mentioned earlier, global pulse and staple foods markets are emerging from a traditional reset period in Quarter Two, which is the period between local harvest in India and Turkey, where local production of pulses is available for these key consumption markets, and the commencement of the important harvest in North America. This traditionally means that import volumes are lower, which certainly does make the conditions, such as oversupply, duties, non-tariff trade barriers, and the general slowdown in import activities less pronounced in the period. However, we're looking ahead to harvest, which has begun in parts of the United States and in southern Saskatchewan, with reasonably good conditions in the good to fair range, which is expected to result in a normal crop with average yields and good quality. We're expecting a harvest in Canada which may result in 6.5 million metric tonnes of pulses produced. This would represent a decrease of about 4% from last year, mostly with the reduction in peas. The decline is marginal. It is not expected to materially correct the realignment of supply and demand positions globally.

Certainly, we're monitoring conditions in India with respect to local production forecasts, local pricing, monsoon rains and governmental policy on pricing and tariffs to assess the impact on volumes in upcoming periods. Reports of monsoon rains being behind average may provide some changes to governmental policy in India in the future. As planting is reported as behind 2017, this may result in lower production levels in India for 2019, and it basically comes down to whether local production can be supported by government policy and how long imports can be held off until supplies are needed. More clarity on India's position is not expected until production and stock levels, as well as information regarding the Indian government's plans surrounding tariffs and non-tariff programs, and elections in 2019, including their messaging regarding food security and local minimum support prices supporting local agriculture, are more clear to the marketplace. These conditions will determine the real impact on global markets in the coming periods, a very unpredictable trend.

While we do believe that as global markets, India included, work through oversupply and assimilate new market conditions, duties and tariffs into pricing, that materially reduced volumes and margins may reach a bottom and provide market signals that a gradual recovery will begin to emerge in the market. As we keep a close eye on these conditions and how they may impact our operations within our traditional business, we're focused on our business overall. Our food ingredients and packaged foods segment, and the overall progress in the food ingredient business units specifically, is advancing as we expect, with stability in volumes and margin. We expect sales programs will continue and that, with modest growth, we expect margins may improve.

On July 26th, the final ruling by the Canadian Border Services Agency on the Turkish pasta matter before them was released. As expected, a low duty structure was the result for AGT for pasta imported to Canada from our production facility in Turkey to our Canadian customers. No immediate material impact on AGT's pasta business or our earnings is expected as a result of

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the ruling, as Canadian sales could be replaced with sales to other markets and established values fit within the current market parameters.

Overall, we're seeing advancement in our packaged foods business and pasta, and growth in our retail packaged foods business. The business units, along with food ingredients, are expected to continue to provide a stable and predictable earnings in the segment and present diversification options with business that is not impacted by commodity cycles and commodity markets on volume and pricing.

Earlier in the quarter, we announced our banking agreements had been amended, so that the cost of our debt remains unchanged, and the financial covenants have been updated to reflect what we expect may be the gradual normalization of earnings through 2018 and '19, as well as recognizing the current market dynamics in global pulse and staple foods markets.

I wish to reiterate that AGT can't control the timing of market recovery. We continue to monitor the market conditions and we focus on our strategy. We continue to be as streamlined and efficient as possible; responsibly managing our production, inventory and purchases; maximizing our cash flow; safeguarding our capital as market conditions start to normalize with respect to volumes, prices and margins.

As we've indicated in the past, cyclicality in global agriculture markets is not uncommon and supply and demand fundamentals shift rapidly in high-volume staple consumption items, such as pulses, where consumption is generally consistent in stable cycles, but has shown a pattern of potentially expanding as consumers with fixed incomes in key consumption markets are able to procure more with lower prices to recover volumes. Ultimately, it's our goal to remain competitive and position ourselves to have the ability to be among the first to respond when the market calls for more of the products that we produce.

I thank you for your interest in AGT. I'll turn it over to Omer for the start of the Q&A portion of our call.

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OMER AL-KATIB:

Thanks, Murad. Operator, could we take the first question, please?

OPERATOR:

Our first question is from Joel Jackson with BMO Capital Markets. Please go ahead.

