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SunOpta, Inc. (STKL)

Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to SunOpta's Fourth 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 Fourth 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 of 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 our 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 Exchange Commission for 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 continuing 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. With today's prepared remarks, I want to accomplish the following goals: wrap a bow on a growth-filled 2024, share more details of our long-term strategy, and provide our financial outlook for 2025. I will cover several of the main themes and Greg will finish by providing more detail on the numbers, then we'll take your questions.

Let me begin by saying that Q4 performance unfolded substantially as we anticipated. Revenue grew. We invested some operating dollars in supply chain improvements, and we finalized the last significant step in our Midlothian build-out. Our business fundamentals are solid. Our strategic initiatives are delivering results. And we continue to demonstrate our ability to drive significant growth, improve productivity and profitability, and build processes for sustainable shareholder value creation.

As it relates to closing out 2024, fourth quarter results were in line with our expectations. Revenue increased 9%, driven by volume growth of 13%, again reflecting broad-based gains across segments, products, and customers. Adjusted EBITDA increased 20%. Adjusted EBITDA margin improved 130 basis points to 13.4%, resulting from strong revenue growth and operational efficiencies, net of some temporary investments. Our co-manufacturing and private-label solutions continue to resonate in the market. The end consumer categories in which we participate continue growing. Our customers on average continue to over-index to the fastest-growing categories and our solutions-based sales approach is enabling us to expand share with existing customers and acquire new customers. Within our portfolio, four of our top five customers grew double digits in the quarter, growing an average of 13%. In total, supported by the factors we just discussed, it enabled us to deliver 21% volume growth in 2024, a truly extraordinary number considering the current food and beverage consumer landscape.

In Q4, we also officially completed the start-up phase in Midlothian. In December, we swapped temporary electrical distribution equipment in the facility for the new permanent solution, which was on backorder for the last two years. Although the equipment upgrade went well, it did cost us 10-plus days of downtime and resulted in inefficiencies and some waste as the facility came back online. By mid-December, the new equipment was in place and functioning well. When I joined the company over a year ago, I was incredibly excited about our asset base and the potential to leverage our deployed equipment and facilities. I am more excited today. Throughout 2024 and notably in Q4, our supply chain was fighting to keep pace with our growth. We invested in people, training, processes, and engineering support during the last three quarter of the year. We delivered improvements and are sustaining those improvements as we move through Q1 of 2025. The supply chain improved significantly in Q4 and allowed us to produce enough product to satisfy our 13% volume growth and to achieve our adjusted EBITDA target for the quarter.

To wrap up 2024 succinctly, volume growth resulted in significant revenue growth. We finished off our capital expansion efforts that were started in 2022 and 2023, and we made enough progress in improving the efficiency of our existing assets that we can satisfy a 21% expansion in volume, grow adjusted EBITDA, improve operating income and increase cash flow. Greg will cover our 2025 financial outlook in more detail in his section, but I also want to share some high-level thoughts. As we turn to 2025, I foresee more volume-fueled growth, expanding margins, increasing adjusted EBITDA, and a continued strengthening of the balance sheet. Most pointedly, I see and I'm confident in our path to exiting 2025 at a \$125 million adjusted EBITDA annual run rate, a number we have affirmed multiple times over the past 15 months.

Our expected revenue growth stems from two powerful forces. First, we continue to see a steady growth trajectory for the categories we support. The shelf-stable, plant-based milk market, including tracked and untracked channels, continues to grow in the mid-single-digit range. Broth is growing in the mid-single digits. We serve the ready-to-drink protein shakes category, which continues to see strong double-digit category growth. In better-for-you fruit snacks, momentum remains incredibly strong, with demand still outpacing capacity. The category has been growing over 20% and our business has achieved 18 consecutive quarters of double-digit growth.

Secondly, and equally important to revenue growth, we provide great solutions by listening to our customers so we can uncover their problems and challenges. Our model has numerous competitive advantages, including a national manufacturing footprint, broad packaging format capabilities, production redundancy across facilities, and a world-class R&D team. We deploy our advantage to solve customers' challenges. When our customers win, we win. The combination of these competitive advantages allows us to grow share with existing and new customers and participate in TAM expansion opportunities.

