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# SunOpta, Inc. (STKL)

Q2 2023 Earnings Call

## CORPORATE PARTICIPANTS

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Greetings and welcome to SunOpta's Second Quarter 2023 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the prepared remarks. As a reminder, this conference call is being recorded.

I would now like to turn the conference over to your host, Reed Anderson with ICR. Thank you. You may begin.

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**Reed Anderson**  
*Managing Director, ICR*

Good afternoon and thank you for joining us on SunOpta's second quarter fiscal 2023 earnings conference call. On the call today are Joe Ennen, Chief Executive Officer; and Scott Huckins, Chief Financial Officer. By now, everyone should have access to the earnings press release that was issued earlier this afternoon and is available on the Investor Relations page of SunOpta's website at [www.sunopta.com](http://www.sunopta.com). This call is being webcast. This transcription will also be available on the company's website.

As a reminder, please note that the prepared remarks which will follow contain forward-looking statements and management may make additional forward-looking statements in response to your questions. These statements do not guarantee future performance and therefore undue reliance should not be placed upon them. We refer you to all risk factors contained in SunOpta's press release issued this afternoon, the company's Annual Report filed on Form 10-K and other filings with the Securities and Exchange Commission for a more detailed discussion of the factors that could cause actual results to differ materially from those projections in any forward-looking statements.

The company undertakes no obligation to publicly correct or update the forward-looking statements made during the presentation to reflect future events or circumstances except as may be required under applicable securities laws.

Finally, we would like to remind listeners that the company may refer to certain non-GAAP financial measures during this teleconference. A reconciliation of these non-GAAP financial measures was included with the company's press release issued earlier today. Also, please note that unless otherwise stated, all figures discussed today are in US dollars and occasionally rounded to the nearest million. Please note in the prepared remarks to follow the company will generally exclude the impact of the divested Sunflower business.

I'd now like to turn the call over to Joe.

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## Joseph D. Ennen

*Chief Executive Officer & Director, SunOpta, Inc.*

Good afternoon and thank you for joining us today. We signaled last quarter that Q2 was going to be soft. It proved to be more challenging than we anticipated. The nature of the headwinds are short-term in nature and do not reflect SunOpta's long-term potential. Several of the issues we encountered in Q2 were related to broader factors affecting our industry and similar companies.

The three specific issues are category softness and tracked channels, broth and frozen fruit and third, timing of new business. To be specific, we had 10 new business opportunities that informed our guidance. Six of them are contracted and happening but are slower to commercialize/ramp up than we planned. Two are on pace and two of them didn't materialize. Let me offer some key takeaways before we begin unpacking the quarterly results. I grouped them into one time event concerns and bright spots.

There are two significant onetime events that impacted the quarter. The first being the frozen fruit recall. This was a significant distraction for the team in Q2 and while the financial impact wasn't huge, with insurance covering a significant majority of the cost, it undoubtedly consumed a sizable portion of leadership's time within the quarter.

The second is the previously communicated \$7 million of onetime plant based revenue from Q2 of 2022 that we overlap. Importantly, adjusting for this overlap, our core packaged plant based milk growth was 10% in Q2. In terms of concerns, several of our co-manufacturing customers experienced soft volume in the quarter resulting from tracked channel headwinds. This not only impacted big existing customers but also impacted the plans of two of our entrepreneurial growth-oriented new customers we were planning to onboard in the second half of 2023.

In terms of bright spots in the quarter, we continued to see strength from our core growth levers, strong growth with several of our largest customers, fruit snacks, oat milk and Texas. We remain very confident in our ability to deliver our long term guidance at several investor events. I've outlined our five strategic imperatives. A brief update against these will help you understand our continued optimism.

Our first imperative is fortifying our competitive advantages. Within plant-based, we continue to win a larger share of customers business because of our customer value proposition, our ability to execute and our capacity additions, all of which gives our customers runway for growth and redundancy of supply. Capacity adds in oat milk, fruit snacks, tea and Texas in general have all attracted share, expansion and new customers. I will share some specifics to underline this point.

