AGROPUR
Dairy Cooperative

Quarterly Report

FOR THE 26-WEEK PERIOD ENDED MAY 4, 2019

TO MEMBERS AND EMPLOYEES

Dear members and colleagues,

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

- Sales up $163.7 million (10.0%) to $1.8 billion;
- Earnings from operations up $12.6 million (13.8%) to $103.5 million;
- In Canada, sales were up despite the competitive environment;
- In the US, the cheese block price / cost of milk ratio improved;
- Net earnings down $6.3 million.

Highlights for the six-month period:

- Sales up $200.9 million (6.2%) to $3.4 billion;
- Earnings from operations up $19.1 million (12.3%) to $175.0 million;
- Capital expenditures totalled $163.6 million, including $65.9 million for the Lake Norden plant expansion in the US;
- Net earnings down $20.3 million (excluding accounting gain in 2018).

Overall, our results are up for both the quarter and the six-month period ended May 4, 2019. Positive factors include the improved relationship between the cheese block price and the cost of milk in the US and increased sales volumes on both sides of the border. In Canada, however, the market remains highly competitive.

Financial overview

Second quarter sales increased by $163.7 million or 10.0% and broke through the $1.8 billion mark for the first time. The increase was mainly due to volume growth resulting from the signing of new contracts and the translation of US sales into Canadian dollars.

Earnings before interest, income taxes, depreciation and amortization, restructuring costs, integration and other non-recurring costs (earnings from operations) increased by $12.6 million or 13.8% compared to the second quarter of fiscal 2018 to $103.5 million. The improvement was due to our US operations, which were favourably impacted by the cheese block price / cost of milk ratio. In Canada, the competitive environment continued to exert downward pressure on prices. Earnings from operations decreased in Canada despite increased sales volumes. We have therefore made our cost-reduction program a priority. This project had a $6.9 million favourable impact on our consolidated earnings in the second quarter.

The depreciation and amortization expense increased by $3.0 million to $46.9 million, essentially because of depreciation of new projects. Restructuring, integration and other non-recurring costs amounted to $8.4 million in the second quarter. The gradual ramping up of production at our new Lake Norden facility accounted for the majority of those costs. Financial expenses increased by $4.7 million, year over year, because of higher interest rates. The subsidiaries' income tax expense rose by $5.3 million as a result of our US operations' increased earnings.

Net earnings before patronage dividends and the Cooperative's income taxes were therefore $21.5 million in the second quarter of 2019, compared with $27.8 million in the same period of 2018.

In the first **six months** of the financial year, sales totalled $3.4 billion, a $200.9 million or 6.2% year-over-year increase. Earnings from operations amounted to $175.0 million, an increase of $19.1 million or 12.3% from the same period of 2018 due to the same factors noted above in the discussion of our quarterly results.

Excluding the one-time gain recorded last year in connection with the acquisition of Ultima Foods, net earnings decreased by $20.3 million in the first half of 2019, year over year, because of the following factors:

- $7.6 million increase in the depreciation and amortization expense, directly related to the major capital expenditures of the past year;
- $9.7 million increase in restructuring, integration and other non-recurring costs. These included start-up costs for major projects, such as development of our distribution network in Western Canada, commissioning of new filling lines in the US, and commissioning of the Lake Norden plant expansion;
- $10.2 million increase in financial expenses due mainly to higher interest rates.

Cash flows from operating activities were $153.1 million. Of this amount, $16.2 million was used for the payment of cash patronage dividends in December 2018 and $34.8 million for non-cash items. The latter variance was mainly due to higher inventories. Capital expenditures totalled $163.6 million in the first half of 2019. Of that amount, 42% was invested in Canada on multiple plant projects and our enterprise resource planning (ERP) system, and 58% was invested in the US. The largest portion of US expenditures went to the Lake Norden plant expansion project. The work is nearing completion and phased commissioning of the cheese facility began in March. The dryers will be commissioned in the third quarter. The plant will gradually ramp up production in the coming months.