Operationally and structurally, we are well-positioned to win. Short-term supply chain investments throughout 2024 provided a roadmap to improve output, expand capacity, deliver high-quality products to our customer, and fuel increased volumes without significant growth CapEx until late 2026 and potentially further. With our operational improvement roadmap and some investments in plant-level leadership, quality assurance and oversight roles focused on maintenance, reliability, and continuous improvements, we are targeting a 20% increase in overall aseptic processing capacity by the end of 2026. The investment in people will take a couple of quarters into 2025 to deliver the steps function change in efficiency and margins that we are anticipating. Therefore, we expect the second half of 2025 improvements will allow us to exit the year at a notably higher gross margin run rate.

Together, revenue growth in the 7% to 11% range, Q4 2025 gross margin between 18% and 19% and a realization of SG&A leverage gives me great confidence in achieving our targeted annual adjusted EBITDA run rate of \$125 million as we exit 2025. With significant growth CapEx needs pushed out at least to the end of 2026, free cash flow will continue to be strong, enabling us to further de-lever and strengthen our balance sheet. Our management goals are simple: grow the business, make money, and spend capital wisely. To reinforce that philosophy, we revised each of our executive's incentive metrics for short- and long-term performance. All incentive compensation will be determined by achieving a combination of adjusted EBITDA, revenue growth, and return on invested capital. We believe there is significant opportunity for continued growth, higher margins, and lower leverage, all of which drive value for shareholders.

In summary, volume growth remains the key driver for our top line and we are gaining share with growth rates that are outpacing the respective categories in which we compete. Our confidence in the future continues to be based on what we see, not on what we hope. Our priorities are unchanged: one, drive operational improvements to fulfill customer growth while expanding margins; two, grow volume through expanding our current customer

relationships via both share gains and innovative solutions, acquiring new customers and expanding our TAM; and three, leverage our growth and operational efficiencies to drive increasing free cash flow and higher returns on invested capital.

Now, I'll turn the call over to Greg to cover the fourth quarter and the fiscal 2025 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 \$194 million was up 9% compared to last year and continued to be driven by solid volume growth. Gross profit decreased by \$3.9 million compared to the prior year, mainly due to an increase in cost to complete the start-up at Midlothian as we installed a new electrical switchgear as Brian discussed. This is the final piece to complete the start-up at Midlothian and we do not expect to have any start-up costs in 2025. Adjusted gross profit increased 2% to \$31.5 million and adjusted gross margin was 16.1% compared to 17.2% in the prior year. The decline in adjusted gross margin was primarily due to incremental depreciation for newly launched production assets, along with our short-term investments to drive future sustainable supply chain efficiencies. Loss from continuing operations was \$4.6 million compared to a loss of \$3 million in the prior-year period. Adjusted earnings from continuing operations was \$7.6 million compared to \$4.5 million in the prior-year period and adjusted EBITDA from continuing operations increased 20% to \$26.1 million.

Turning to our balance sheet, at the end of the fourth quarter, debt was \$265 million, down \$25 million from the end of the third quarter. We achieved our year-end net leverage target of 3 times, which was down from 3.4 times last quarter. We are also very pleased with our strong cash generation as full-year cash provided by operating activities of continuing operations increased significantly to \$52 million compared to \$4 million in 2023 and cash used in investing activities of continuing operations was \$25 million compared to \$47 million in 2023.

Now, turning to our full-year 2025 outlook, we expect revenue in the range of \$775 million to \$805 million, growth of 7% to 11% versus 2024 and adjusted EBITDA of \$97 million to \$103 million, which represents growth of 9% to 16%. From a pacing standpoint, we expect revenue to grow 8% year-over-year in the first half of the year and 10% year-over-year in the second half. From an adjusted EBITDA perspective, we see the back half of the year to be stronger than the first half with a split of approximately 44% first half and 56% second half. One of the outcomes of the temporary investments we made to deliver higher sustainable margins was identifying opportunities in our supply chain that require additional positions focused on maintenance, reliability and continuous improvement. We are anticipating that it will take a couple of quarters for the new positions to deliver the step function change in efficiency and margins.

