From Producer to the World

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AGT Food and Ingredients Inc.
Third Quarter 2015 Financial Results
Conference Call Transcript

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Speakers:

Murad Al-Katib
President and Chief Executive Officer

Lori Ireland
Chief Financial Officer

Omer Al-Katib
Director, Corporate Affairs and Investor Relations

OPERATOR:
At this time, I would like to turn the conference over to Omer Al-Katib, Director, Corporate Affairs and Investor Relations. Please go ahead, Mr. Al-Katib.

OMER AL-KATIB:
Thank you for joining us on our Third Quarter 2015 Conference Call. On the line with us today we have Murad Al-Katib, President and CEO of AGT Food and Ingredients, and Lori Ireland, our Chief Financial Officer.

Before we get started today, I'd like to remind everyone that this call may include forward-looking statements. Such forward-looking statements are given as of the date of this call and involve certain risks and uncertainties. A number of factors and assumptions were applied in the formulation of such statements and actual results could differ materially. This call may also include references to certain non-IFRS measures.

For additional information with respect to forward-looking statements, factors and assumptions, as well as reconciliation to IFRS measures, we direct you to our news release, our website, as well as our recent filings on SEDAR.

With that, I'd like to turn things over to Murad for some comments and then we'll go to questions. Murad?

MURAD AL-KATIB:
Thank you, Omer. Welcome, everyone to our call. AGT's performance in recent periods, particularly over the past year, has been consistently positive, with the exciting development acquisitions, expansions and significant opportunities I'd like to share more about with our shareholders.

We are delivering consistent results in our business, with volumes and our sales programs continuing to report positive progress. We feel it's an important measure for a company like ours that is maturing in its business as we embark on the next phases of growth that is guided by the strategic plan that our Management Team has initiated and is currently executing.

In our legacy segment, we have a busy traditional shipping period ahead of us, with a significant amount of pulses and durum wheat produced in Western Canada and the northern tier states in 2015, and we anticipate robust export levels for 2015 and early 2016 to key consumption markets, like India, the Indian Subcontinent, Turkey, and the Middle East and North Africa. AGT is one of the largest pulse and staple foods exporters in the world, with customers in virtually every major pulses and stable foods consumptions and import market, and our facilities are benefiting from our position in the market and from ample supply and production origins.

From all indications we have—we have market intelligence reports from our own Sales and Merchandising Teams, our agents and our customers on the ground in these markets—demand for pulses and staple foods continues to be strong, as it has been for some time, evidenced by the high volumes we've seen shipping over the most recent and our past quarters.

We're investing in AGT with regards to transportation logistics to create more opportunity in our business to supply our customers and our own operations in some of our recent acquisitions. Coupling this for opportunities that are developing in our food ingredient and packaged food segment, where food companies, pet food companies and feed customers are viewing pulse ingredients that provide advantages for them in their own applications of products in a positive manner, we feel we have the right foundation to develop new areas of opportunity, and we're investing in this area as well. Market conditions and competitive advantages are feeding the growth story that we feel will benefit AGT in the coming years to grow both our major segments and our Company overall. We're certainly excited about the developments and I want to share with you a little more, but first I'm going to ask our CFO, Lori Ireland, to share with you the highlights from this quarter. Lori?

LORI IRELAND:

Thanks, Murad. AGT reported adjusted EBITDA of $23.2 million for the quarter ended September 30, 2015. Trailing 12-month Adjusted EBITDA was $92.4 million and increased to 14% when comparing to $80.8 million for the trailing 12 months ended September 30, 2014.

Sales volumes increased over the prior quarter in the pulses and grain processing segment; however, decreased a bit in the food ingredients and packaged food segment. The decrease was largely due to two reasons. First of all, it was the end of the Ramadan period, marking a religious holiday in Turkey. So, in conjunction with the holiday, the pasta lines were shut down for maintenance. In addition, many of AGT's food customers perform their annual maintenance during this period, so demand dropped off slightly due to this.

We did see improvements in adjusted gross profit and Adjusted EBITDA per tonne, though, at $214.92 and $141.11, compared to $188.54 and $121.77 in the prior quarter for the food ingredients segment.

Inventory increased in the quarter, from $334 million at June 30, 2015 to $411.5 million at September 30, 2015. This is typical for the North American harvest period and also reflects longer in-transit inventory times associated with strategic transfers to AGT's subsidiaries.