JOEL JACKSON:

Hi, good morning, Murad. Murad, some of the news items out there in Turkey, I wonder if you can comment on the following. Are there any risks right now with your Turkish operations in terms of people running it, what the Chairman is up to right now these days, if he's able to serve in his capacity, and if there's any risk now of you getting any cash out of the Turkish operations or being able to run it normally, considering a lot of political drama going on there? Thanks.

MURAD AL-KATIB:

Yes, thanks, Joel. There are a lot of political dynamics that are going on in Turkey and in the region right now. As you see every day, the news has something different from Turkey to Iran to Saudi Arabia. I can tell you our business operations in Turkey are operating as normal. Mr. Arslan, our Chairman, was in Canada last week for meetings with the Management Team and everything is operating as normal.

There were some media reports out there that we came out and said were not accurately reflecting the picture. There are no issues that are ongoing that are affecting our business in any material way. You know, Turkey is a dynamic market, that there's lots of political dynamics that go on, but certainly our Chairman is serving in his capacity uninhibited, our business is operating normally, and there's really nothing further to discuss on that side of things.

At this point, we're watching the Turkish lira devaluation. It's causing a little bit of noise on our income statement and balance sheet in terms of that non-cash foreign exchange position, but at this point there's no foreseen restriction on repatriation of capital. We've got intercompany loans and permanent capital contributed there. So, there are no funds flow issues. There are no

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foreseen economic circumstances that are imminently going to change that, as far as I'm aware, so I'm not losing any sleep over that at this point.

JOEL JACKSON:

Thanks.

OPERATOR:

Our next question is from Jacob Bout with CIBC. Please go ahead.

JACOB BOUT:

Good morning.

MURAD AL-KATIB:

Good morning.

JACOB BOUT:

I have a question on the food ingredients and the packaged foods, maybe just comment a bit on the mix of the total tonnes invoiced, they're down year-on-year, and maybe just talk a bit about some of the moving parts here between your pet food, human, pasta, what's the driver there; and then margins were also down slightly, as well, just the mix there.

MURAD AL-KATIB:

Yes. So, year-over-year—I'm just pulling the numbers up here, to be right in front of me here, Jacob, so just bear with me for a second. So, the volume currently down. I will tell you that in the mix, Minot food ingredient tonnes were up slightly in the quarter. So, we had pretty consistent volumes. I mean, we're now at a point where the lines are running at pretty high utilization, so there's not tonnes of additional tonnes, although we do have ability to put out more flour tonnes and more of the milled products. So, as we move into more granulated flours and things, there's still some capacity that we can do there.

The marginal decrease, it would have been a mix of tonnes out of our Africa business and out of Turkey and the pasta side, but, again, pasta was pretty consistent. Africa was up quarter-over-quarter, but I think when you compare it to last year, it was down slightly. So, no really big news story there. Quarter-over-quarter, Jacob, very consistent margins. I mean, we're into a period now where, where you'll see any margin effects is as we transition from crop to crop. We sign contracts in the spring that spread a year. The commodity prices from end of Q1 to Q2 haven't really changed dramatically, so very stable margins is what we would have predicted. That is stably up from where we were in the latter part of last year. Pea prices have stabilized with the reduction in exports. We expect that to continue with the new crop coming up, even with less peas. With lower export potential, we expect peas to be flat to soft in terms of price, so we could see a bit of an improvement in margin.

On the mix, pet food still continues to be a very major segment in the business. We are seeing some increases on the food side of our business, in particular, supply in concentrates and flours as feedstock for isolate production. We are supplying to other manufacturers as an ingredient for them to either do further purifications or isolations or formulated systems of food ingredients. So, that side of our business has actually been growing quite well. We have a number of U.S.-based manufacturers that are growing their production bases with the global dynamics that are happening in the vegetable protein sector.

So, pea protein isolate production is growing, we're using our product as a feedstock for that particular thing, and we're seeing continued growth in the potential around extruded products, and also in the non-dairy milk and beverage category, quite a strong growth in the substitution of pulses-based milks and non-dairy beverages that are competing head-to-head with both dairy beverages and also with things like almond and soy milk. So, some positive moves.

