

05-Nov-2024

SunOpta, Inc. (STKL)

Q3 2024 Earnings Call

CORPORATE PARTICIPANTS

Reed Anderson
Managing Director, ICR

Greg Gaba
Chief Financial Officer, SunOpta, Inc.

Brian W. Kocher
Chief Executive Officer & Director, SunOpta, Inc.

OTHER PARTICIPANTS

Jim Salera
Analyst, Stephens, Inc.

Alex Joseph Fuhrman
Analyst, Craig-Hallum Capital Group LLC

Daniel Gold
Analyst, BMO Capital Markets Corp.

John Baumgartner
Analyst, Mizuho Securities USA LLC

Ryan Meyers
Analyst, Lake Street Capital Markets LLC

Jon Andersen
Analyst, William Blair & Co. LLC

Brian Holland
Analyst, D. A. Davidson & Co.

Daniel Biolsi
Analyst, Hedgeye Risk Management, LLC

MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to SunOpta's Third Quarter 2024 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 is being recorded.

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

Reed Anderson
Managing Director, ICR

Good afternoon and thank you for joining us on SunOpta's Third Quarter Fiscal 2024 Earnings Conference Call. On the call today are Brian Kocher, Chief Executive Officer; and Greg Gaba, 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 on SunOpta's website at www.sunopta.com. This call is being webcast and its 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 and 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 in the prepared remarks that follow, unless otherwise stated, the company will be referring to the continued operations portion of the business, and all figures are in US dollars, occasionally rounded to the nearest million.

Now, I'll turn the call over to Brian to begin. Brian?

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

Good afternoon and thank you for joining us today. For today's call, I'll start with the highlights of our latest quarter's performance along with an update on business trends and key priorities. Greg will follow with the review of the financials and our outlook. Then we'll take your questions.

The third quarter played out as expected. We once again demonstrated our ability to drive significant growth, improve productivity and profitability, and build processes for sustainable shareholder value creation. Last quarter, we told you that we continued to see revenue growth from innovation, share expansion at existing customers, and share growth with new customers. We also highlighted the temporary operating expense investments in our supply chain to accelerate future sustainable efficiencies, capacity growth, and margin expansion. We guided to what we could see and work diligently on key metrics, including revenue growth, volume growth, margin expansion, and increasing adjusted EBITDA. The short story, we delivered.

For the quarter, revenue growth of 16% was driven by volume growth of 21%, reflecting broad-based strength across customers, channels, and major product categories. We are winning with winning customers as a solution provider and an innovation partner. Our success in operational initiatives was evidenced by the 60-basis point year-over-year improvement in adjusted gross margin, as well as our 13% increase in adjusted EBITDA. Importantly, including the operational efficiency investments we projected, we improved gross margin, adjusted gross margin, and adjusted EBITDA sequentially over the second quarter of 2024.

Let me provide a few data points to give you some perspective on the breadth and depth of our growth. We again drove double-digit revenue growth from each of our top three customers. Our top five customers posted 30% average year-over-year revenue growth. Our fruit snacks business grew by 42%, reflecting 40% sales volume growth. In total, our beverages and broths product lines grew revenue by 14%.

Our foodservice channel again increased revenue by double-digits as our major customers continued to lean into consumers growing preference for plant-based beverages across their menu options. I love our categories and every category in which we participate is growing. As examples, across all channels on a consolidated basis, shelf-stable plant-based milks continue to grow at a mid-single-digit rate. Protein shakes increased 17% over the last 52-week period. The Better For You fruit snacks category grew by 21% over the last 52 weeks, with our customers commanding well over 75% of the segment share. Even a stable consumer category like broth is up 8% over the last 52 weeks.

Our co-manufacturing and private label solution provider model has consistently demonstrated revenue growth potential. We are growing revenue through share gains, as evidenced by our most recent announcement to expand Dream Oatmilk across North America in partnership with one of our largest customers. Our R&D teams

are developing new, innovative product solutions on behalf of our customers. We are deeply wired into our customers' supply chain processes. And we work closely with them on longer-term inventory, product, and promotional plans. All of this gives us insight into and confidence about our future revenue growth opportunities.

