AGROPUR
Dairy Cooperative

Quarterly Report

FOR THE 13- AND 52-WEEK PERIODS ENDED NOVEMBER 2, 2019

TO MEMBERS AND EMPLOYEES

Dear Members and Colleagues,

Here are the financial highlights of the fourth quarter of fiscal 2019:

3-month highlights:

- The fourth quarter included 13 weeks in 2019 compared with 14 in 2018;
- Sales were up $140.1 million or 7.8% to $1.9 billion (excluding the additional week in 2018, the increase was $269.0 million or 16.1%);
- Earnings from operations were down $16.1 million to $93.1 million (excluding the 53rd week in 2018, the decrease was $7.9 million or 7.9%);
- The sale of the St. Paul's facilities in the United States generated a $63.8 million gain on disposal ($46.8 million gain net of income taxes);
- The Cooperative's earnings before income taxes and patronage dividends were up $12.0 million (excluding the gain on St. Paul, net of income taxes, earnings decreased $34.8 million).

12-month highlights:

- The financial year included 52 weeks in 2019 compared with 53 in 2018;
- Sales were up $540.9 million or 8.1% to $7.3 billion (excluding the additional week in 2018, the increase was $669.8 million or 10.2%);
- Earnings from operations were up $3.3 million or 0.9% to $365.4 million (excluding the additional week in 2018, the increase was $11.5 million or 3.3%);
- The depreciation and amortization expense was up $33.8 million following the commissioning of several capital projects, including Lake Norden (commissioned in March 2019);
- Patronage dividends of $30 million and no share redemptions were declared;
- Net earnings were down $27.5 million.

The Cooperative closed the fourth quarter on a note of change. First, the retirement of CEO Robert Coallier was announced on October 4. Agropur has achieved major growth under his leadership since he became CEO in 2012, particularly in the U.S. where he successfully implemented an acquisition plan that made the Cooperative a major player in that market and one of the top 20 largest dairy processors in the world. It is therefore with pleasure that I take over and I release my first quarterly report as CEO. I thank the Board of Directors for their confidence and accept the challenge with enthusiasm. During the quarter, we launched an in-depth review of our Canadian organization. The first steps were a review of the composition of our management team and the establishment of a transformation plan, which is now starting up and will continue in the coming years. This transformation is essential to improve the profitability of our Canadian operations and propel profitable growth. Meanwhile, we closed the sale of our St. Paul's facilities in the United States on October 26, 2019. The sale had been announced in December 2018 and was subject to approval by the U.S. Bureau of Competition, which was obtained last October.

Financial overview

Fourth quarter sales increased $140.1 million or 7.8% year over year to $1.9 billion. If we exclude the 53rd week in 2018 for better comparability, the increase was 16.1%. It was mainly due to volume growth in both Canada and the U.S., driven largely by the addition of new customers in Canada and the additional contribution from the Lake Norden plant in the U.S. following its expansion. Higher cheese prices in the U.S. and the strength of the U.S. dollar also contributed to the increase in sales.

Earnings before interest, income taxes, depreciation and amortization, restructuring costs, integration and other non-recurring costs (earnings from operations) decreased by $16.1 million or 14.8% year over year to $93.1 million (excluding the 53rd week in 2018, the decrease was $7.9 million or 7.9%). The decrease was essentially due to lower profit margins in Canada because of operational problems and the competitive business environment.

In fiscal 2019, sales grew to a record $7.3 billion, a $540.9 million or 8.1% increase from 2018. Excluding the impact of the additional week in 2018, the increase was $669.8 million or 10.2%. Earnings from operations increased $3.3 million or 0.9% year over year to $365.4 million. Adjusting for the 53rd week in 2018, the increase was $11.5 million or 3.3%. The earnings' increase is entirely due to the U.S. operations, where the relationship between the cheese price and the cost of milk improved. However, on a consolidated basis, the improvement in the U.S. was offset by a decrease in earnings from Canadian operations. While volumes grew in Canada, the competitive environment and operational issues reduced our earnings.

From earnings from operations we deduct a $216.8 million depreciation and amortization expense, up $33.8 million essentially as a result of the commissioning of several major projects during the year, including Lake Norden. We also deduct restructuring, integration and other non-recurring costs in the amount of $41.8 million, which include start-up costs for major projects and restructuring costs for some operations. Financial expenses were $67.9 million, an increase from 2018 due primarily to higher interest rates and increased average indebtedness as a result of major investments. A $64.1 million gain on disposal of assets was recorded mainly in connection with the sale of our St. Paul's facilities in the United States. Asset impairment charges were recorded following the announcement of our plant closure in Lachute, Quebec and a review of our brand portfolio. Lastly, the subsidiaries' income tax expenses increased by $31.4 million, essentially as a result of improved earnings from our U.S. operations and the gain on the sale of the St. Paul plant. The Cooperative's earnings before income taxes and patronage dividends therefore totalled $47.2 million.