We are growing share at our largest customer in both tea and oat milk with Dream oat milk sales up 89%. By the end of the year we will be the exclusive supplier for both of our major tea customers for the first time ever. We also signed a contract extension with our largest national brand customer through 2028 and beginning in 2024 we will be their exclusive US supplier. These share gains, along with other new business wins, demonstrates our real competitive advantages.

Our second imperative is expanding the TAM of the business. Our biggest TAM expansion is our entry into the \$5 billion nutrition beverage category. And this new business will deliver growth in the second half of 2023, in 2024, and it represents a major long-term whitespace for us. We are still in the ramp-up phase of producing this product. We are meeting our customers' expectations for volume production, and we expect to continue to accelerate towards our long-term run rate by the end of the year.

Third is portfolio transformation. Over the last several years, we have made material progress, transforming the portfolio from commodity-oriented to a focus on value-added manufacturing. We have flipped the portfolio from 70/30 commodity value-added to 30/70, and we are absolutely focused on continued transformation.

Fourth is sustainability. We are making real progress as evidenced by upgrades from two of the most respected rating agencies. We believe strong sustainability reporting around Scope 1 and 2 will be a competitive advantage as it becomes a must have for our customers.

Lastly, our culture is a significant point of difference for us. We have built a team that has a real passion to win, is focused on customers and execution. These are the things that will propel us forward.

I mentioned the category softness. In plant-based we are seeing more bifurcation between retail and food service. We do not believe nor have we seen a structural change in consumers' attitudes towards plant-based milks. The category has over 50% household penetration and a 10-year CAGR of 10%.

There are enduring demand drivers such as lactose intolerance, taste preferences for plant-based milks over milk from a cow, and health benefits both for the individual and the planet. I believe the retail category headwinds are a short-term function of the inflationary environment and its impact on real wages. We know plant-based milks are more expensive. For example, in a leading retailer, plant-based milk is \$0.05 an ounce compared to dairy milk at \$0.02 an ounce. As inflation softens, we would expect to return to growth and that view is supported by research, which project a double digit CAGR the category over the next decade as Millennials and Gen Z fully take center stage as the drivers of the US economy.

While the quarter was disappointing, our business development pipeline contains several significant new opportunities. This, along with significant share gains and existing customers that I outlined previously along with TAM expansion, gives us confidence in our long-term growth plans. Our snacks capacity expansion is on track for the end of Q3, and we are excited that we will be able to continue to drive growth in this business.

In closing, as a major shareholder myself, I share your frustration with the current stock price performance. TTM EBITDA is more than 50% higher than what it was the last time the stock traded at these levels. Our major capital projects are complete. Cash flow is positive. We are a much stronger company than our share price suggests.

I will end by saying that we have grown the plant-based business 87% in the last 48 months, and we have more than doubled our fruit snacks business in that same timeframe. We are in the right categories with the right value propositions. We have demonstrated executional capabilities. We've built great manufacturing assets and our

team's passion to win is stronger than ever. We are excited about the future of SunOpta and look forward to improved results in future quarters.

Now I'll turn the call over to Scott to take us through an update on the key commercial activities and the rest of the financials. Scott?

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## Scott Edward Huckins

*Chief Financial Officer, SunOpta, Inc.*

Thank you very much, Joe, and good afternoon, everyone. Let me start by reviewing the key commercial activities in each segment in the second quarter. Plant-based segment revenues were down 8% year-over-year to \$114 million. Relative to our expectation, revenue was off approximately \$15 million and was driven by two factors: one, the timing of new business; and two, category-influenced national brand performance.

The timing of new business was affected by a number of frustratingly unrelated factors, including slow customer setup, slow transition from existing suppliers to SunOpta and significant, albeit temporary supply chain related disruptions at one of our tea customers. Tracked channel data for plant-based milks in Q2 showed softness throughout the quarter, with sales up 1% and volume down 8% and performance in shelf stable with slightly worse. Tracked channel data report oat milk sales grew 9% on flat volume, with almond milk sales down 3% on 10% lower volumes.

