AGROPUR
Dairy Cooperative

QUARTERLY REPORT

For the 53-week period ended November 3, 2018

TO MEMBERS AND EMPLOYEES

Dear members and colleagues,

Here are the highlights of the fourth quarter of fiscal 2018:

- The fourth quarter included 14 weeks in 2018 compared with 13 in 2017;
- Sales were up $206.4 million to $1.8 billion (excluding the additional week in 2018, the increase was $77.4 million or 4.9%);
- Earnings from operations were down $8.7 million (7.4%) to $109.2 million;
- Capital expenditures totalled $135.3 million, including the Lake Norden plant expansion;
- A $7.4-million impairment of assets was recorded in connection with an announced plant closure.

12-month highlights:

- The 2018 financial year included 53 weeks compared with 52 in 2017;
- Sales were up $302.0 million to $6.7 billion (excluding the additional week in 2018, the increase was $173.0 million or 2.7%);
- Earnings from operations were down $82.0 million (18.5%) to $362.1 million;
- We exceeded our $100-million cost-reduction target for 2016-2018;
- The acquisition of all outstanding shares of Ultima Foods on October 29, 2017 was accretive to earnings from operations;
- A $47.7-million accounting gain on business combination was recognized at the beginning of the financial year;
- Patronage dividends of $65.2 million and redemptions of $40.1 million were declared.

Our results in the U.S. continue to be negatively impacted by the state of cheese and whey markets. This cyclical effect has been affecting us since the last quarter of 2017 and is persisting. In Canada, markets remain highly competitive, negatively impacting prices and therefore our earnings. In this environment, sound cost management remains a priority. We are also focusing on generating organic growth. For example, the largest capital project in our history is underway at our plant in Lake Norden, South Dakota. When completed, the $255 million USD (approximately $330 million CAD) expansion will triple the plant's milk processing capacity. Work is progressing well and we are on track to commissioning the new facilities in the first half of 2019. The expansion will enable us to capture a share of the growth in U.S. cheese consumption and strengthen our position as a key player in the dairy processing industry.

Financial overview

The **fourth quarter** included an additional week this year. Quarterly sales totalled $1.8 billion, a $206.4-million year-over-year increase. Adjusted for the additional week to make the numbers comparable, the increase was $77.4 million or 4.9%. Additional revenues resulting from the acquisition of the outstanding shares of Ultima Foods accounted for the bulk of the growth.

Earnings before interest, income taxes, depreciation and amortization, restructuring costs, integration and other non-recurring costs (earnings from operations) decreased $8.7 million or 7.4% year over year to $109.2 million. Canadian operations, which were affected by the competitive environment, were responsible for the decrease. While U.S. operations are still facing challenging market conditions, U.S. earnings increased in the fourth quarter of 2018 compared with the same period of 2017.

For the **full 2018 financial year**, the Cooperative's sales continued to grow, increasing 4.7% year over year to $6.7 billion. Adjusted for the effect of the 53rd week in 2018, the increase was 2.7%. Earnings from operations amounted to $362.1 million, a decrease of $82.0 million or 18.5%. The market environment had a $109-million negative impact in 2018 compared with 2017. We exceeded our cost-reduction program's target of $100 million over three years. Our initiatives saved $28.9 million during the year, for a cumulative total of $117.9 million after three years. Earnings before patronage dividends and the Cooperative's income taxes totalled $128.2 million, a decrease of 48.5% or $120.9 million from the previous year. Excluding one-time gains and purchase price adjustments related to acquisitions and impairment of assets related to a plant closure, the decrease was $92.6 million or 51.3%.

Earnings from Canadian operations were stable compared with the previous year. The addition of the activities of Ultima Foods and the full-year contribution from Scotsburn's activities were positive factors. As well, the savings generated by the various initiatives in our cost-reduction program reduced our operating costs in Canada by $22.8 million during the year. Sales of fresh products and cheese increased as a result of new contracts. However, the Canadian market remains extremely competitive. Price erosion had an unfavourable effect and neutralized the gains listed above.

Earnings from U.S. operations decreased 30.6% from 2017. While cheese and whey product sales volumes increased, the unfavourable impact of the cheese block price / cost of milk ratio and the significant decrease in world prices for whey products negatively impacted earnings. Positive factors included the savings generated by the various initiatives in our cost-reduction program and the decrease in milk costs compared with 2017 due to abundant milk supplies.

The depreciation and amortization expense increased by $14.9 million. Restructuring, integration and other non-recurring costs were $39.1 million, consisting of expenses related to the business combination, the restructuring of some operations and the start-up of some major projects. Financial expenses increased from the previous year, mainly as a result of higher interest rates and, to a lesser degree, increased indebtedness. As we reported in the first quarter of the year, a $47.7-million accounting gain was recognized in connection with the acquisition of all outstanding shares of Ultima Foods. Lastly, subsidiaries' income tax expenses decreased by $41.8 million due to lower U.S. earnings and the reduction in tax rates following the passage of the Tax Cuts and Jobs Act in the U.S., commonly referred to as the US tax reform.