The AGT global footprint has grown and the business is working-capital intensive. Managing assets remains the focus for Management. Working capital as a percentage of trailing 12-month revenue has declined from 20.71% as at December 2014 to 17.81% at September 30, 2015. The ratio of working capital to trailing 12-month Adjusted EBITDA also declined, from 3.23 at December 31, 2014 to 2.94 at September 30, 2015. Management views this as a positive trend and we will continue to analyze relevant ratios to ensure that working capital is deployed effectively.

Many global currencies devalued significantly against both the Canadian and U.S. dollar during the quarter ended September 30, 2015. This resulted in an $18.6 million foreign exchange adjustment reported in the quarter. This adjustment includes a snapshot of outstanding foreign-denominated accounts receivable and accounts payable, as well as outstanding foreign exchange contracts, and includes the contract related to the high-yield bonds. Note that this is a non-cash item and it will fluctuate depending on the strength or weakness of foreign currencies when compared to the Canadian dollar. The amount is excluded from Adjusted EBITDA due to the non-cash nature.

AGT has a treasury process in place to ensure that when we need to purchase foreign exchange currencies to sell that it would be minimized if it results in a cash loss on foreign exchange.

The decrease in general and administrative and marketing, sales and distribution expenses for the three months ended September 30, 2015, compared to the prior quarter, is due to decreased average share prices which impacted the share-based compensation accrual, as well as a reduction in legal expenses this quarter. This was partially offset by costs related to recent acquisitions.

Finance expense includes costs associated with the cross-currency swap on the high-yield bond and it's reported in both unrealized foreign exchange and in finance expense throughout the life of the contract. Though these costs affect unrealized foreign exchange and finance, these are non-cash adjustments and both have no impact on Adjusted EBITDA. The expense also includes a fair value adjustment on this instrument. AGT also utilizes various trade finance instruments and the costs associated with these instruments are also recorded in finance expense. On a normalized basis, finance expenses in the range of $6.5 million to $7.5 million per quarter, when considering interest on bank indebtedness, long-term debt, bond interest and various trade finance instruments.

AGT tracks Adjusted Earnings per share as it is reported exclusive of the non-cash foreign exchange effects of our global business—whether that means a gain or a loss—because Management feels that inclusion of both gains and losses that result from snapshot non-cash IFRS effects do not accurately reflect the cash flow generating ability of our business. Adjusted earnings per share improved to $0.51 basic and fully diluted for the three months ended September 30, 2015, compared to $0.46 and $0.45 fully diluted for the same period last year and compared with $0.45 and $0.44 for the three months ended June 30, 2015. Thank you.

MURAD AL-KATIB:
Perfect, thank you, Lori. AGT's food ingredients and packaged foods segment continues to be very consistent in its performance. During the quarter, margins improved, although metric tonnes decreased in this period. When we look at the reasons for the decrease in this period, as Lori had mentioned, it is quite a normal occurrence that volumes are actually a little bit more variable during the summer periods, as our customers are also scheduling maintenance and holiday periods.

When I look at the packaged food and food ingredients segment, it's continued to perform consistently with regards to margin and metric tonnes, and we did demonstrate a continued acceleration of both the adjusted gross profit and the EBITDA per tonnes. Additionally, the segment certainly is a segment that benefits from our other main segment: the legacy business, with regards to origination, strength, buying products from producers directly and supplying the raw materials required for the food ingredient production.

When I look at the facility picture overall, the Minot facility utilization was around 69% in quarter three, up from about 65% at the end of the second quarter. So, even with the summer slowdown period, utilization did inch up, and we are seeing robust sales in the fourth quarter and good visibility into the commissioning of the deflavouring line in 2016.

As an update on the facility construction, we are going to be completing building construction before the end of quarter four, and the installation and commissioning of the deflavouring line, which is the first new addition of a line in the new constructed facility, will begin in January, with commissioning activities set for February and March. So, by the end of the first quarter we should be producing deflavoured products for the food industry.

In the food ingredient business unit, overall demand from food companies appear to be less susceptible to volatility in commodity and currencies, so we're excited to be able to capitalize on that high-protein, high-fibre, GMO-free, gluten-free, micronutrient-rich demand, with a strong environmentally sustainable profile.

We're excited about the launch of the International Year of Pulses activities for 2016. We are seeing food companies' awareness of that International Year of Pulses, as declared by the United Nations, to be strong, and we are seeing product development and application development activities being stepped up by some major global food companies, to react to what they anticipate could be heightened awareness and increased demand for pulse-based food products in 2016/17 and beyond.