We expect adjusted EBITDA to improve sequentially throughout the year as Brian mentioned, we expect to achieve our target of \$125 million run rate adjusted EBITDA in the fourth quarter. We also expect to continue generating strong operating cash flow and anticipate CapEx needs will be primarily for maintenance and productivity as we remain focused on unlocking trapped capacity and enabling growth through further efficiency gains. For fiscal 2025, we expect interest expense of \$24 million to \$26 million, capital expenditures on the cash flow statement of approximately \$30 million to \$35 million, and free cash flow of \$25 million to \$30 million. We have achieved our stated leverage target of 3 times as planned and we continue to prioritize reducing our leverage. We are establishing a new target of 2.5 times, which we expect to achieve by the end of 2025.

Beyond 2025, we believe our long-term growth algorithm will remain robust with annual revenue growth of 8% to 10% and adjusted EBITDA growing at a slightly faster rate, driven by further progress on initiatives to drive efficiency and productivity across the enterprise to deliver higher sustainable margins. We plan on spending

capital wisely, maximizing returns, and expect to deliver ROIC of 16% to 18% by the end of 2026. In summary, in the fourth quarter, we again delivered strong volume-driven top line growth, along with a solid increase in adjusted EBITDA, as well as significant free cash flow generation. We remain well-positioned for further growth and profitability improvement in 2025, along with higher rates of return to deliver significant long-term value for our 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

Brian and Greg, good afternoon. Thanks for taking my question. Brian, I wanted to start maybe on the composition of the revenue growth. If we just think about the categories you feel the best about and maybe if you could help us bridge in your – embedded in your guidance, is there any new business wins for 2025? Or is that primarily just volume growth with existing customers?

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

A

Jim, thanks a lot for the question and appreciate it. Here's how I look at 2025 volume growth. The one thing that I want to make sure everyone remembers is our categories are growing. We've said it consistently, we've said it throughout the year. Our categories are growing. Shelf-stable plant-based beverages, when you look at tracked and untracked channel, growing in the mid-single digits. Ready-to-drink protein shakes, growing significantly. Better-for-you fruit snacks, growing. Broth, tea, all of those areas are growing. So I think there's a portion of our guidance that's associated with category growth. There's also a portion of our guidance that is associated with the fact that the brands we support are outperforming the categories in which they play. So we actually benefit from their performance, the performance that we help them generate.

So that's another component of growth. If you look at that, if I'm looking at our 2025 guidance, I'd say two-thirds of that guidance is associated with growth from the category and growth from our customers. I'd say there's another third of that that is based upon known distribution wins that we have or innovation that we've partnered with on our – with our customers. Remember, we're embedded deeply with our top 15 customers. We talk to them at least monthly, but many weekly on their 12-month outlook. What are they seeing in the consumer landscape? How are they thinking about promotions? All of that shapes our guidance, and we're sticking to our philosophy of guiding to what we can see, not what we hope that happens. So hopefully, Jim, that rounds out a little bit of where that – those growth components are coming from.

Jim Salera

Analyst, Stephens, Inc.

Q

Yeah. That's super helpful. Thank you. And Greg, maybe one question on kind of the margin opportunity for the year. I appreciate all the commentary around kind of the shape of the year. If my back-of-the-envelope math is correct, I think at the midpoint, you're calling for like 12.7% adjusted EBITDA margin, which is up I think around 50

basis points year-over-year. Any thoughts on maybe the sequencing of gross margin and how we should think about the flow-through there versus G&A leverage.

Greg Gaba

Chief Financial Officer, SunOpta, Inc.

A

Yeah, for sure. So, first half of the year, we expect 44% gross margin in the second half, 56% gross margin. A couple of reasons for that. First off, we mentioned the positions that we're adding, right, to help us continue with maintenance, reliability, and continuous improvement. So those investments will have an impact more so on the first half in the back half because it takes folks some time to get up to speed and really drive that value to improve our margin. That's kind of the biggest impact on the first half of the year. But we expect if you look by the end of the year, as Brian mentioned in his results, we're going to ramp up to an 18% to 19% gross margin by the time we get to Q4.