SunOpta total plant-based milk results across all channels were up 1% on 9% lower volumes. Oat milk sales grew 59%, including a 58% increase in volume and oat creamer sales were up 27% on double-digit volume growth. Largely offsetting the growth in Oat was almond milk, which included the onetime revenue overlap we called out in Q2 of last year. As Joe mentioned, removing this overlap package plant-based milk sales grew 10%.

Looking at our business by customer, as you'd expect, results were mixed in Q2. Three of our top five customers delivered growth, including two with double-digit gains aided by the strength of our oat base offerings. As mentioned, we have increased share with three of our top five customers, most of which will begin later in 2023 and into 2024.

Looking at results on a go-to-market basis, own brands remain the top performing area, with sales up 27% versus last year, driven by equally strong growth in both Dream and SOWN. Private label also had a solid quarter of high-single-digit growth, reflecting gains in non-dairy with major retail customers. The decline in our co-man business more than offset growth in owned brands and private label reflecting softness in the category and the timing overlap in almond milk.

Similar to Q1, our ingredients business was down for the reasons that we outlined on the Q1 call. Importantly, we have completed the restaging of oat base to finished goods at the end of Q2. We continue to ramp production at our Texas facility, including our new 330-milliliter protein shake line. This facility gives us sufficient capacity to reach our goal of doubling the plant-based business off of the 2020 base along with enhanced capabilities and providing a strategically advantaged location for many of our current and new customers.

Moving to our fruit-based segment, snacks continued to be the key story. Fruit snacks sales were up nearly 14%, driven primarily by volume growth, reflecting strong underlying trends and consumption as well as the strength of our platform to support innovation and provide incremental capacity to our customers. More than offsetting the growth in fruit snacks was softness in our frozen business, which was down 10% due to supply constraints together with unfavorable consumption trends that negatively impacted retail volumes and foodservice orders along with the recall in June.

Overall, our fruit-based segment revenues were down 4% in the second quarter versus last year, mostly driven by frozen volume. We could continue to have a significant pipeline of potential growth opportunities in our snack business and look forward to the additional capacity coming online here in the third quarter, which will provide headroom to grow this business by another 40% over time.

Now, let me walk through the more detailed financial results in the quarter. Second quarter revenues of \$208 million were down 6% versus last year, adjusted for the divestiture of the Sunflower business. Adjusted gross profit removing start-up and recall costs was \$25.3 million or 12.1% of revenue, down \$7 million versus last year on a like-for-like basis reflecting lower volumes. In plant-based, segment level gross margin was 12.6% as reported and adjusted for start-up costs in Texas was 17.5%, a 90-basis-point improvement over the prior-year period.

In fruit-based, segment level gross margin, as reported, was 2.1% and adjusted for the frozen fruit recall was 5.5%, a 570-basis-point decline versus last year. The margin decline was driven almost entirely by our frozen fruit business, principally impacted by an unfavorable sales mix and a stronger Mexican peso. You can see on the face of the P&L a \$2.4 million FX gain, while the effect of the higher cost inventory for Mexico reduces gross profit.

I also want to provide a few comments on the voluntary frozen fruit recall we initiated in June. Specifically, we issued, out of an abundance of caution, a voluntary recall of specific frozen fruit products linked to pineapple provided by a third-party supplier. As you would expect, we have permanently terminated our relationship with that supplier.

From a financial perspective, we have insurance for this event in our Q2 results reflecting net \$2.5 million expense, which is our deductible under these insurance programs. There was limited impact on revenue in Q2 and the affected customers have turned replenishment orders back on in Q3. Adjusted loss from continuing operations was \$3 million, compared to \$3.3 million of income in the prior-year period.

Adjusted EBITDA, as reported, decreased 9.8% to \$20.2 million and was up 50 basis points as a percent of consolidated revenue to 9.7%. As a reminder, last year's adjusted EBITDA included a \$2.4 million contribution from the divested Sunflower business. On an apples-to-apples basis, this quarter's EBITDA is flat to last year's. TTM EBITDA is \$89.4 million, up \$25 million or 39% versus the prior 12 month period.