With respect to member and share capital activities, redemption of shares and certificates of indebtedness totalled $40.2 million during the period.

In short, the business environment remains competitive in Canada and markets are still volatile. We are therefore continuing our cost-reduction efforts. After completing two successful rounds of cost-cutting in recent years, our new $50 million-a-year cost-reduction program is progressing. However, due to implementation lead time, that target will not be achieved until the next fiscal year. While our earnings are increasing, we are pressing ahead with our efficiency improvement efforts in order to offset the effects of market fluctuations.

Robert Coallier
Chief Executive Officer

Émile Cordeau
Senior Vice-President and Chief Financial Officer

CONSOLIDATED EARNINGS

(IN THOUSANDS OF CANADIAN DOLLARS)	13 WEEKS **2019**	13 WEEKS 2018	26 WEEKS **2019**	26 WEEKS 2018
Sales	**1,806,760**	1,643,024	**3,446,786**	3,245,914
Operating expenses excluding depreciation and amortization	**1,703,278**	1,552,123	**3,271,828**	3,090,057
Earnings before interest, income taxes, depreciation, amortization, restructuring costs, integration and other non-recurring costs (earnings from operations)	**103,482**	90,901	**174,958**	155,857
Depreciation and amortization	**46,916**	43,905	**94,255**	86,658
Restructuring costs, integration and other non-recurring costs[1]	**8,356**	3,016	**20,586**	10,888
Operating earnings	**48,210**	43,980	**60,117**	58,311
Net financial expenses	**15,773**	11,098	**28,054**	17,878
Loss (gain) on disposal of assets	**224**	(294)	**(590)**	(447)
Accounting gain as a result of a business combination	**-**	-	**-**	(47,660)
Income taxes of subsidiaries	**10,725**	5,409	**14,603**	2,511
Net earnings[2]	**21,488**	27,767	**18,050**	86,029

CONSOLIDATED CASH FLOWS

(IN THOUSANDS OF CANADIAN DOLLARS)	26 WEEKS **2019**	26 WEEKS 2018
Operating activities		
Earnings from operations	**174,958**	155,857
Current income taxes	**(1,264)**	(798)
Restructuring costs, integration and other non-recurring costs[1]	**(20,586)**	(10,888)
	153,108	144,171
Patronage dividends paid	**(16,150)**	(16,178)
Change in non-cash items	**(34,792)**	(6,217)
	102,166	121,776
Financing and share capital activities		
Bank loan, long-term debt and interest	**120,939**	122,283
Dividends on first preferred shares	**(31,390)**	(26,577)
Issuance and redemption of members' shares and certificates of indebtedness	**(40,116)**	(40,083)
	49,433	55,623
Investing activities		
Business combination	**-**	(68,059)
Investment acquisition	**-**	(1,000)
Proceeds from disposal of assets	**1,528**	1,120
Property, plant and equipment and intangible assets	**(163,627)**	(194,267)
	(162,099)	(262,206)
Effect of exchange rate fluctuations on cash position	**(351)**	531
Net change in cash position	**(10,851)**	(84,276)

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS OF CANADIAN DOLLARS)	**May 4 2019**	November 3 2018
Assets		
Current assets	**1,249,824**	1,199,230
Investments and loan	**9,304**	9,014
Property, plant and equipment and other long-term assets	**3,480,725**	3,393,613
	4,739,853	4,601,857
Liabilities		
Current liabilities	**896,234**	792,866
Long-term debt	**1,469,755**	1,395,779
Deferred income taxes	**77,280**	76,337
Employee future benefits obligation	**29,808**	25,054
Other long-term liabilities	**4,047**	4,035
	2,477,124	2,294,071
Equity		
Members' capital	**764,623**	804,739
First preferred shares	**770,000**	770,000
Reserve and others	**728,106**	733,047
	2,262,729	2,307,786
	4,739,853	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 presented before patronage dividends and the Cooperative's income taxes which are accounted for only at year end.