AGROPUR
Dairy Cooperative

TO MEMBERS AND EMPLOYEES

Dear members and colleagues,

Here are the highlights of the first quarter of fiscal 2019:

- Sales were up $37.1 million (2.3%) to $1.6 billion;
- Earnings from operations were up $6.5 million (10.0%) to $71.5 million;
- Capital expenditures totalled $82.8 million, including $37.1 million for the Lake Norden plant expansion.

We closed the first quarter with a more positive overall performance than expected, even though the Canadian market remains very competitive. The improvement in our results was driven by our US operations. Despite lower average cheese prices in the US, the relationship between the cost of milk and market cheese block prices improved as a result of cheese market trends and international whey markets.

Financial overview

First quarter sales were $1.6 billion, a year-over-year increase of $37.1 million or 2.3%. Our Canadian operations accounted for the increase, which was essentially due to new contracts. In the US, sales were relatively stable when converted into Canadian dollars. The 12% decrease in the average selling price of cheese during the quarter was offset by exchange rate fluctuations.

Earnings before interest, income taxes, depreciation and amortization, and non-recurring costs (earnings from operations) increased by $6.5 million or 10.0% year over year to $71.5 million, largely because of the performance of our US operations. In Canada, despite increased sales volumes for fresh dairy products and cheese, and an overall reduction in costs, earnings decreased, mainly as a result of the competitive environment. The increase in our US earnings pushed up consolidated earnings from operations. Earnings were favourably impacted by the above-noted improvement in the cheese block price/cost of milk ratio, compared with last year. However, the price of cheese continued to fall during the quarter. With respect to whey, increased demand for value-added products also contributed to the improvement in our results.

Excluding the one-time gain recorded last year in connection with the acquisition of Ultima Foods, net earnings decreased $14.0 million in the first quarter of 2019, primarily because of the following factors:

- The depreciation and amortization expense increased by $4.6 million as a result of the commissioning of projects carried during the past year and the translation of US depreciation and amortization expenses into Canadian dollars;
- Restructuring, integration and other non-recurring costs increased by $4.4 million. These included start-up costs for major projects during the quarter, such as development of our distribution network in Western Canada, commissioning of new filling lines in the US, and commissioning of our Lake Norden plant expansion project;
- Financial expenses increased by $5.5 million, essentially due to interest rates and level of indebtedness;
- The subsidiaries' income tax expense rose by $6.8 million, largely because of increased US earnings.

In the first quarter ended February 2, 2019, cash flows from operating activities totalled $5.8 million. Operations generated $58.0 million, working capital required $36.0 million, and cash patronage dividends in the amount of $16.2 million were paid in December 2018. The change in working capital was essentially due to increased inventories.

Capital expenditures amounted to $82.8 million in Q1. Of that amount, 63% was spent in the US. Expansion of the plant in Lake Norden, South Dakota, continued and was by far the largest investment project during the quarter. The expansion will be commissioned in the second quarter, as planned. When the project is completed, Lake Norden will be processing 9 million pounds of milk into nearly 1 million pounds of cheese per day.

The Canadian business environment remained highly competitive in Q1 2019. As well, notwithstanding the improved performance by our US operations, our earnings continued to be negatively impacted by soft markets for cheese and whey. This situation is not new and it strengthens our conviction that we must stay focused on optimizing our operations and reducing our costs. We are pressing ahead with numerous initiatives of this type and a number of projects that will position us favourably are also in progress. In the meantime, we are working actively on our $50 million-per-year cost reduction program. After three months, we have achieved almost 10% of our target. To reach our goal, we are currently reviewing all activities and processes.

Robert Coallier
Chief Executive Officer

Émile Cordeau
Senior Vice-President and Chief Financial Officer

Quarterly Report

FOR THE 13-WEEK PERIOD ENDED FEBRUARY 2, 2019

CONSOLIDATED EARNINGS	13 WEEKS	
(IN THOUSANDS OF CANADIAN DOLLARS)	**2019**	2018
Sales	**1,640,026**	1,602,890
Operating expenses excluding depreciation and amortization	**1,568,550**	1,537,934
Earnings before interest, income taxes, depreciation, amortization, restructuring costs, integration and other non-recurring costs (earnings from operations)	**71,476**	64,956
Depreciation and amortization	**47,339**	42,753
Restructuring costs, integration and other non-recurring costs[1]	**12,230**	7,872
Operating earnings	**11,907**	14,331
Net financial expenses	**12,281**	6,780
Gain on disposal of assets	**(814)**	(153)
Accounting gain as a result of business combination	**-**	(47,660)
Income taxes of subsidiaries	**3,878**	(2,898)
Net earnings (loss)[2]	**(3,438)**	58,262

CONSOLIDATED CASH FLOWS	13 WEEKS	
(IN THOUSANDS OF CANADIAN DOLLARS)	**2019**	2018
Operating activities		
Earnings from operations	**71,476**	64,956
Current income taxes	**(1,249)**	(627)
Restructuring costs, integration and other non-recurring costs[1]	**(12,230)**	(7,872)
	57,997	56,457
Patronage dividends paid	**(16,150)**	(16,178)
Change in non-cash items	**(36,018)**	(18,054)
	5,829	22,225
Financing and share capital activities		
Long-term debt and interest paid	**74,258**	39,046
Issuance and redemption of members' shares and certificates of indebtedness	**(36)**	(152)
	74,222	38,894
Investing activities		
Business combination	**-**	(68,059)
Proceeds from disposal of assets	**1,501**	330
Property, plant and equipment and intangible assets	**(82,769)**	(96,541)
	(81,268)	(164,270)
Effect of exchange rate fluctuations on cash position	**(205)**	731
Net change in cash position	**(1,422)**	(102,420)

CONSOLIDATED BALANCE SHEETS		
(IN THOUSANDS OF CANADIAN DOLLARS)	**February 2 2019**	November 3 2018
Assets		
Current assets	**1,220,739**	1,199,230
Investments and loan	**9,104**	9,014
Property, plant and equipment and other long-term assets	**3,408,918**	3,393,613
	4,638,761	4,601,857
Liabilities		
Current liabilities	**767,468**	792,866
Long-term debt	**1,482,146**	1,395,779
Deferred income taxes	**70,874**	76,337
Employee future benefits obligation	**30,140**	25,054
Other long-term liabilities	**3,990**	4,035
	2,354,618	2,294,071
Equity		
Members' capital	**804,703**	804,739
First preferred shares	**770,000**	770,000
Reserve and others	**709,440**	733,047
	2,284,143	2,307,786
	4,638,761	4,601,857

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

[2] Net earnings (loss) presented before patronage dividends and the Cooperative's income taxes which are accounted for only at year end.