Jim Salera

Analyst, Stephens, Inc.

Q

Great. Appreciate the color, guys. I'll hop back in queue.

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

Hey. Good afternoon, everybody, and congratulations on a strong 2024.

Greg Gaba

Chief Financial Officer, SunOpta, Inc.

A

Hey. Thanks, Jon.

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

A

Jon, appreciate it.

Jon Andersen

Analyst, William Blair & Co. LLC

Q

You bet. Just sticking with the question around gross margin. Just a clarification, Greg, on what you mentioned. I think you meant – you indicated gross margin, 44% first half, 56% second half. That – we should think of that as gross profit dollars, right? Not a gross margin rate. So gross profit dollars 44%...

Greg Gaba

Chief Financial Officer, SunOpta, Inc.

A

That's correct.

Jon Andersen

Analyst, William Blair & Co. LLC

Q

...56% second – okay...

Greg Gaba

Chief Financial Officer, SunOpta, Inc.

A

That's correct.

Jon Andersen

Analyst, William Blair & Co. LLC

Q

And that is, again, nothing to do necessarily with business mix. It's really mostly a function of these new roles that you're hiring for. Is there also kind of a contribution in the second half as you continue to scale production lines and from some of your productivity efforts that you kind of invested into 2024?

Greg Gaba

Chief Financial Officer, SunOpta, Inc.

A

Absolutely. Absolutely. And the new roles that we have, think of it as a \$2 million to \$3 million impact on the first half of the year. Those roles more than pay for themselves in the second half of the year. But these roles are going to be a key driver of helping us unlock that trapped capacity. We expect to see double-digit increased volume in the back half of the year and starting the year a little bit slower than that. So those are kind of the biggest drivers, but we feel very confident in our ability to go unlock that trapped capacity. And if you think about our business, the demand continues to drive our business from our customers. And it's really a matter of us unlocking that capacity and fulfilling that customer demand that will help us reach those growth targets.

Jon Andersen

Analyst, William Blair & Co. LLC

Q

Okay. That's helpful. Thank you. And you mentioned exiting your fourth quarter gross up in the high teens. Is 20% still, you have line of sight for 20% gross margins in 2026. That hasn't changed, has it?

Greg Gaba

Chief Financial Officer, SunOpta, Inc.

A

That continues to be our long-term target, that 20% gross profit. And we do have line of sight to get there.

Jon Andersen

Analyst, William Blair & Co. LLC

Q

Okay. Pivoting over to sales for a minute. I'm curious on a range that the 7% at the low end and 11% at the high end, what – some of the – you see as some of the swing factors that might put you towards the lower end of the range or factors that frankly might drive you to the high end or above that range. And then if you could also talk a little bit about this cadence that you mentioned, 8% first half, 10% growth second half. What's driving that? Is it just comparisons? Is it the onboarding of new business? Is it capacity constraints? Just to give us a sense for what some of the assumptions underlying the cadence are as well. Thanks.

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

A

Sure. Let's talk a little bit about what could be the low end of the range versus the high end of the range. And frankly, it's the same answer. It really comes down to timing. Now, there's two timing components. One of that – and Greg mentioned, remember, our demand generation engine is pacing our business. If we could produce more units, we could sell more units. So a little bit of that range is associated with how quickly we can unlock capacity. If we can do that sooner than we're currently projecting, well then, that allows us to grow at the higher end of the range. If it takes a little bit longer, it might be at the lower end of the range. We have extreme confidence in

getting – in unlocking capacity and driving efficiencies that will allow us to fuel growth and get to that 18% to 19% gross margin figure as a run rate in the fourth quarter. So that's a little bit about the range. The second piece of that question...

Jon Andersen

Analyst, William Blair & Co. LLC

Yeah, Brian, just kind of...

Q

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

I'm blanking on Jon. Remind me of the second piece.

A

Jon Andersen

Analyst, William Blair & Co. LLC

That's fine. I'm great at multiple part questions, but it's not fair to you. So, first half, you're kind of calling for up 8% second half...

Q

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

Oh, yeah, yeah. That's right.