I was at the IFT Food Show in Chicago and we actually unveiled some new innovations, including breadcrumb replacement solutions using our deflavoured starches. The continued focus on starches is really an important part of the business. We need to up the value of our co-products in order to improve our profitability, and that's really where we're focusing effort.

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OPERATOR:

Our next question is from George Doumet with Scotiabank. Please go ahead.

GEORGE DOUMET:

Hey, good morning, Murad, and thanks for taking my question. We've got a pretty sizeable reversal in the working capital for the quarter, I think it was driven by receivables, and we're at $36 million of working capital positive for the first half. I'm just wondering how you expect that number to trend on an annual basis, and kind of maybe give us your sense on the inventory levels going forward.

MURAD AL-KATIB:

Yes, it was a combination of stable payables and a reduction in receivables and inventory, and we're going to continue to focus on those efforts. We do have a little bit of a challenge always in Q3, in that as we start to see a ramp-up because of harvest, we snapshot—September 30th—but I will tell you that, again, volumes are not up dramatically. I mean, we have an order book that is not long out in terms of our ability to plan shipments. Plants are on very tight metrics around working capital and we're going to do our best to ensure that the trend continues. We had a target—I think we kind of said our target would be to try and reverse in the range of $40 million to $50 million. We're actually very close to that target already on this quarter, and so our job now going forward is to ensure that we're not consuming back. As much as we can, we want to keep that working capital gain positive and see if we can even trend it down a bit better by looking at it. Now, commodity prices are going to help us a bit, because we expect commodity prices to be stable to even declining further. So, as a result of that, I think we're going to see some stability and maybe even some small incremental gains in Q3.

GEORGE DOUMET:

Thanks.

OPERATOR:

Our next question is from Steve Hansen with Raymond James. Please go ahead.

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STEVE HANSEN:

Yes, good morning, Murad. Just a quick one on the cadence. How do you see the cadence for volumes through Q3 and Q4, I guess Q3, in particular, just given that we've got a few cross-winds or dynamics at play. We've got a crop that looks pretty well advanced, if coming a bit early, but farmers also seem a bit reluctant to get off volumes and have a healthy carryover. Relative to past years, how do you see the Q3 and the Q4 cadence evolving?

MURAD AL-KATIB:

Well, I think that we have to clarify one thing on your questions. I'm not sure that farmers are unwilling to sell, I just think that the demand has actually been constrained, so the carryout stock is not as a desire of farmers to sit on product. I mean, we're seeing harvest is advancing—rapidly would be an understatement. I mean, we're forecasting 38 degrees Celsius on Saturday in Saskatchewan, with an extreme heat warning, and I can tell you that it doesn't take long for durum and wheat and lentils and peas to turn to a harvest condition when they've been desiccated with that type of temperature. With that, there's going to be some pressure in terms of both storage and ability of farmers to react to this.

The cadence, though, on volume, I mean, to be very honest, at this point we're usually sitting in a position where we are anticipating the first deliveries because we have a shortage of crop from cycle to cycle, and we can't wait to get started. Because volumes are through the roof for the first eight or ten weeks of the season, we don't have the same urgency. This year, we're piecing together business week-to-week, we're keeping our plants busy to cover our fixed costs, and we don't see that changing in the very near term. So, what you see is what you get. There's going to be relative stability, some gains in volume likely in Q3 and Q4. The recovery is a bit slower than what we were anticipating.

I think one of the things that we said in our MD&A is India's resiliency on the policies seem to be stronger in conviction than we thought they would be, and that's largely probably linked to election cycle. So, with the election next year, government is not only keeping their position on tariffs import restriction, but they are backing it with dollars, and so their budgets, I mean, they're putting billions of dollars available to support the minimum support prices. Now, to have a minimum support price is one thing, to back it with budgetary dollars is another. Now, how long will they do that? You know, if the monsoon is really deficient and food inflation starts to show itself, they'll reverse the trend pretty quickly, but that's a 2019 story, likely.

So, Q3, Q4 volume, capacity is ready, our logistical system is ready, our capital is ready. We just have to wait and respond as we can.

STEVE HANSEN:
That's helpful, thanks.

OPERATOR:
Our next question is from Greg Coleman with National Bank Financial. Please go ahead.