Growth in our packaged food business does continue. We did have a slight decrease in invoiced tonnes over the quarter in our pasta business, but I can tell you that the demand and the inventory produced over the course of the quarter have moved in the fourth quarter and that business line continues to operate at a very high utilization rate.

When I look at the overall pulse and grains processing segment, the harvest is complete. The harvest did come out as Management expected, with a slightly above average yield and above average quality. So, from the perspective of the news reports on significant droughts and crop failures, Management maintained their view that we would end up with an average crop in Canada, and as a result of increased acreage, in particular in the lentil sector, supplies available for 2015 and '16 will actually be increased over last year. Quite robust prices and strong demand from all regions of the world—we're anticipating an opportunity to move the entire crop this year—and we are expecting that that strong price performance at the farmer level in North America will lead to another increase in acreage looking at 2016, into 2017.

Demand visibility is starting to show its consistency, as well, with order books for the first quarter, and even the third quarter of 2016, where we have material sales that are being made for the new crop of 2016, in particular into India and into the Middle East region, in particular with Turkey and new markets in that area. This demand is actually not a usual occurrence, where we have such a forward-looking order book, where we have three, four, five months of visibility in terms of demand. I think it's just reflecting the overall shortage and the perception of a less than average harvest coming in India in March. So, this should bode well for our results going forward.

When I look at what we're going to continue to focus on, we're going to continue to focus on the integration of our acquisition of West Central Road and Rail, and the recently completed Mobil Grain and Mobil Capital acquisitions, which include the Last Mountain Railway and the Big Sky Railway. We're excited about putting this platform to work in quarter four and beyond, augmenting our bulk capacity to be able to feed not only our customers, but our growing requirement for durum wheat and lentils within our Turkish processing platform, and I think this is going to be an area of certain contribution for 2016.

I think I'm going to stop there and going to open it up for some questions.

OMER AL-KATIB:
Thanks a lot, Murad. Operator, we'll take the first question, please.

OPERATOR:
The first question comes from Jacob Bout of CIBC. Please go ahead.

JACOB BOUT:

Good morning. I'm hoping to get a bit more granularity on the food ingredients, so maybe just starting off with the sales volumes for the Minot facility and what the split there was between what was for animal markets and human; and then maybe talk a little bit about the margin both from the animal side and the human side; and that de-flavouring line, what has been spent on that to date and how much volume are you moving through that deflavouring line right now?

MURAD AL-KATIB:

Okay, so let me just start with the last part of your question, Jacob, just to be very clear. The deflavouring line is still under construction right now, so there is no volume that has run through. That line will start to commission and produce in February-March of 2016. So, right now, the entire marketing of Line 1, 2 and 3 is entirely the traditional pulse ingredients, the flours, the proteins, starches and the fibres.

So, when I look at the deflavoured line, of course the main target for that will be to dramatically increase the split between the human food market—and, really, you used the word "animal" a lot, but I would divide that into two segments, pet food and then animal feed. Animal feed is the segment that we don't want to participate in long term. We're using that segment to ensure that we have outlets to move our starch by-products from the processing. Now, as we get into the food applications, a deflavoured pulse flour, which we call our V-6000, which is our starch fraction, that is a very suitable product for wheat flour replacement in gluten-free applications. So Jacob, it is 12% protein, it is high in starch, it is natural, it's non-GMO, and it still has a very strong micronutrient profile.

So, the deflavouring line, you know, bottom line, it's a game-changer for us. It will allow us to take the food side of our business from around let's say 20% today, maybe 20-25% today—we have a target to get by 2017, to be at a minimum of a 50/50 split between human food and pet food. We do expect the margin left to be material when we do continue down the path of implementing the transition or the growth profile in the food sector. The deflavouring line will actually take the remaining production from the third processing line and it will then run it through that modification or that deflavouring process.

Now, as we get more robust demand over all, then we will continue to give more guidance on the addition of Line 4 and Line 5, but we're looking to see how the demand goes. I mean, if the food demand ramps up very quickly, we may have to add another production line and another deflavouring line, instead of two more production lines. Each one of these combinations has a margin impact, where as we further process we add additional margin.

The deflavouring line project, I would split into two activities. One is the construction of the building and the physical infrastructure, which can house six processing lines, one of which is the deflavouring line, so the deflavouring plus five additional spots for processing. That project is around $12.5 million, and that project, I would say, is probably 75% spent and funded already, so around $10 million of that is funded; and then the deflavouring line itself is around $6 million to $7 million, of which again I would say 80% of that is funded. So, we funded roughly about $15 million of the $19 million or $20 million. What's left is really just some electrical and installation work, and we're on time and on budget to get that completed. I'm pretty excited about getting that implemented and in line.