Moving on to our operational performance. As you know, the supply chain has been a major area of focus for me. We are committed to improving its effectiveness and using those efficiencies to expand margin and fulfill our unit volume growth opportunities. While we've already realized many meaningful improvements in a relatively short period of time, I'm even more excited about the longer-term potential to drive greater productivity and efficiency. Based on our work over the past several quarters, we believe there is significant runway for us to unlock trapped capacity in our existing network through 2026 and beyond.

During Q3, as planned and similar to Q2, we chose to take advantage of our exceptional revenue growth and make additional short-term operating expense investments in our supply chain to either shore up certain processes or accelerate sustainable efficiencies. These incremental investments were focused on process advancements, scheduling, training, and uptime improvements in our aseptic network. Individually and collectively, these projects are making meaningful progress. Our 20-plus-percent volume growth over the past six months provides strong evidence of the success of these investments and also gives us a high degree of confidence in our ability to sustain the efficiencies longer-term. In summary, we have a much clearer vision in our opportunity to sustainably expand margins and meaningfully increase our return on invested capital.

Let me share some recent examples of the progress. Third quarter output versus the prior year was up 18% in our aseptic facilities and up 49% in our fruit snack facilities. Similar to Q2, the higher output was driven by greater efficiency from our established lines and facilities, as well as new capacity deployed over the last 18 months. During September, we had our second consecutive record-breaking production month at our fruit snack facility in Omak, Washington. Our Allentown facility achieved its highest operating uptime metrics of the year in September. Oat extraction in Modesto, which came online during Q2, continues to ramp from a volume perspective. Given our recently announced Dream Oatmilk distribution expansion, our investment in capacity proved to be very timely. Output in Midlothian is increasing, with the third line contributing as expected.

To provide just a few data points on Midlothian's performance this quarter, the facility produced more than double the volume of 3Q 2023 and more telling about the opportunities ahead produced 20% more units than in the second quarter of 2024. We continue to see opportunities to drive further improvement in Midlothian run rates and output. Most importantly, our margin output and manufacturing cost per unit was the strongest in the final month of the quarter, which aligns with our guidance for expanding margins in Q4. Supply chain excellence is the best return on investment we can make today.

Based on our high degree of confidence in our supply chain improvement opportunities, we are prioritizing efficiency initiatives to create additional production capacity over incremental capital investments. I am most excited about the clear, practical, and tangible path we have to unlock trapped capacity for years to come. We can see a future where our unlocked capacity enables expanded margin and significantly defers the timing while reducing the overall amount of capital investment needed for growth. While it's still early in our supply chain journey, we are starting to see the benefits and we look forward to updating you on our progress during our next earnings call.

We are confident in our direction and our expectations for the future continue to be based on what we see, not what we hope. Our priorities remain the same. First, drive operational improvements to fulfill customer growth and expand sustainable margins. Secondly, grow volume through expanding our current customer relationships via both share gains and innovative solutions, acquiring new customers, and expanding our TAM. And thirdly,

maintain our disciplined financial approach and continue deleveraging to under 3 times adjusted EBITDA by the end of the year. Our immediate focus is on delivering another good quarter and we are reaffirming our fiscal 2024 revenue and adjusted EBITDA guidance as well as our midterm target of \$125 million adjusted EBITDA run rate by late fiscal 2025 or early fiscal 2026. We will provide our outlook for 2025 on our next earnings call when we announce fourth quarter results.

In summary, we continue to deliver strong results. We are a growth company in growing categories with winning customers. And over the past four consecutive quarters, we've consistently delivered top and bottom line results that were in line or better than expected. Our revenue growth is broad-based and volume-driven at rates that are several times faster than the respective categories in which we participate. Our temporary operating expense investments and focus on operational excellence and productivity positions us for sustainable margin improvement commencing in the fourth quarter and accelerating through 2025 and into 2026. I am confident in the direction of our business and our significant potential to drive growth, cash flow, and shareholder value over the longer-term.

Now, I'll turn the call over to Greg to cover the third quarter and full year outlook in more detail.

Greg Gaba

Chief Financial Officer, SunOpta, Inc.