GREG COLEMAN:
Thanks very much. I'm going to skirt the rules a little bit, with hopefully squeezing in a clarity on a previous question. Murad, you mentioned on the Q1 conference call the working capital release would be targeting the $30 million to $40 million range, but I think, in answer to Steve's question, you revised that to $40 million to $50 million. I'm just wondering what the exact range was, and that's my sneaky clarity question, and my actual question is—your hedged currency is back to the U.S. dollar, with the exception of the Turkish lira. With the continued challenges there, can you just tell us how much of your sales are lira-denominated? Is it around 15%, which is how much of your PP&E is in Turkey, or materially higher or lower than that?

MURAD AL-KATIB:
Yes, let me break it down into your first question. You know, I'm always aspirational, so I think our target was $30 million to $40 million, but when we achieved that in this quarter, I can tell you that we're going to continue with our focus on incremental gains. So, I used the term $40 million to $50 million today because we continue to push that target. We want to be efficient on our

working capital, in particular, in a constrained environment. So, $40 million to $50 million is a target that we're going to continue to try and meet.

In terms of our hedging program, yes, our material exposure of USD back to CAD, our material exposure on Aussie dollar back to CAD, euros, I mean, any of the liquid deep futures, our forward marketing hedging currencies are hedged back. We always say we're not currency speculators, we're a staple foods distribution company.

Turkish lira, we have a very natural hedge. We have domestic Turkish lira-denominated sales, we have domestic Turkish lira-denominated purchases. Now, I can tell you, with the devaluation today, Turkish durum wheat is very cost competitive. Turkish lentils and Turkish chickpeas are very cost-effective and they're currently using their local crop. So, with that—and then our Turkish OpEx, we have a very large factory complex that we're operating there, including our maintenance CapEx budgets, including our utilities and other budgets, are all in Turkish lira. So, we're seeing domestic sales in Turkey running at about 40% of total turnover range, and so I would suggest that that 40% of total turnover, you're running in the range of about CAD$250 million in sales, and that would make up roughly about 13%, 14% of our revenue. But, we feel like we're quite matched. Now, we have a very large import program, which we import in dollar-denominated currency, and then we have an export business of around 60% of our turnover, which matches.

Now, the one thing on the Turkish domestic side that's been positive for us, in addition, is the imported products that we're bringing, we have a very strong business line now with supermarket chains in Turkey. So, we have attempted to actually build that relationship of importing products, like products that aren't produced in Turkey but are consumed, like large calibre chickpeas, rice, that Turkey is in a net import position. Those are the type of products—green lentils from Canada, those are the types that supermarket chains also index their prices quarterly to a dollar/Turkish lira conversion. So, in essence, the consumer in Turkey is taking the currency adjustment, and that's one of the reasons why inflation is running in the double-digits now, it's around that 12% or so, and we expect that inflation could go as high as 20%.

So, there are some macroeconomic issues going on in Turkey. We're watching them carefully. I can tell you I feel great about the fact that I have no reliance on Turkish banks and Turkish liquidity today, because we bank everything centrally out of our central treasury, but the lira exposure, it's there, we're watching it, but on an operational ordinary course of business, we're relatively hedged, Greg.

OPERATOR:

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

ANOOP PRIHAR:

Just a point of clarification. Murad, earlier on you said that the food ingredient lines were operating at high utilization. Can we interpret that to mean north of 90% for all four lines?

MURAD AL-KATIB:

Yes. Anoop, I mean, we're focusing on starch monetization, so initiatives that utilize our starch in a better fashion, so deflavouring starch, putting it into extrusion applications, putting it into bakery applications. I talked about the breadcrumb replacement solution that we released at IFT, the International Food Technologist Show, which is actually tied to a patent, so we've actually filed IP on that particular innovation. There are a number of innovations that we're focusing on now that are really aimed at utilizing the asset base.

The deflavouring line, as many of you know, it works in collaboration with the production line, it doesn't produce incremental capacity, and when we run products through it and we're able to put it into applications that require a deflavoured product, we get almost a whole 'nother margin. So, from that perspective, we're focusing very much on taking low-value starch sales, might be more into the feed segments, and moving them into human food and pet food. Those are really strong focuses. We'll look at additional capacity as we go forward, but at this point we're focused very much on the optimization of our margin profile.