OPERATOR:
Our next question comes from Peter Prattas of Altacorp Capital. Please go ahead, Peter.

PETER PRATTAS:
Good morning. The first question is on the legacy business, obviously had a nice uptick in volume, and I'm just wondering does that momentum carry into I guess this quarter and next, especially given your read, maybe, of some of the pending crops in other parts of the world?

MURAD AL-KATIB:
Yes, Peter, definitely an uptick on volume. It wasn't just the Canadian business. If you do look at that uptick in volume quarter-over-quarter, of course the new crop target harvest that came in August did have an effect on that. We do have a very large capacity now with both the legacy business as it traditionally stood and with the addition of West Central Road and Rail with the bulk capacity augmentation, you saw a little bit of that in quarter three. We are expecting very strong utilization coming up over the fourth quarter and into quarter one, and, as I said, even the order book into quarter two

has some visibility, where we usually don't get more than three months ahead. I mean, three months ahead is usually a very strong demand profile. We're now into a position where three months is pretty clear, four, five and six months have sales, and even into the new crop. India came into the market a full year in advance to ensure that they had slots booked for new crop Canada in September-October of 2016. So, you know, I think that we're certainly going to see the benefit of the demand consistency.

Now, prices have been accelerating in terms of both the grower levels and the destination levels, so I think that is one factor that will be a balance to a bit of the robustness. Farmers, in general, as prices are increasing, sometimes they're actually less of a seller than they are when prices are declining. So, from the perspective of that, I think there's going to be good strong robust demand. I think there'll be farmers selling into the window, which should give us an opportunity to continue six consecutive quarters of very consistent performance. What people have been asking us to do is to deliver some predictability and I think that what we're showing in our legacy segment is that actually the legacy business is a pretty good business, and food ingredients business, a pretty excellent business. I think that's what the profile is going forward.

PETER PRATTAS:
That's great, and just one, then, on the ingredients segment. You continue to shoot higher with the margin per tonne metrics despite the downtick in volumes, so I'm just wondering what was the key driver of that. Was it more a mix towards higher value food ingredients at Minot, or are you getting some pricing power, are you gaining efficiencies, or is there something else notable there?

MURAD AL-KATIB:
I think it's a combination, Peter, of things that would contribute in multiple effects, and one is that—by the way, utilization was up by about three points on the quarter, so the overall decline in the volume was really related to our pasta and our South African business. When we're invoicing tonnes, it's a snapshot. You're taking one day in time as the cutoff. So, if product is sitting at the port and it's not invoiced, it's not riding a vessel, it goes into the next quarter. So, in general, volumes were up slightly in the food ingredients. Really, the big contributor to the uptick would be a bit more food, a bit more diversity in the book, and an uptick in the price of our starch fraction. So, as we take it out of the true feed sector and put it into both pet food and human food uses, we're

going to see a margin improvement. So, a $20 gain here was certainly a very positive trend.

OPERATOR:
The next question is from Steve Hansen of Raymond James. Please go ahead.

STEVE HANSEN:
Yes, hi, guys. Murad, you've made some big strategic moves here over the last eight to 12 months on the origination side. I'm just trying to get your sense of where you're at in sort of that playbook, whether you're done or there's more to do; and then maybe as just a derivative of that, how does this bolstered origination profile affect your utilization goals or targets you've set in the past?

MURAD AL-KATIB:
Okay, yes, good question. I think it's fair to say that we've taken a pretty material bite, because this model of the West Central Road and Rail, combined with ownership of the locomotives, leased grain cars and the trackage in major, major production regions of this country, gives us a scalable platform. I mean, Steve, it's all actually hinging on our ability to utilize our grain cars and the grain cars allowed to us under normal service granted by CN Railways. What I mean by that is you can do a unit train a week. If you can get the service, you can do two unit trains a week. We can start to scale that platform anywhere between 400,000 up to 800,000, up to 1.2 million tonnes. So, with that, I've given you the clarity.

We've got a very strong origination footprint bump and augmentation. We're going to focus on integrating that. We're going to focus on developing profitable business on differentiated. Even the bulk business, we think that durum wheat for our own pasta and marketed to other millers can be marketed according to characteristics. We think that durum we can be another lentils for an AGT, where we can establish a globally-dominant origination and supply position. So, we're going to focus on that. We're done for now, to continue to integrate those acquisitions. I think it's certainly going to be a positive impact for us in 2016 and '17.