Thank you, Brian, and good afternoon, everyone. We had another strong quarter. Revenue of \$176 million was up 16% compared to last year and continued to be driven by outstanding broad-based volume growth. Gross profit increased \$3.3 million or 16% to \$23.6 million in the quarter, and reported gross margin was 13.4%. Adjusted gross margin was 17% compared to 16.4% in the prior year, reflecting higher sales and production volumes that drove improved plant utilization, partially offset by incremental depreciation for newly launched production assets, along with some manufacturing inefficiencies as we continued short-term investments to drive future sustainable supply chain efficiencies.

Operating income of \$1.5 million was up slightly compared to prior year, as increased gross profit and lower business development costs and employee severance cost following the divestiture of Frozen Fruit were largely offset by higher variable compensation and increased professional fees related to operational productivity initiatives. Loss from continuing operations was \$5.5 million, compared to a loss of \$5.7 million in the prior year period. Adjusted EBITDA from continuing operations increased 13% to \$21.5 million compared to \$19.1 million last year.

Turning to our balance sheet. At the end of the quarter, debt was \$290 million, which was \$13 million lower than the end of Q2. Net leverage was 3.3 times, a decrease from 3.5 times last quarter. And we expect to achieve our target of being under 3 times levered by the end of the year. Year-to-date cash provided by operating activities of continuing operations increased significantly during the quarter to \$19.2 million and year-to-date cash used in investing activities of continuing operations was \$16.5 million.

Now turning to our full year outlook. We are reaffirming our outlook for fiscal 2024. We continue to expect revenue in the range of \$710 million to \$730 million, which represents growth of 13% to 16% and adjusted EBITDA of \$88 million to \$92 million, which represents growth of 12% to 17%.

In summary, it was another quarter of exceptional, volume-driven, top line growth rates with improved gross margin and cash flow. We continue to accelerate short-term investments in the supply chain initiatives, which we anticipate will wind down in the fourth quarter. These investments are expected to deliver higher sustainable

margins, improve profitability, and provide great momentum as we enter 2025, helping us achieve higher rates of return and significant long-term value for shareholders.

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 the call for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. The floor is now open for questions. [Operator Instructions] Your first question comes from the line of Jim Salera of Stephens. Your line is open.

Jim Salera

Analyst, Stephens, Inc.

Q

Hey, guys, good afternoon. Thanks for taking our question. Wanted to ask on obviously recent headline news, a big customer of yours removing surcharge on plant-based add-ons for their drinks. Just any thoughts on how that could potentially both increase the demand for your product among people who are familiar with plant-based add-ons? And do you have any sense for if that incremental surcharge was kind of a prohibiting factor for maybe people that haven't tried the plant-based milk and this opens up an opportunity for them to try it for the first time and then kind of convert and bring them into the fold?

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

A

Yeah, Jim, thanks for the question. Let me kind of answer that and then also put it into context for you. If I think about it, in general, we believe anything that fosters trial, penetration, or repeat buys, in general, is good for us. So I think, in general, that's how we view that, those types of activities. Now, I will also say, we don't comment on any particular customer. But as you remember, we are tied into the supply chains of our top 15 customers. So we work with them on product development, on responses to consumer demands, on pricing developments, and make sure that our solutions are available to ensure that they're in supply and they can satisfy their customer. So I guess that's a long way of saying, look, we've been working with our customer base throughout foodservice and retail in trying to ensure that we're meeting the demands and providing solutions for that.

Operator: Your next question comes from line of Andrew Strelzik of BMO Capital Markets. Your line is open.

Daniel Gold

Analyst, BMO Capital Markets Corp.

Q

Hi. This is Daniel Gold on for Andrew Strelzik. Thanks for taking my question.

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

A

Sure, Daniel.

Daniel Gold

Analyst, BMO Capital Markets Corp.

Q

Thanks. Revenue guidance implies still a pretty wide range here at 4Q. What are the swing factors for the high and low end of that range?

Greg Gaba

Chief Financial Officer, SunOpta, Inc.

A

Yeah, Daniel, it's Greg. Thanks for the question. We put our guidance out for the back half of the year and we raised twice already this year. And when we look at the quarter, it basically came in exactly as we expected. So not to overthink it, we just kept the guidance. We reaffirmed it for the full year and didn't make any full changes.

Operator: Your next question comes from line of Ryan Meyers of Lake Street Capital Markets. Your line is open.