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OPERATOR:

Our next question is from John Chu with Laurentian Bank Securities. Please go ahead.

JOHN CHU:

Hi, Murad. Maybe just following up on that last point you made, because it sounds like you've got high utilization rates, the margin's fairly stable, so I'm just kind of wondering where the growth is coming from. So, the things you just talked about, deflavouring, taking some of that lower value starch and moving it to human and pet food, is that going to be enough to really drive growth, EBITDA* growth, for that business, or is it just going to still kind of grow at a more modest pace until you add on a new production line?

MURAD AL-KATIB:

Yes, I mean, the margin improvement can be material, it does take time, so we're predicting a bit of stability for the next little while. I think that there is still runway in terms of capacity on granulated flours and other milled products, so what we're talking about is—don't forget we have our fractionation capacity and we have our milling capacity. Our fractionation capacity is largely utilized, but we are looking at other products. Some of these other applications that we're working on, in particular, on the human food side, aren't requiring the fractionation. I can tell you that selling high-quality, properly granulated flours is a more profitable business than selling fractions, because for every protein fraction I sell, I have to sell a starch and a fibre fraction. For every flour fraction I sell, I only sell the flour. So, there's still runway, John, in terms of improving earnings, seeing a material effect in terms of how that segment performs and contributes to our earnings recovery. Again, I'm not suggesting that we're not going to add capacity. We're going to be looking at what we can do in 2019 and 2020 to continue to add to that growth trajectory.

OPERATOR:

Once again, if you have a question, please press star, then one on your telephone. Our next question is a follow-up from Steve Hansen with Raymond James. Please go ahead.

STEVE HANSEN:

Yes, Hi, Murad. I was just going to try here. I know you can't speak on the comments—or you can't make any comments on the privatization process specifically here, but was just hoping you might be able to speak to Management's long-term motivations here and whether you think the Company could come back to the public market at some point if you're successful in your efforts, and whether this is just a shorter term value capture, if you will. I'm just trying to get a sense of the long-term motivations for the buying group.

MURAD AL-KATIB:

Yes, I'm sorry, Steve, I can't make any comments on that. The Special Committee will clarify its position on the transaction. Potentially, after they've done it, we may make some further comments, but I can't do anything at this time, but thanks for the question.

OPERATOR:

Our next question is from John Chu with Laurentian Bank Securities. Please go ahead.

JOHN CHU:

Hi, Murad, just one last thing. You mentioned in the MD&A this partnership with Loblaws. Can you maybe just tell us what that area is in?

MURAD AL-KATIB:

Yes, we completed an acquisition, I think it was around the 6th of May. We actually bought a business platform from Loblaws called the—it's a Middle Eastern control brand, John. It's their segment related to Middle Eastern foods. We were actually producing a big part of that already in our AGT CLIC business, so that would be a line of canned chickpeas, dark red kidney beans—we're going to be launching the full range of dried pulses, bulgur wheat, all the kind of things that we produce, along with a full range of Middle Eastern products, everything from bakery products to sauces. This is our retail packaged foods business. We have a very large capacity at CLIC in terms of warehousing and distribution. We are looking at the addition in the future of canning capacity.

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So, the Loblaw's relationship is one of our most important relationships in this country, and the opportunity came up to acquire the business from them and sign a 20-year exclusive agreement to supply it, manage it and grow it in partnership with Loblaws. So, we own the brand assets. It's theirs exclusively, though, so it'll become like a Middle Eastern President's Choice type brand for them, and the strength of Loblaw's distribution is what really appealed to us to grow. I mean, we're a food manufacturer and that's where we're focusing our strategy, and when you can be a manufacturer and a distribution company and own the brand assets in partnership with a Loblaws, it's an opportunity that we were quite keen on. So, we completed that and we're scaling that up. It'll be a contributor to our food platform going forward.

OMER AL-KATIB:

Well, thanks, Murad. That brings us to the end of our questions in the session. I'd like to thank you all for joining us on the call this morning. I'd like to remind anyone who'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 be more than happy to follow up with you. Again, thanks for attending our conference call and I wish everyone a good morning.

OPERATOR:

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

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