Turning to the balance sheet and cash flow. At the end of Q2, total debt was \$336 million, with leverage of 3.7 times, in-line with our target leverage of 2 to 4 times. We continue to expect to be within that range at year-end 2023. Cash provided by operating activities during the second quarter of 2023 was a strong \$16 million compared to cash used in operating activities of \$2 million in the prior year. This improvement reflects the effective management of working capital and inventory in particular. Cash used in investing activities was \$8 million compared to \$34 million last year. The step-down in capital expenditures was expected, reflecting the completion of our Midlothian, Texas plant. There are no huge projects on the near-term horizon and CapEx will continue to moderate.

Let me close with comments on our outlook recognizing the environment remains very fluid. From a guidance standpoint, we are revising our 2023 estimates that were first provided on our Q4 call. We now expect revenue in the range of \$880 million to \$900 million.

For the second half of 2023, the revisions are attributable to: one, category softness in tracked channels; two, increased competition in frozen fruit and broth; and three, the timing of new business in plant-based. This outlook, excluding the divested Sunflower business results in the plant-based segment growing in the high-single digits in the second half of 2023 with core packaged, plant-based milks growing low-double digits, partially offset by headwinds in broth and ingredients.

From a profit perspective, we expect adjusted EBITDA of \$87 million to \$91 million. From a pacing standpoint for the total company, we would expect Q4 to be stronger than Q3. Finally, we would expect approximately \$2 million to \$4 million in start-up costs in the second half with the majority occurring in Q3.

For conservativeness, we have assumed that the three headwinds remain in the second half of 2023. However, we have the opportunity to deliver better results from category improvement along with the possibility for a steeper ramp-up in production in Texas and in fruit snacks and further productivity efforts.

From a balance sheet and cash flow standpoint, we continue to expect capital expenditures on the cash flow statement of approximately \$45 million. Consistent with this, we expect unlevered free cash flow in the \$25 million to \$35 million range.

Before opening the call for questions, just a reminder that for competitive reasons, we do not provide detailed commentary regarding customer or SKU level activity.

And with that, operator, please open up the call for questions.

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## QUESTION AND ANSWER SECTION

**Operator:** Certainly. [Operator Instructions] Thank you. Your first question comes from Jim Salera with Stephens. Your line is open.

**Jim Salera**

*Analyst, Stephens, Inc.*

Q

Good afternoon, guys, thanks for taking my question. If you could maybe provide a little more color on the 10 business opportunities that you guys had planned on, the 6 that were a little bit slower than the two that fell through? Just any detail on kind of what the moving pieces were there. There's a chance maybe to accelerate the six that are slow. And if the two that fell off or permanently fallen off, there's a chance to maybe pick those up down the road.

**Joseph D. Ennen**

*Chief Executive Officer & Director, SunOpta, Inc.*

A

Yeah. Thanks, Jim. As we outlined 10 key projects, 2 of them that didn't happen were not the biggest opportunities but were really a function of they had lofty expectations based on category growth a year ago that didn't materialize in their plans to get on shelf or somewhat thwarted by retailers, lack of enthusiasm for adding new brands into the category.

As it relates to the six, as I mentioned, all of them are contracted, all of them are now ramping up. They're just slower than we thought. I would give you, if I could summarize kind of one core reason, it was many of those six were situations where we were taking business from one of our competitors. And with the category slowing down,

those competitors had excess packaging, excess finished goods that the customer allowed them to work through, thereby delaying their move from competitor XYZ to SunOpta. But we're kind of fully over the hump with most of those. And I would say the average delay was circa three, four months, something like that.

Certainly frustrating because we build guidance and our expectations based on the timelines that were committed by them. But at the end of the day, we're happy to have those new customers on board and producing and will certainly contribute to kind of back out business as well as growth in 2024.

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**Jim Salera**

*Analyst, Stephens, Inc.*

Q

Okay, great. And then on the tea volumes with the customer, just sort of lack of inability to get raw material. Is that something that we should keep our antennas up for, as maybe there's some increased supply chain dislocations coming? Or is this kind of unique to one customer? Any color you could give us on that would be helpful as well.