Ryan Meyers

Analyst, Lake Street Capital Markets LLC

Q

Hey, guys. Thanks for taking my question. Just kind of as a follow-up to the unchanged guidance question, is there any potential for new business to come in the pipeline here in Q4 where there could be upside, or is most of the capacity for this quarter pretty much accounted for already?

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

A

Yeah, Ryan, hey, it's a really good question. We appreciate it. I will go back to we continue to try to frame our guidance and our outlook and what we can see versus what we hope that happens. We know we've seen a lot of data that's come through over the course of the last several weeks. We've worked with customers. So I think we're fairly confident in our guidance for the fourth quarter, probably just in terms of repeating Greg's answer and feedback, I wouldn't overthink it too much. We had the guidance. We basically came in for the quarter the way we thought in the third quarter and therefore we left the fourth quarter the same.

Operator: Your next question comes from line of Brian Holland of D.A. Davidson. Your line is open.

Brian Holland

Analyst, D. A. Davidson & Co.

Q

Yeah. Thanks. Good afternoon. I'm curious, you referenced at the top, Brian, top customer growth at a pretty meaningful magnitude. Curious, if you can sort of discern for us between, you know, how much of that is a by-product of you picking up incremental business with these customers versus what these customers' underlying growth trend is? And to the extent that it's the former, how sustainable do you view that magnitude of growth to be for you?

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

A

Yeah, Brian, thank you. Great question. Let me start even with our categories, because I think the other thing that we mentioned in our prepared remarks and I want to make sure it doesn't get lost in the Q&A. Every category we're participating in is growing. If you look at shelf-stable, plant-based beverages growing mid-single-digits. If you look at broth, growing. If you look at fruit snacks, growing. So, first and foremost, it starts off with categories that are growing.

I think we also have had some investments starting in last year into the beginning of this year that were TAM expansion. So, clearly, our investments in protein shake capacity, as well as some other innovation I would say was clearly TAM expansion or innovation related that helped spur growth.

And then we also have been very open about shares that we've gained. If you remember, at our heart, we are a customer-focused solution provider, customer-focused solution provider. And that gives us the opportunity to innovate with our customers. It gives us the opportunity to grow the market. But it also gives us the opportunity to see share advances and share increases. And if you look at our revenue for the first six months of the year, we would have said that we're probably a third TAM expansion, a third share growth with existing customers, and a third share growth with new customers. I think if you look at this third quarter, it's more 50/50 between new products and share growth.

Operator: Your next question comes from line of Alex Fuhrman of 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 and I'll add my congratulations on another really good quarter. Wanted to ask about the announcement you guys had about a month ago about expanding your Dream brand, the oat milk barista product through the coffee shop channel, looks like a pretty big rollout of 6,700 stores. I think my understanding here of your business in the coffee shop channel has been consumers wouldn't generally see your product or your product would be in a fairly nondescript container. Can you talk a little bit about this shifted to having a bigger role for your brands in the coffee shop channel? Does this represent any sort of a change in strategy now that you have a larger portfolio of brands to work with?

Brian W. Kocher
Chief Executive Officer & Director, SunOpta, Inc.

A

Yeah, Alex, appreciate the question. I don't know that I would go so far as to say this is a change in strategy. Certainly, having our brand available to consumers is a unique option for any one of our customers. And again, you know we can do co-manufacturing, we can do private label, but we can also have a brand offering. I think the opportunity that led to this distribution expansion was one of providing a supply chain solution. We have several customers that we are constantly working with their supply chain challenges or opportunities. And this happened to be a unique opportunity where we could draft a solution that could be implemented relatively quickly and implemented on a wide scale, and our brand was the best product or the best format to do that.

So I don't know that I would think of it as a strategy change as much as a perfect example of how we try to provide solutions for our customer base. And when you provide solutions, you get chances on innovation. When you provide solutions, you get chances for share growth and this was one of those.

Alex Joseph Fuhrman
Analyst, Craig-Hallum Capital Group LLC

Q

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

Operator: Your next question comes from the line of John Baumgartner of Mizuho Securities. Your line is open.

John Baumgartner

Analyst, Mizuho Securities USA LLC

Good afternoon. Thanks for the question.

Q

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

Hey, John. Good to hear from you.

