

Dear Members,

Here are the **financial highlights of fiscal 2023**:

- Sales of \$8.2 billion;
- Earnings from operations (EBITDA) up by \$24.3 million or 4.7% to \$546.0 million despite the sale of the La Crosse operations in December 2022;
- Sustained inflation and rising interest rates;
- Lower cheese prices in the U.S. and lower ingredient prices on international markets;
- New plant in Little Chute, Wisconsin commissioned on March 22, 2023;
- First deployments of the new cloud-based integrated management system (ERP) completed successfully;
- Earnings before patronage returns, income taxes and extraordinary gain of \$179.5 million, stable compared with the previous year;
- Debt leverage ratio reduced from 3.07x to 2.36x EBITDA in fiscal 2023;
- The Board of Directors declared a \$50.0 million patronage return (\$12.5 million or 25% payable in cash in December 2023 and 75% payable in Class A investment shares);
- A \$37.5 million capital redemption, payable in February 2024, was announced, representing the same amount as the new Class A investment shares issued in payment of patronage returns or 75% of \$50.0 million;
- Exceptional decision to proceed with an additional \$11.7 million capital redemption, also payable in February 2024.

The Cooperative's EBITDA increased for the fourth consecutive year. Despite a number of unfavourable economic challenges (inflation, cheese prices in the U.S., international ingredient prices and interest rates), Agropur performed well. Our efforts to streamline our operations and tightly manage costs are beginning to pay off. The increase in earnings from operations, combined with our healthier balance sheet, enabled us to achieve our target debt leverage ratio. After reviewing the results, the Board of Directors declared a \$50.0 million patronage return to be paid partly in cash (\$12.5 million) and partly in newly issued Class A investment shares (\$37.5 million). The declaration of this patronage return was accompanied by the decision to proceed with a capital redemption in the total amount of \$37.5 million. Finally, in view of the Cooperative's sound financial condition, the Board of Directors made the exceptional decision to make an additional special redemption to settle the balance of the outstanding 2009 Class A investment shares and debt instruments in the amount of \$11.7 million. These redemptions will both be paid next February.

Some major projects marked the year 2023. In order to focus on its core businesses, the Cooperative sold its U.S. operations of the La Crosse, Wisconsin facility in December 2022. Furthermore, in March 2023, we commissioned our new plant in Little Chute, Wisconsin. This major investment in a value-added segment will increase our cheese sticks production capacity and enable us to support our customers' growth. Lastly, we completed the first two deployments of our new cloud-based ERP in May and September 2023. Five plants and two administrative offices are now using the new system. All these implementations were completed successfully without business interruption. The roll-out phases will gradually continue at the other Canadian and U.S. plants.

Financial overview

Results:

The Cooperative's consolidated sales totalled \$8.2 billion in fiscal 2023, a year-over-year decrease of \$267.9 million or 3.2%. The decline was essentially due to the sale of the La Crosse operations in December 2022.

EBITDA was \$546.0 million in 2023, a \$24.3 million or 4.7% increase compared with 2022. Better price management, overall cost-reduction efforts and improved operational efficiency had a positive impact on EBITDA. However, these positive factors were partially offset by external economic factors, which put pressure on our earnings, and the sale of La Crosse operations. Canadian EBITDA grew by 9.0%. In the U.S., excluding the effect of the La Crosse operations sale, EBITDA increased by 8.5% compared with 2022. The appreciation of the U.S. dollar against the Canadian dollar had a positive impact on U.S. earnings from operations when translated into Canadian dollars.

The depreciation and amortization expense was \$232.2 million, a \$13.4 million year-over-year increase due in large part to the commissioning of the Little Chute plant and the impact of the appreciation of the U.S. dollar against the Canadian dollar. Restructuring costs, integration and other non-recurring costs were \$28.1 million, primarily related to the start-up of the Little Chute plant. Its start-up costs consisted mainly of rejected products that did not meet our high-quality standards. Implementation costs for the cloud-based integrated management system of \$16.3 million were expensed in 2023. Note that a portion of the costs incurred for this project cannot be capitalized as intangible assets and must therefore be expensed as incurred. Financial expenses were \$74.2 million in 2023, a \$20.3 million increase due to central banks key interest rate increases, which affected our floating rate loans.

Earnings before patronage returns, the Cooperative's income taxes and extraordinary gain were therefore \$179.5 million, stable compared with 2022. A \$20.7 million extraordinary gain on disposal of assets, net of income taxes, was recorded in connection with the sale of the La Crosse operations.

In light of the 2023 earnings, the Board of Directors approved patronage returns of \$50.0 million, as noted above.