A

Jon Andersen

Analyst, William Blair & Co. LLC

[indiscernible] (00:25:56)

Q

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

I think there's two components of that. One, we do have some distribution coming on that we know we have estimated timing on in our outlook. We know it's coming on. But again, timing can play a figure. Maybe it comes a little bit earlier in the year, maybe it's a little bit less. But it's a combination of the category growing as well as the distribution opportunities we see. So it really – I wouldn't say that there's any significant mix change or anything of that nature. It just happens to be as the year rolls out, we've got some innovation and distribution changes that we see coming into the pipeline. And we're confident enough in those that we can roll them into our guidance.

A

Jon Andersen

Analyst, William Blair & Co. LLC

Okay. I've got one more. It was interesting you mentioned you've completed the kind of the last step at Midlothian, at least in the start-up phase. But that upgrade of the electrical component, it caused 10 days of downtime. Was that – did that have a material impact on your shipments in the quarter? Or how do we think about that and to what extent it drove or didn't drive volume variance in the quarter?

Q

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

Jon, I think it's fair to say. I mean, we produced less units than we could have. If we didn't have – if we could have produced those 10 days. I would think of it this, over the course of the quarter, it probably cost us 50 basis points of margin.

A

Jon Andersen

Analyst, William Blair & Co. LLC

Okay. Great. Thanks so much. Appreciate it.

Q

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

Thank you, Jon.

A

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

Andrew Strelzik

Analyst, BMO Capital Markets Corp.

Hey. Good afternoon. Thanks for taking the questions. My first one is actually on the category and you continue to talk about the mid-single-digit growth of the shelf-stable plant-based category. And I'm curious, number one, if you think that's the right way to think about category growth in 2025 and then kind of the composition of that growth. We know that on the foodservice side, there's a lot of positive things going on for the category. And then we've heard from CPG and staples companies broadly recently about some consumer -- incremental consumer softness and things like that. So I guess I'm just curious, are you thinking about the category growth any differently in 2025 than you have previously?

Q

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

Andrew, thanks for the question and appreciate the opportunity to dig a little bit deeper on that. I think it first starts with how we engage with our customers. Remember, we're having these conversations with our customers on what their promotional program is, what their demand looks like, what their inventory position is, what their new product development position is 12 months and 15 months out. Now, I'm not -- I don't want to mislead you either. These are directional conversations. They're not firm purchase orders, but they give us a chance to plan and support our customers and their growth. So that's one that's helping us shape our understanding of the category.

A

The other thing that I would also say is it is not just foodservice that is growing in that shelf-stable category. Club channel we see growing, too. Again, if you're thinking club channel, it's a great sales channel for shelf-stable product. People can buy in bulk. They can buy at a discount per ounce or per unit because of the bulk nature. They can store product. So we continue to see growth in the category from consumers who participate and repeat buy. Why is that? I think there's a couple of reasons. One, remember, many of our usage occasions are enduring; medicinal purposes, health and wellness purposes, taste profile. I mean, just to give you a really brutal example, if you're lactose intolerant, you don't have an option to go somewhere else. You're going to stick with plant-based and non-dairy alternatives.

So I think there is a combination of those things. The last thing that I would say, Andrew, as we think about the consumer and particularly the category -- well, let me two other things. The consumer and the category in plant-based is -- remember, that tracked channel data is less than 20% of the overall category. In fact, for SunOpta, it's less than 10% of our overall revenue. So, I don't want to say it's immaterial. We love that 10%. But if you want to gauge how we are progressing, follow our volume numbers. This is the business for that for the last three years, has grown at double-digit CAGR. Follow our volume numbers. And I think that's one way.

The other thing that oftentimes is maybe not as highlighted for SunOpta is we have a fruit snack business that's now about 20% of our overall revenue. And even the tracked channel data there says it's growing 20%. And by the way, that's capacity-constrained. If I could put – produce one more case of fruit snacks, we'd sell it. So remember when you're looking at the SunOpta growth total, you're looking at a lot of categories that are growing with customers that are over-indexed to those categories or, in plain English, performing better than the category. And you're looking at some really high-growth categories, I mean, fruit snack being one. 20% growth rate in tracked channel. If you throw club in, it's well over 30% on an annual basis. I think that – hopefully that helps round out a little bit of the landscape on how we're thinking about growth.