A

John Baumgartner

Analyst, Mizuho Securities USA LLC

Hey. Good afternoon. Thanks for the question. Maybe first off, Brian, I wanted to ask about reinvestment. As you're sort of rolling through these process efficiencies and as the business develops, the volumes and customers develop, how do you think about other areas of potential reinvestment, whether it's R&D, adding support or resources to the sales force? How do we think about your ability to maintain OpEx leverage going forward?

Q

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

Yeah. Thanks, John. Appreciate that. Look, we're really excited, first and foremost, about our demand generation engine. I think we've been saying that for several quarters now. We also have tried to be responsible in providing an outlook or guiding to what we see and not what we hope that happens. But then go work our tails off to make what we hope happens is a reality. So I continue to believe that we'll have operating expense leverage as we go through here. We are a solutions provider that are drafting great answers and great initiatives for our customers to continue growing and our categories to continue growing. So I love that aspect of it. And we can do that while continuing to think about how we support our customers in R&D, how we support them with the sales team in representation.

A

If you look at investment, it is abundantly clear to Greg and I and it's more clear today than it was three months ago, it was more clear three months ago than six months ago. Our next best dollar investment is in supply chain efficiencies. If we can unlock the trapped capacity in our network, we have an opportunity to really drive margin and more importantly even do so in a way that that either defers and/or reduces ultimately the amount of growth CapEx that is required to service our growth.

So I'm excited about that. In fact, we still have a little bit of work to do to quantify the financials on that, and we look forward to sharing that with you when we announce our fourth quarter results. But we can tell you as of today that we believe we have a line of sight into operational improvements that would fuel our volume growth well into 2026 and possibly even further without significant CapEx, without significant growth CapEx. And we're really excited about that.

John Baumgartner

Analyst, Mizuho Securities USA LLC

Okay. And to follow up on the efficiency there, I think part of the process efficiency, there was some expectation to get some benefits for inventory. I'm curious, thinking about working capital, do you have to hold more inventory going forward to accommodate stronger growth? Are there efficiencies in procurement and supply chain that are accretive to working capital? Just sort of your thoughts there on the balance of that.

Q

Greg Gaba

Chief Financial Officer, SunOpta, Inc.

A

Yeah. For inventory levels, they were up this quarter. A couple of reasons why. One, our revenue is growing. And as revenue grows, the absolute dollars of inventory will go up. In addition, it's a little bit seasonal, John, as we are going into our broth season. So we do typically have an inventory build here in Q3 to get us prepared for the Q4 broth season. So I would look at it more in the terms of days on hand. And we do strive for certain targets there and we expect those to be consistent going forward. But as revenue grows, the absolute dollar inventory will grow.

John Baumgartner

Analyst, Mizuho Securities USA LLC

Q

Thanks, Greg. Thanks, Brian.

Operator: Your next question comes from the line of Jon Andersen of William Blair. Your line is open.

Jon Andersen

Analyst, William Blair & Co. LLC

Q

Good afternoon. Congrats on the good quarter. I may have missed this earlier, so I apologize. But this year, your volume has been extremely strong and it seems like you satisfied that demand, but it has caused some manufacturing inefficiencies as a result, thus spurring your investments in the supply chain. How do you balance that equation of chasing that growth when it's there versus trying to maintain some balance in your operations to deliver on profit objectives, return objectives? And then as a second part, could you talk a little bit about where you sit today from a capacity standpoint in terms of sales? And how incremental, you know, are these short-term or near-term investments you're making in the second half of this year? How incremental is that to your capacity going forward? Thank you.

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

A

Okay, Jon, lots to unpack there. Let me start with the second part of your question first, because it's a really important point that I want to make sure everyone understands and really is more clear for us now than it has been certainly in the 10 months that I've been here. What we've very clearly understand today is the next best dollar that we can spend in investment is unlocking trapped capacity in our operating system, in our supply chain. And trapped capacity comes from all kinds of things. It comes from equipment downtime. It comes from sequence and scheduling. Potentially, it comes from order of production, product mix.