Net earnings before patronage dividends therefore totalled $128.2 million, a decrease of $120.9 million or 48.5% from the previous year. Excluding one-time gains and purchase price adjustments related to acquisitions and impairment of assets impairment related to a plant closure, the decrease was $92.6 million.

The Board of Directors approved patronage dividends of $65.2 million and new redemptions of $39.7 million. The redemptions will be paid in February 2019 and 25% of the patronage dividends, or $16.3 million, will be distributed in December 2018. After deducting patronage dividends, the Cooperative recorded $4.7 million in income tax recovery. Agropur therefore generated net earnings of $67.7 million, which were added to the reserve.

Cash flows from operating activities totalled $338.3 million in fiscal 2018. $539.7 million was used for investing activities. Of that amount, $76.8 million was allocated to the business combination and the acquisition of investments. Investment in property, plant and equipment totalled $464.3 million, including continuing spending on the expansion of our plant in Lake Norden, South Dakota.

With respect to activities with members, issuance and redemption of shares and certificates of indebtedness totalled $40.0 million during the year. Equity rose by $47.8 million during the financial year to pass the $2.3-billion mark.

Earnings from operations were negatively affected by market conditions during the year. Despite the market hazards, the Cooperative remains in sound financial health. Moreover, our milk processing capacity is increasing. We are therefore strongly positioned to continue our growth in the coming years.

Robert Coallier
Chief Executive Officer

Émile Cordeau
Senior Vice-President and Chief Financial Officer

CONSOLIDATED EARNINGS

(IN THOUSANDS OF CANADIAN DOLLARS)	14 weeks 2018	13 weeks 2017	53 weeks 2018	52 weeks 2017
Sales	**1,797,557**	1,591,171	**6,714,365**	6,412,409
Operating expenses excluding depreciation and amortization	**1,688,322**	1,473,240	**6,352,218**	5,968,279
Earnings before interest, income taxes, depreciation, amortization, restructuring costs, integration and other non-recurring costs	**109,235**	117,931	**362,147**	444,130
Depreciation and amortization	**51,250**	42,120	**183,025**	168,080
Restructuring costs, integration and other non-recurring costs[1]	**20,296**	1,354	**39,066**	11,035
Operating earnings	**37,689**	74,457	**140,056**	265,015
Net financial expenses	**13,697**	9,071	**44,614**	35,661
Loss (gain) on disposal of assets	**472**	(401)	**198**	(212)
Revaluation of assets	**7,382**	(5,648)	**7 382**	538
Purchase price adjustment	**-**	(4,936)	**-**	(55,156)
Accounting gains as a result of business combinations	**-**	-	**(47,660)**	(13,971)
Income taxes of subsidiaries	**1,497**	8,286	**7,286**	49,042
Earnings before patronage dividends and the Cooperative's income taxes	**14,641**	68,085	**128,236**	249,113
Patronage dividends	**65,219**	65,236	**65,219**	65,236
Cooperative's income taxes	**(4,669)**	8,972	**(4,669)**	8,972
Net earnings	**(45,909)**	(6,123)	**67,686**	174,905

CONSOLIDATED CASH FLOWS

(IN THOUSANDS OF CANADIAN DOLLARS)	53 weeks 2018	52 weeks 2017
Operating activities		
Earnings before patronage dividends and the Cooperative's income taxes	**128,236**	249,113
Net financial expenses	**44,614**	35,661
Items not involving use of funds	**150,697**	200,577
	323,547	485,351
Patronage dividends paid	**(16,178)**	(14,946)
Change in non-cash items	**30,959**	6,664
	338,328	477,069
Financing and share capital activities		
Long-term debt and interest paid	**224,368**	(139,546)
Dividends on first preferred shares	**(57,967)**	(47,380)
Issuance and redemption of members' shares and certificates of indebtedness	**(40,036)**	(40,245)
	126,365	(227,171)
Investing activities		
Business combinations and acquisition of investments	**(76,826)**	(54,815)
Proceeds from disposal of assets	**1,403**	16,542
Property, plant and equipment, intangible assets and others	**(464,321)**	(177,285)
	(539,744)	(215,558)
Effect of exchange rate fluctuations on cash position	**(306)**	664
Net change in cash position	**(75,357)**	35,004

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS OF CANADIAN DOLLARS)	November 3 2018	October 28 2017
Assets		
Current assets	**1,199,230**	1,373,100
Investments and loan	**9,014**	17,280
Property, plant and equipment and other long-term assets	**3,393,613**	2,825,778
	4,601,857	4,216,158
Liabilities		
Current liabilities	**792,866**	840,513
Long-term debt	**1,395,779**	1,022,906
Deferred income taxes	**76,337**	65,230
Employee future benefits obligation	**25,054**	23,427
Other long-term liabilities	**4,035**	4,127
	2,294,071	1,956,203
Equity		
Members' capital	**804,739**	795,706
First preferred shares	**770,000**	770,000
Reserve and others	**733,047**	694,249
	2,307,786	2,259,955
	4,601,857	4,216,158

[1] Restructuring costs, integration and other non-recurring costs include costs for the business combination and the restructuring of certain activities.