Andrew Strelzik

Analyst, BMO Capital Markets Corp.

Q

Yeah. That was super helpful and I appreciate all the color. I will only ask one other one so I don't overstay my welcome. On the capital allocation priorities, now that you've gotten to the leverage target, I'm just curious resetting a lower leverage target makes a lot of sense. I just am curious how you evaluate some of the other capital allocation opportunities and what kind of pushed you in one direction versus the other. Thanks.

Greg Gaba

Chief Financial Officer, SunOpta, Inc.

A

Yeah. Thanks for the question, Andrew. Given the current situation and the current interest rates, paying down our debt definitely seems to be one of the best options out there. There are other attractive options. But when you look at the current situation, I think that the best use of that free cash flow in 2025 is to continue to de-lever and that's what our plan is. We think we'll get to our revised target of 2.5 times by the end of 2025.

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

A

I think the other thing, Andrew, that we'd like to make sure that didn't get lost in the prepared comments, we've really pivoted from a capital-fueled growth strategy to an operational-excellence-fueled growth strategy. We are so confident and committed to an asset utilization strategy that we've changed our incentive compensation metrics for executives. Return on invested capital is now a measurement that we as management have to achieve in order to really win here at SunOpta. And so that's another governor that we like to think about in terms of capital, capital allocation decisions. We want to make sure we're driving better return on invested capital. Our goals reflect it. Our performance metrics reflect it. And we believe it's the clearest line to increasing overall shareholder value.

Andrew Strelzik

Analyst, BMO Capital Markets Corp.

Q

Great. That's very clear. I appreciate it very much.

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

A

Thanks, Andrew.

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



Hey, guys. Thanks for taking my question. Just one for me. Just curious how you think about the potential for new business to actually come into the pipeline. I understand that you're not guiding new business. But if we think about later on as we progress through the year, where are some areas that you potentially think you could win new business?

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.



Ryan, thanks a lot. I think it's very similar. If you go back to our strategy – very similar to last year, I would say – if you go back to our strategy, we are clear. We are a solutions provider to our customers. When they have challenges, when they have opportunities, it's our job to bring those to life. And so if I ordered them and ranked them in terms of profile, the most access we have is expansion of share, new product development, TAM expansion with existing customers. We're in there every month, at least, sometimes more frequently, talking to them about their supply position, their new product development pipeline in their portfolio.

So, I mean, that's clearly an area that I would rank at first opportunity. Secondly, we continue to win share. So having that – and you win share by providing a great answer to a customer. Sometimes that answer is assured supply. So ensuring that you have supply when others may not. Sometimes it's a particular R&D solve. Sometimes it's a particular geographic region that we can use our multiple plants to get to the lowest delivered cost on a geographic basis. But expansion with new customers or acquiring new customers is kind of that second level. Longer term, but a discussion that we have with both prospective, as well as existing customers is TAM expansion. Where are areas that we can help them innovate or co-develop? Where are opportunities that maybe we could introduce something new? And I think if you think about it, those are the three areas that we most likely have access to new revenue growth. Again, some of that we've already contemplated in our 7% to 11% range for 2025. But I will assure you, Ryan, there isn't a business development person in SunOpta who doesn't feel the appropriate amount of pressure to do more than 7% to 11%.

Ryan Meyers

Analyst, Lake Street Capital Markets LLC



Got it. Thanks for taking my questions.

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.



Thank you.

Operator: Your next question comes from the line of Alex Fuhrman of Craig-Hallum. Your line is open.

Alex Joseph Fuhrman

Analyst, Craig-Hallum Capital Group LLC



Hey, guys. Thanks very much for taking my question. Looks like a number of big coffee restaurants have recently stopped charging more for plant-based milks in coffee drinks. Curious if you could talk about what you're seeing in terms of new customer trial and just any kind of changes in demand patterns that you've seen now that some of the coffee shops out there are charging plant-based and dairy milks at parity?