The Board of Directors approved patronage dividends of $30 million, issued entirely in investment shares.

A total of $152.4 million was used for investing activities in 2019. Additions to property, plant and equipment and intangible assets amounted to $293.7 million. The expansion of the Lake Norden plant in the U.S. was the largest capital project in 2019. In Canada, significant investments were made at our plants to support the launch of innovative products, including Mochi frozen novelties, and to modernize our facilities. We also invested in distribution and capacity in order to serve our customers. We continued the deployment of our Enterprise Resource Planning (ERP) system, which was rolled out to 23 additional sites during the year.

With respect to member and share capital activities, the cash portion of the patronage dividends declared in 2018 and paid in 2019 was $16.2 million. Redemption of shares and certificates of indebtedness amounted to $40.4 million.

The 2019 results do not reflect the Cooperative's great potential. We can do much better. We are therefore launching a transformation plan for our Canadian operations, an essential step on the path to profitable and sustainable growth. The process of change began in the last quarter will therefore continue in 2020 and subsequent years. We also have considerable growth potential in the U.S. and will therefore continue to invest there to support both organic growth and growth through acquisitions.

Émile Cordeau
Chief Executive Officer

CONSOLIDATED EARNINGS

(IN THOUSANDS OF CANADIAN DOLLARS)	13 WEEKS 2019	14 WEEKS 2018	52 WEEKS 2019	53 WEEKS 2018
Sales	**1,937,612**	1,797,557	**7,255,235**	6,714,365
Operating expenses excluding depreciation and amortization	**1,844,525**	1,688,322	**6,889,794**	6,352,218
Earnings before interest, income taxes, depreciation, amortization, restructuring costs, integration and other non-recurring costs (earnings from operations)	**93,087**	109,235	**365,441**	362,147
Depreciation and amortization	**64,095**	51,250	**216,832**	183,025
Restructuring costs, integration and other non-recurring costs	**12,716**	20,296	**41,839**	39,066
Operating earnings	**16,276**	37,689	**106,770**	140,056
Net financial expenses	**20,056**	13,697	**67,870**	44,614
Loss (gain) on disposal of assets and business combination	**(63,583)**	472	**(64,116)**	(47,462)
Impairment of assets and other	**17,159**	7,382	**17,159**	7,382
Income taxes of subsidiaries	**15,963**	1,497	**38,639**	7,286
Earnings before patronage dividends and the Cooperative's income taxes	**26,681**	14,641	**47,218**	128,236
Patronage dividends	**30,009**	65,219	**30,009**	65,219
Cooperative's income taxes	**(22,971)**	(4,669)	**(22,971)**	(4,669)
Net earnings (loss)	**19,643**	(45,909)	**40,180**	67,686

CONSOLIDATED CASH FLOWS

(IN THOUSANDS OF CANADIAN DOLLARS)	52 WEEKS 2019	53 WEEKS 2018
Operating activities		
Operations	**321,836**	323,547
Patronage dividends paid	**(16,150)**	(16,178)
Change in non-cash items	**34,531**	30,959
	340,217	338,328
Financing and share capital activities		
Long-term debt and interest	**(72,604)**	224,368
Dividends on first preferred shares	**(62,780)**	(57,967)
Redemptions, net of issuance of members' shares	**(40,428)**	(40,036)
	(175,812)	126,365
Investing activities		
Property, plant and equipment and intangible assets	**(293,711)**	(464,321)
Other investing activities, net of proceeds from disposals	**141,292**	(75,423)
	(152,419)	(539,744)
Effect of exchange rate fluctuations on cash position	**(207)**	(306)
Net change in cash position	**11,779**	(75,357)

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS OF CANADIAN DOLLARS)	2 novembre 2019	3 novembre 2018
Assets		
Current assets	**1,252,361**	1,199,230
Property, plant and equipment and other long-term assets	**3,376,666**	3,402,627
	4,629,027	4,601,857
Liabilities		
Current liabilities	**864,712**	792,866
Long-term debt	**1,395,664**	1,395,779
Other long-term liabilities	**119,292**	108,015
	2,379,668	2,296,660
Equity		
Members' capital	**794,320**	804,739
First preferred shares	**770,000**	770,000
Reserve and others	**685,039**	730,458
	2,249,359	2,305,197
	4,629,027	4,601,857