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**Joseph D. Ennen**

*Chief Executive Officer & Director, SunOpta, Inc.*

A

Very unique to one customer. It is a customer where they provide us the ingredient, meaning they provide us the tea, and they are having some transitional – more IT transition timing. So it's not like there's a crop failure or anything like that. It's really linked to changes their business structure, standing up a new IT system and their IT system basically functioning and providing us tea leaves that we then turn into finished goods. We would expect and hope – we just had a call with them this morning, we would expect and hope probably be some continued bumpiness in Q3, but they fully expect to have it behind them by Q4.

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**Jim Salera**

*Analyst, Stephens, Inc.*

Q

Got it. That's helpful. And then maybe if I could sneak in one more. As you guys step up your move to being the exclusive supplier for a couple of your larger customers, is all of that incremental business with them just flowing to the addition that you've made in Midlothian? Or do you have to pull some other stuff off the existing lines and slotting those customers to meet that step-up in demand?

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**Joseph D. Ennen**

*Chief Executive Officer & Director, SunOpta, Inc.*

A

No, we won't have to pull anything off existing lines. It just slots in to capacity additions we've made. Certainly in a number of instances, Texas provided redundancy in capabilities like tea, where we used to only have one tea extraction system, we now have two, giving the customer confidence to give 100% of their business to SunOpta because we have some redundancy in manufacturing that we never used to have. But no, we won't have to do any kind of restaging or business, resignations where we're fully capable of supporting the incremental volume that's coming our way.

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**Jim Salera**

*Analyst, Stephens, Inc.*

Q

Okay, great. Thanks for the color, guys. I'll hop back in the queue.

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**Joseph D. Ennen**

*Chief Executive Officer & Director, SunOpta, Inc.*

A

Thanks.

**Operator:** Your next question comes from Ryan Myers with Lake Street Capital Markets. Your line is now open.

**Ryan Meyers**

*Analyst, Lake Street Capital Markets LLC*

Q

Hey, guys, thanks for taking my questions. First one for me. I'm just curious, as you think about the full year guidance, how much does that bake in improved industry demand trends? And then also, if you could kind of just speak a little bit more to what you're seeing in that category softness, I think it'd be helpful.

**Joseph D. Ennen**

*Chief Executive Officer & Director, SunOpta, Inc.*

A

Yeah. So we did not bake in improvements in category performance. As I articulated, we certainly believe the category long term has a lot of positives going for it. Just candidly, we don't have any information that would tell us. So, kind of September 1 it's going to turn around or October 1. So we're just operating off of the information we have today, which is why Scott called it out as a potential upside.

The thing I will point out and we've made this point several times, tracked channels is roughly a third of our business. So we have growth in many of the other channels. Scott, I think, referenced category was down 8% in volume. So we're not immune to softness in a third of the category when it's down 8%. But, foodservice was up for us again. It's been a strength of ours for many years. And we're also seeing solid growth in e-commerce and clubs.

So, we feel good about the diversified channel mix that we built and we're certainly performing better than the overall category and tracked channel basis but does definitely represent a headwind.

**Ryan Meyers**

*Analyst, Lake Street Capital Markets LLC*

Q

Got it. And then as we think about the more longer-term guide, so the targets that you guys have given in the past for FY 2024, I think it was \$1.1 billion in revenue and \$120 million in EBITDA. Does the sort of three areas of softness that you're seeing right here, does that change anything for next year?

**Joseph D. Ennen**

*Chief Executive Officer & Director, SunOpta, Inc.*

A

It does not our view. It doesn't change our view for 2024. The vast majority of the growth levers that we built into that guidance are happening. And, we're confident in the long term strength of the category. So, no, we're not revising 2024 or 2025. We still believe in those targets.

**Ryan Meyers**

*Analyst, Lake Street Capital Markets LLC*

Q

Good to know. Thanks for taking my questions.