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

A

Yeah, I think I would say we're a big fan of anything that increases penetration trial or repeat buys. And so, in general, we believe that those things are favorable to us. We support our customers' brands. And so, many of them operating in the coffee shop either as a foodservice provider or as a supplier to a foodservice chain, we're seeing a wide range of, let's say, influences, influences on trial, influences by foot traffic, influence by the opportunity to try new or recipes that include new non-dairy products. And all of that is factored into our growth numbers. So the growth that we delivered in Q4 certainly had some of that impact. The growth that we're outlining for 2025 certainly has an impact on what our customers and we see as increases in trial, in repeat buy and in penetration. And again, I think it's one of the things that just getting back to the main theme: our categories are growing. Certainly, I would believe that that's one of the things that keeps the shelf-stable plant-based beverage category growing.

Alex Joseph Fuhrman

Analyst, Craig-Hallum Capital Group LLC

Q

Okay. That's really helpful. Thanks, Brian. And just a real quick follow-up. I mean, to the extent that you and your customers are seeing more first-time trial in the category, is it pretty consistent with the mix of nuts and seeds and grains that your existing businesses, curious if some of these new customers are more likely to gravitate to oat or soy or almond or any particular milk you make?

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

A

I would say – and we've been fairly public about this. I would say our different commodities may have better usage. So you might have better luck with soy in a protein shake that you're making at home. You might have better luck with almond in a milk category. I think it's also fair to say, in general, oat performs really well in coffee products. So, as we see foodservice continue to grow, we also see oat growing as part of that.

Alex Joseph Fuhrman

Analyst, Craig-Hallum Capital Group LLC

Q

That's terrific. Thanks very much, Brian.

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

John Baumgartner

Analyst, Mizuho Securities USA LLC

Q

Hey. Thanks for the question. Maybe first off...

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

A

Thank you, John. Thanks for joining us.

John Baumgartner

Analyst, Mizuho Securities USA LLC

Q

Yeah. Good afternoon. I wanted to come back to some of the reinvestments you're making in the business. To what extent is the business mix changing where your customers may be asking for different formulations, different

sizes that's introducing more complexity where you have to invest more to meet those demands? How much of a factor is that, increasing complexity in the mix? And to the extent you are receiving more inbound complexity, how are you going about allocating those between which orders you fill, which ones you pass on, which ones require higher margin? How [ph] do you envisage going to profit (00:40:34) per SKU?

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

A

So I think a couple of things, John, just so – thanks for the question, but a couple of things to put it in perspective. If you would say relative to five or seven years ago, are we seeing a more complex mix? I would say yes, right? New packaging formats, new flavor profiles, things of that nature. I don't know and I wouldn't say that in the last one or two years. There may be some innovation that we're seeing. But I wouldn't say it's creating complexity in the supply chain. The big wins that we have are more our own controllable items, the nuts-and-bolts controllable items associated with improving yields, improving labor productivity, improving asset utilization and uptime.

Those are areas that, A, allow us to produce more units with the existing capacity so we can sell more, but then, B, also expand our margin as we do so. So I wouldn't say it's complexity that's been added more recently. Five – seven years ago, yes, but not more recently. As it relates to, let's call it, optimization – portfolio optimization, John, we're in the business of optimizing our portfolio every day. So, we're working with customers on helping them achieve their goals, but also helping us achieve ours. And so, as I think about new customer acquisition or new share gain, we want to do that in a way that's smart with the supply chain that we're managing and trying to improve. I think last year or 2024, I'd say, we took on a ton of business and it really pressured the supply chain. This year, we again have demand that's pacing our engine and the supply chain is keeping up. But we're also fairly measured and prudent in terms of what business we can take on, how can we satisfy our customer without disappointing them and that continues to ripple through our outlook for revenue growth, gross margin and target, EBITDA growth, and then return on invested capital. So, we've tried to bake those decisions in already into the outlook we provided.

John Baumgartner

Analyst, Mizuho Securities USA LLC

Q

Okay. Okay. Thanks for that. And then, Greg, on the CapEx guide for 2025, the \$30 million to \$35 million, I think that's above your maintenance CapEx levels. And I know you're not making significant capital investments, but presumably there's some growth investments in that number for this year. Is there anything notable that you can call out in terms of product categories or initiatives in that CapEx?