There's all types of things that impact capacity and utilization rates. I am more clear today and we, as an organization, are more clear today that we have runway to satisfy our growth initiatives and what we've talked about in the investment community with long-term growth targets, we're more confident in our ability to drive operational efficiencies, which unlock that capacity and allow us to service growth well into 2026 and potentially further out, thereby deferring significant growth CapEx. We don't have all of our answers yet, so we've got a little bit more work to do. But we're looking forward to sharing that with everyone when we announce our fourth quarter results and provide an outlook on 2025 at the same time. So I think that's the answer to the second question.

The answer to the first part of the question on efficiencies and how do you balance that, I think, one of – there's two answers. One is a lot of times when you are looking to fill your facilities and your plants, you're looking to gain volume. And you take the volume when you can get it, not necessarily when it's convenient. I think we're probably

past that phase in our growth strategy now. And we have the opportunity, as I said, to fund volume growth through operational efficiencies, but also ensures that we're working with our customers so that it's the right type of growth. We clearly have a plan to expand margins, to use that operational efficiency to expand margins. We have a margin target that we're marching to at 20% gross margin. It won't be tomorrow. It will be over the course of several quarters. But we do that by balancing not only operational efficiency, but the right type of growth as well. So, hopefully, that clarifies it.

Jon Andersen

Analyst, William Blair & Co. LLC

Q

That's really helpful. I appreciate it. Could I squeeze in a follow-up? Your value-added fruit snack business has been a good business for a long time, but it doesn't necessarily seem like it's a total fit or clean fit with kind of the aseptic packaging and processing and packaging that you do in the beverage space. Is that a business we should think about as core or central to your strategy going forward, or are you always thinking about a range of strategic alternatives across the portfolio, including that part of the business? Thanks.

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

A

Jon, I love the product categories we're in. Every one of them is growing. That fruit snacks category is growing like crazy. I think over the last 52-week period, it's up 21%. It's actually up more in the last 26-week period. So I'm really excited about fruit snacks. I actually think, although the operating mechanism is different, hot extrusion, single flow wrap, multipacks in fruit snacks, aseptic processing in our beverage and broth category. Although the operating facilities are different, the customer base, the solution orientation, the opportunity to innovate, the opportunity to work with our customers on solving their supply chain challenges, the opportunity to grow with them as we solve supply chain challenges, they're actually extremely similar in terms of our go-to-market approach. So it feels to me like it's a very core part of our business in a growing category where we can distinguish ourselves with customer-focused innovative solutions. So I really like the portfolio.

Jon Andersen

Analyst, William Blair & Co. LLC

Q

Well said. Thanks.

Operator: Your next question comes from the line of Daniel Biolsi of Hedgeye. Your line is open.

Daniel Biolsi

Analyst, Hedgeye Risk Management, LLC

Q

Thank you. Brian, I was hoping you can follow up on some of the answers you were talking about with the productivity gains your team has achieved in Q3 and the rest of the year and what that opportunity is for next year, how much of that is at the newest plants, getting that up to where the other more existing plants are and just bringing up to speed and how much is just sort of across the board with all your plants.

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

A

Yeah. So [ph] the way (00:47:06) I think about it, Daniel, I'm really proud of what we've done in the supply chain so far. If you look at us year-to-date, I think we're up 18% in total. Actually, in the third quarter, we are. Year-to-date, it's a little more. If I split that out, what I'll call our existing, so maybe legacy is a way to think of it. Plants and manufacturing lines, they were up 10%. So, yes, part of it is the new assets. We're filling those. They're getting up

to speed. They're getting up to the efficiency and throughput levels that we want in mature assets. But the other piece of that is our mature assets are all – we're also increasing output there. Again, that's what gives us so much confidence that that we can drive and fulfill the revenue growth that we see over 2025 and into 2026, potentially even further. We can fulfill that with operational excellence initiatives because we're already seeing that in our mature legacy assets.

To give you some perspective, and I think we said this last time, a 10% increase in that asset production is the equivalent of a manufacturing line. That's a free manufacturing line. We didn't have to pay any CapEx for that. Now, again, it's a little bit clouded because some of the volume gains that we took on came with some inefficiencies. And we've had to shore up a few processes, as well as build sustainable processes for future margin expansion. But the fact of the matter is we see a path and we're excited about fulfilling our volume growth through operational efficiency initiatives, and not through investment CapEx.