Cash flows:

With respect to cash flow, operating activities generated \$489.3 million. Operations provided \$497.0 million and \$7.7 million were used for changes in non-cash items and payment of lease obligations.

With respect to financing and capital activities, \$41.2 million were distributed to members in patronage returns and redemption of members' shares and debt instruments. Financial expenses paid totalled \$68.6 million.

Capital expenditures were \$296.1 million for 2023. Major projects in Canada included an increase in ultra-high temperature (UHT) milk capacity at the Saint-Laurent, Quebec plant and the addition of a second extrusion line for ice cream bars at the Truro, Nova Scotia plant. In the U.S., the largest project was the construction of the new Little Chute, Wisconsin plant. We also made expenditures related to the implementation of our new cloud-based ERP. Lastly, we received \$240.0 million, essentially in connection with the sale of the La Crosse operations in December 2022.

The net cash inflows generated in 2023 enabled us to pay down more than \$300.0 million of long-term debt. The combined effect of the debt reduction and the increase in earnings from operations resulted in a reduction in our debt leverage ratio from 3.07x EBITDA at the beginning of the year to 2.36x as of October 28, 2023. Our leverage ratio is now within our target range of 2x to 3x EBITDA.

In conclusion, Agropur's 85th year will have once again been profitable in terms of results. We are proud of the results achieved thanks to our people's efforts in a challenging business environment. At the same time, we know that despite this year's strong results, the Cooperative must continue its efforts to improve profitability. In recent months, we have decided to step up our operational improvement initiatives. We will focus even more intensely on improving operational excellence, streamlining our processes and making them more efficient in order to support our cost-reduction efforts. We are devoting our energies to unleashing the Cooperative's full profit potential to ensure its sustainability.

Émile Cordeau
Chief Executive Officer

Stéphane Tremblay
Senior Vice-President
and Chief Financial Officer



MANAGEMENT’S
REPORT

FOR THE 52-WEEK
PERIOD ENDED
OCTOBER 28, 2023

CONSOLIDATED EARNINGS		
(IN THOUSANDS OF CANADIAN DOLLARS)	2023	2022
Sales	8,211,350	8,479,237
Operating expenses excluding depreciation and amortization	7,665,346	7,957,518
Earnings before interest, income taxes, depreciation, amortization and impairment of assets and other non-recurring costs (earnings from operations)	546,004	521,719
Depreciation, amortization and impairment of assets	232,629	220,859
Restructuring costs, integration and other non-recurring costs	28,050	14,671
Cloud systems implementation costs	16,298	13,945
Net financial expenses	74,169	53,842
Income taxes of subsidiaries	15,189	37,113
Other	156	1,294
Earnings before patronage returns, the Cooperative’s income taxes and extraordinary gain on disposal of assets, net of income taxes	179,513	179,995
Extraordinary gain on disposal of assets, net of income taxes	20,736	-
Earnings before patronage returns and the Cooperative’s income taxes	200,249	179,995
Patronage returns	50,002	40,265
Cooperative’s income taxes	16,305	12,536
Net earnings	133,942	127,194

CONSOLIDATED CASH FLOWS		
(IN THOUSANDS OF CANADIAN DOLLARS)	2023	2022
Operating activities		
Operations	497,045	491,978
Change in non-cash items and lease obligations	(7,761)	(106,316)
	489,284	385,662
Financing and share capital activities		
Long-term debt	(316,676)	50,830
Financial expenses paid	(68,649)	(44,190)
Patronage returns paid	(10,023)	(7,460)
Redemptions of members’ shares and debt instruments, net of issuances	(31,208)	(48,401)
	(426,556)	(49,221)
Investing activities and disposals		
Property, plant and equipment and intangible assets	(296,085)	(347,687)
Proceeds from disposals, net of costs and other	239,951	1,972
	(56,134)	(345,715)
Effect of exchange rate fluctuations on cash position	(1,509)	(4,325)
Net change in cash position	5,085	(13,599)

CONSOLIDATED BALANCE SHEETS		
(IN THOUSANDS OF CANADIAN DOLLARS)	October 28, 2023	October 29, 2022
Assets		
Current assets	1,291,089	1,558,519
Property, plant and equipment and other long-term assets	3,236,649	3,163,345
	4,527,738	4,721,864
Liabilities		
Current liabilities	1,002,201	1,101,321
Long-term debt (including the current portion)	1,104,188	1,407,781
Other long-term liabilities	287,925	250,799
	2,394,314	2,759,901
Members’ equity		
Members' capital	847,543	841,203
Reserve and other	1,285,881	1,120,760
	2,133,424	1,961,963
	4,527,738	4,721,864