Greg Gaba

Chief Financial Officer, SunOpta, Inc.

A

Yeah, I would say the main difference would be maintenance/productivity. Some of those assets that we're putting in place to help us to unlock our trapped capacity in our network. One thing that we want to be clear on is our go-forward run rate will always be less than our depreciation and amortization every year. So that would be the case this year. D&A will be a little bit higher than that and we expect CapEx to come in between \$30 million and \$35 million.

John Baumgartner

Analyst, Mizuho Securities USA LLC

Q

Okay. Thanks for your time.

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

Daniel Biolsi

Analyst, Hedgeye Risk Management

Q

Brian and Greg, I know you're working hard at this, but I think you're in an enviable position to be supply-constrained.

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

A

Yeah, exactly. We're trying not to be, Daniel. We're trying not to be.

Daniel Biolsi

Analyst, Hedgeye Risk Management

Q

How long can you, especially on the fruit-based side, keep up with the demand without needing additional capacity? And how does that compare to the plant-based side?

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

A

I'd say we're tighter on the fruit side than we are at the plant-based side. I think we've mentioned in the past, to the extent that there might be some growth CapEx sooner than the end of 2026, it'd probably be in the fruit snacks area first. But also, remember that investment in the fruit snacks production line is significantly less than in aseptic line. Right now, we see growth. Again, even with existing assets, we increased fruit snacks production 8% in Q4. There is opportunity to continue making our lines more efficient, making our labor more efficient, and eking out more units than we currently do today. But I'd say if you were waiting, we're constrained on the aseptic side. I'd say we're probably a little tighter on the fruit snacks side.

Greg Gaba

Chief Financial Officer, SunOpta, Inc.

A

Even with that tightness, we are confident that we can still grow that business 10% plus in 2025.

Daniel Biolsi

Analyst, Hedgeye Risk Management

Q

Thanks. And if I can squeeze one more in. For plant-based customers, what are we expecting for inflation or pricing in 2025?

Greg Gaba

Chief Financial Officer, SunOpta, Inc.

A

I think on the inflation side, there has been some commodity cost that has increased. But as part of most of our contract structures, we do have pass-through pricing and we've had those conversations with our customers. I wouldn't expect any material impact to our bottom line.

Daniel Biolsi

Analyst, Hedgeye Risk Management

Q

Right. So the 7% to 11% revenue growth is pretty much just volume growth?

Greg Gaba

Chief Financial Officer, SunOpta, Inc.

A

Definitely volume-driven growth.

Daniel Biolsi

Analyst, Hedgeye Risk Management

Q

Okay. Thank you.

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

Brian W. Kocher

Chief Executive Officer & Director, SunOpta, Inc.

Thank you, Jill. Thanks to everyone for listening and for your questions. As always, I really like to summarize the messaging from our call. If you are only going to remember three things from today, please remember the following: We closed the books on 2024. We grew revenue, grew adjusted EBITDA, finalized the Midlothian startup, invested in our supply chain to improve output and de-levered the balance sheet. Summarized, we did exactly what we said we were going to do. So that's one item.

The second thing and we started messaging this in the third quarter and we wanted to continue here. We've pivoted. Instead of a CapEx-enabled strategy, we have now outlined an operational efficiency-enabled growth strategy, one we're confident that we can leverage our existing asset base in categories and with customers that are growing to increase our revenues, our margin, our adjusted EBITDA and our returns on invested capital. We are so committed to a capital-efficient growth plan that we changed the performance metrics of the key executives to ensure that we only win big when we both drive increasing rates of return on invested capital and when the shareholder wins big. That's when management wins. And then based upon what we see – and I mean that in terms of revenue and revenue growth, but also in terms of the progress we're making in our supply chain, based upon what we see, but not what we hope, we are right on pace to exit 2025 at a \$125 million annual adjusted EBITDA run rate. And that's a milestone that Greg and I have affirmed multiple times over the last 15 months. So if you can remember those three things, remember those from this call.

Thanks for your time. Thanks for your questions. To everyone, thanks for your support, and we really look forward to updating you on our continued progress when we announce our first quarter results. Thank you, all.

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

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