**Operator:** Your next question comes from Andrew Strelzik with BMO. Your line is open.

**Andrew Strelzik**

*Analyst, BMO Capital Markets Corp.*

Q

Hey, good afternoon. Thanks for taking the questions. I'd like to hear you talk maybe a little bit more about what you're seeing outside of the retail market, the other two-thirds of your business, you've talked about strength obviously, but are you seeing any softness there and any slowdown there? Have you incorporated any cushion in your guidance on that side or are you seeing that really hold consistent?

**Joseph D. Ennen**

*Chief Executive Officer & Director, SunOpta, Inc.*

A

So we're definitely continuing to see strength there, where we have really good visibility into the numbers. We saw overall double-digit growth in the foodservice channel. There's also a component, and this is where our business gets a little bit tricky to understand sometimes. We make an estimate of the national brands that we produce for what portion of that volume flows into foodservice.

And so there was a little bit of headwind there, if our estimates are accurate. But the kind of where we sell direct into foodservice, we continue to see strength.

**Andrew Strelzik**

*Analyst, BMO Capital Markets Corp.*

Q

Okay. Okay. And maybe if you could just talk a little bit about what you saw through the quarter. And are you seeing that the retail side of the business start to stabilize at that lower level? Or are we kind of continuing to see the accelerated declines I guess?

**Joseph D. Ennen**

*Chief Executive Officer & Director, SunOpta, Inc.*

A

No, I think it's fairly stable at those at those levels, Andrew. And it's not further decelerating. If we look at, say, the 4-week data versus the 12-week.

**Andrew Strelzik**

*Analyst, BMO Capital Markets Corp.*

Q

Got it. And then I guess just as we think about bridging, this will be my last one, I apologize, if we think about bridging from the guidance and the reduction there to the profit impact, I mean, are there any cost opportunities or anything you guys are doing differently as you kind of take that to a reasonably more steady EBITDA relative to the reduction on the top line? Just anything that you contemplate there would be great to hear. Thanks.

**Scott Edward Huckins**

*Chief Financial Officer, SunOpta, Inc.*

A

Hey, Andrew, it's Scott. It's a good question. It is probably two core activities, some you can even see in the Q2 financial statements. I think I mentioned in my prepared remarks we've done a very good job managing the inventory quantum, the environment that we're in, I mentioned it was a significant outperformance versus last year. But then I think as you would expect, making sure that production volumes are banging on what demand is, then you're not over or under delivering your customer and you're not building or declining inventory. So I think we are managing the business, I think, actively on that basis on both fronts.

**Andrew Strelzik**

*Analyst, BMO Capital Markets Corp.*

Q

Okay, great. Thank you very much.

**Operator:** Your next question comes from Bobby Burleson with Canaccord. Your line is now open.

**Bobby Burleson**

*Analyst, Canaccord Genuity LLC*

Q

Hi. Thanks for taking my question. So, just curious on the customer programs that were slower to get going than expected, it sounds like the two that dropped off were in part due to that category softness. And I'm wondering how much you think the slower than expected ramp to those six customers or the six programs is also due to the category weakness.

**Joseph D. Ennen**

*Chief Executive Officer & Director, SunOpta, Inc.*

A

I think it was absolutely a contributor, Bobby, because the way this works is if they're moving from a competitor to us, they're trying to calculate, okay, when will they be out of inventory and out of packaging materials and out of ingredients with one of our competitors in order to then move business to us. Well, if the category slows down, the inventory builds up, the ingredients build up, packaging builds up.

And there's a fairly common respected practice in the industry of you don't screw somebody when you're moving in and you allow them to work through whatever finished goods and dedicated specific packaging they have. So, we've just seen a slower pace. I mean, some of it is just a frustrating bit of bureaucracy with some of the bigger packaged goods companies.

But overall, again, as I mentioned, they're all contracted, they're all coming. They were just several months slower than we had planned and built into our guidance.

**Bobby Burleson**

*Analyst, Canaccord Genuity LLC*

Q

Okay, great. And then just on the overall kind of inflationary environments impact on consumer purchasing. And you guys pointed out the premium nature of the category, but it sounds like oat milk and oat creamer did well. But do you think folks were driving or buying multiple types of plant-based milk and then they just cut out the almond milk or what what kind of reconciles the strength in certain areas of the category and the overall kind of thesis that consumer wallet's being pressured and it's impacting category volumes.