Daniel Biolsi

Analyst, Hedgeye Risk Management, LLC

Q

Well then I'm looking forward to what you announce next quarter on what you see [indiscernible] (00:49:01).

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

A

Yeah. We need a little bit of work still to kind of crystallize everything, but we're excited to talk about what 2025 can bring.

Daniel Biolsi

Analyst, Hedgeye Risk Management, LLC

Q

Thanks.

Operator: Your next follow-up question comes from line of Jim Salera of Stephens. Your line is open.

Jim Salera

Analyst, Stephens, Inc.

Q

Yes. Just one follow-up question to my earlier question. You talked about how there's a big opportunity for penetration in retail and kind of closing the household penetration gap between plant-based milk and traditional dairy milk. Do you have a sense for in the coffee shop channel, what that mix or what that penetration is at right now and where you think that could go to?

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

A

Jim, it's harder. That coffee shop data is much harder to get a hold of as you know. I think what I tried to do is make a more general statement, which was we view that we benefit any time there's product initiatives, assortment initiatives, pricing initiatives, or distribution initiatives that encourage penetration, trial or repeat buys. We think we benefit in those scenarios. So that that's a more general comment. I think I would keep steering this back to a couple of high-level points.

We've guided to kind of 10% revenue growth, 10% long-term revenue growth. We're more confident in that today than we were three months ago. We're confident in our demand generation engine. And part of that is because, again, we are tied in to our top 15 customers and work with them on their innovation pipeline, their new product –

their product assortment, and when they make changes in promotional volume or pricing initiatives, we're there right beside them to help them ensure that they've got supply to meet the demand.

So all of that shapes our guidance and our outlook. And we try to use all of that information as we then speak to you and others about what we think the potential of our business is. So, I guess, that's some background to say we've incorporated this data. We adjust the data based upon what we see and not hope, and then can communicate responsibly to you.

Jim Salera

Analyst, Stephens, Inc.

Q

Great. Appreciate the thoughts. Thank you, guys.

Operator: Your next follow-up question comes from the line of Brian Holland of D.A. Davidson. Your line is open.

Brian Holland

Analyst, D. A. Davidson & Co.

Q

Yeah. Thanks. Forgive me if this was referenced at some earlier point, but can you frame how much of a drag the manufacturing efficiencies and supply chain investments you referenced were to EBITDA in the quarter? And for how long this should continue to kind of weigh on the results? Obviously, to the extent that these are transitorities, it would be helpful to get a sense of kind of what the underlying trajectory here is.

Greg Gaba

Chief Financial Officer, SunOpta, Inc.

A

Yeah, Brian, we didn't quantify the amount, but what I will say with 21% volume growth in the quarter, that does create a lot of stress on the system, right. And not all of the cost is to third-parties. A lot of the cost is internal cost and its opportunity cost such as training, process improvement, working on equipment reliability. I mean, we expect that those costs are going to wind down here and they have been winding down, and we would expect those to be completely gone by the end of the fourth quarter.

Brian Holland

Analyst, D. A. Davidson & Co.

Q

Helpful. Thanks.

Operator: That concludes our Q&A session. I'll now turn the conference back over to CEO, Brian Kocher, for closing remarks.

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

Thank you, and thanks to all of you for listening and joining. Hey, if you walk away with two things from this quarter, I hope you walk away with the following two. One, our customer-focused solution provider model is an enduring growth engine. The value of our solutions and the offerings to our customers are reflected in the share gains and the TAM expansion, which is that we've realized which are driving four straight quarters of plus 14% revenue growth. And that also underpins our confidence in our long-term growth algorithm. And we're really confident in our demand generation engine.

I think the other area and we've hit this a couple of times, but I want to make sure it's clear. We have a better vision and increasing confidence in our ability to improve operationally through our supply chain. Those initiatives unlock trapped capacity within the existing manufacturing network, and that capacity is sufficient to service our growth, volume growth needs into 2026 and potentially beyond without the need for significant growth CapEx. Those would be the two points that I really hope you walk away from.

We'll update you in more detail when we provide 2025 outlook next quarter. So we're looking forward to talking about our fourth quarter to providing you 2025 outlook on the next earning call. And until then, we thank you for your support and look forward to talking to you soon. Thank you, all.

Operator: This concludes today's conference call. You may now disconnect.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2024 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.