**Joseph D. Ennen**

*Chief Executive Officer & Director, SunOpta, Inc.*

A

Yeah. I mean, oat milk has done well as the products and introduction, call it five years ago in earnest. And so we continue to see growth there, especially in foodservice. It is a product that pairs incredibly well with coffee. And so it's not surprising to us that we continue to see it do well in coffee applications, be it creamers, barista blends or in foodservice. So I don't think that dynamic is as much pricing.

One of the things that you referenced in your question we have seen, which is the average household that buys plant-based milks buys 2.3 different varieties. And we have seen a bit of skinning up meaning instead of a household buying both almond milk and oat milk, which might be all in, \$8, \$9, \$10, they're buying just one product instead of two, which doesn't necessarily change the amount that gets consumed in the household, but it changes the amount that goes through the basket on a short term basis.

**Bobby Burleson**

*Analyst, Canaccord Genuity LLC*

Q

Okay, great. Thank you.

**Operator:** Your next question comes from Alex Fuhrman with Craig-Hallum Capital Group. Your line is open.

**Alex Joseph Fuhrman**

*Analyst, Craig-Hallum Capital Group LLC*

Q

Hey, guys, thanks for taking my question. It sounds like, Joe, from some of your comments earlier, it sounds like you're not really seeing much or any weakness in the foodservice channel. I'm curious, is it just that the foodservice channel was so strong for you that it continues to be up despite maybe seeing a little bit of a sequential slowdown? Or has it really just been a tale of two completely different trajectories in food service and in tracked channels?

**Joseph D. Ennen**

*Chief Executive Officer & Director, SunOpta, Inc.*

A

Yeah, as I mentioned, I mean, we're definitely seeing more bifurcation and performance between food service and retail. I think it's possible the consumer is just less price sensitive when they're in a coffee shop ordering their favorite drink versus in a grocery store where they have a basket of items they need to purchase to feed themselves and their family. And so maybe there's just more price sensitivity in a retail environment than there is at the drive thru for your morning oat milk latte. But that is definitely something we're seeing and we haven't seen any signs of a slowdown, as I mentioned, where we do have good visibility into the data and foodservice, we're seeing low-double-digit growth.

**Alex Joseph Fuhrman**

*Analyst, Craig-Hallum Capital Group LLC*

Q

Okay, that's really helpful. Thanks, Joe. And then I think you called out a couple of times in the release and on the conference that continues to be a really strong performer. Are there any particular nuts or seeds or grains that have been slowing down? And then as you think about continuing to optimize your production in Midlothian, are there maybe any way that you might differently allocate production given what you've been seeing since the last update?

**Joseph D. Ennen**

*Chief Executive Officer & Director, SunOpta, Inc.*

A

Yeah, we're seeing a bit of an acceleration or deceleration, if you will, in almond milk at a category take away basis, which is a little bit surprising, but almond milk is the lion's share of the category still, I mean, at 60%. So if something's going to be a share donor, it's typically usually the biggest thing in the category. But that's the answer to your question. In terms of impact on Midlothian, our assets are pretty fungible in terms of ability to run almond milk versus oat milk, et cetera.

So while we love running products where we're doing both the extraction and the and the processing side of it, we don't we certainly our assets are capable of making a quick pivot. And as I've mentioned in the past, things like oat milk where we're doing both extraction as well as the packaging side of it affords us better margins because we're making a margin on the extraction as well as the packaging.

**Alex Joseph Fuhrman**

*Analyst, Craig-Hallum Capital Group LLC*

Q

Okay. That's really helpful. Thanks, Joe.

**Operator:** There are no further questions at this time. With that, I will now turn the call back over to Joe Ennen for closing remarks.

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## Joseph D. Ennen

*Chief Executive Officer & Director, SunOpta, Inc.*

I just want to say thank you, appreciate your interest and time this evening and look forward to talking to all of you in the future. Thank you.

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**Operator:** This will conclude today's conference call. Thank you for joining us. You may now disconnect.

### Disclaimer

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