OPERATOR:
The next question comes from Marc Robinson of Cormark Securities. Please go ahead.

MARC ROBINSON:
Thanks. I have two quick questions. First, how much was the pause in sequential volume in the Minot function of Ingredion and their customers awaiting product from the deflavouring line?

MURAD AL-KATIB:
Okay, well, certainly, I can tell you that we feel that we will have strong demand for the deflavoured products. If you have an application, Marc, that has decided they want to continue to go down the path of the deflavoured, they cannot necessarily go down the path of the traditional ingredient. So, I think that I wouldn't characterize the pause as something that I think is structural. It's certainly just seasonal and a normal trend in terms of the development of a business unit that went from scratch to tens of thousands of tonnes in a very short period of time. We expect the demand in quarter four and quarter one to continue to boost that utilization going into that Q1 period where the de-flavouring line is up and commissioned.

I can tell you unequivocally we're pleased with the Ingredion partnership. The progress to date has been as per my expectations. We are in material discussions with a number of large global majors, not only the R&D level, the product development level, but even engagement at the top-to-top executive management levels, and that's where we wanted to be at this point, is in a position where we can affect the order book with the deflavouring lines, which I think, as I said earlier, it's a game-changer. We believe that our deflavoured product has significant improvements over the initial product that we were producing because of that neutralization of the flavour profile and the maintenance of the protein quality, the protein functionality, and the overall functionality of the ingredients. So, from that perspective, Marc, we're quite pleased and I think it's going to continue to grow.

MARC ROBINSON:
Okay, that's fair enough. Then, just turning to the working capital, the number of the working capital grew in the quarter. I'm just curious, what impact does the WCRR deal, and Mobil deal, what is the impact of that on working capital, and what is the impact of these higher lentil prices on working capital and what are you doing to manage that?

MURAD AL-KATIB:

All right, listen, certainly, higher commodity prices are going to be in effect over the coming quarter four, quarter one. What we do to manage it is we always attempt to manage our payment terms, to manage the available working capital that we have, and what I can tell you is that we're turning our working capital frequently, as Lori mentioned. While absolute dollar may have risen slightly—I want to also say, Marc, don't forget we're taking a snapshot on the 30th of September and we're reporting it to you. This was the height of the harvest and shipping period in new crop Canada, where we had no product available prior. So, I can tell you that inventory that was in the system has moved out in October and November, it continues to turn along. But, when we report to you, we're going to start to report things like dollar of working capital per dollar of revenue, dollar of working capital per dollar of EBITDA. We're showing a decline in those metrics, meaning that the dollar value of our working capital is being deployed to generate both sales and earnings. So, from an efficient working capital utilization and use perspective, I think we're actually getting better over the course of the period. So, we're going to focus on consistency of our working capital. So that we're not increasing it dramatically, we're going to keep trying to turn it.

OPERATOR:

The next question is from Greg Coleman of National Bank Financial. Please proceed with your question.

GREG COLEMAN:

Hi Murad. I don't want to get into too much granularity here on the ingredients, but I do want to come back to the margins a little bit there. I appreciate the colour you gave us on sequentially better margins, even though we had volumes come down a little bit, but looking forward, is this the kind of thing where we can expect it to continue to creep up as we see the volumes come back, as we see the utilization continue to tick higher, or was the quarter a little bit of, I guess, diversity mix and product mix perfection? I just don't want to get too excited about continuing to march those things higher, even before the deflavouring comes online.

MURAD AL-KATIB:

Well, two things, Greg. I do want to reiterate that the food ingredient itself did not sequentially go down in tonnage. The segment overall did. So, I just want to repeat the fact that the decline in tonnage was attributed to our packaged foods business, not to our food ingredients business. It is one segment, but I want to give you that certain clarity that utilization went up about three points in the year in the quarter on that third line.

But, to get back to your question, there is no doubt that additional capacity utilization of Line 3 and the contributions to margin of Line 4, which is really the deflavouring—the deflavouring won't add more capacity, but that product that goes through the fractionation process, the milling process, and then the deflavouring process, will have a higher value, it will be sold at a higher value, and it will generate an additional margin on the processing of those particular products that are going out. So, I do consider that the operating leverage of this segment will continue to show improvement going forward in 2016 into 2017.

Now, whether we'll be able to maintain the pace of going from—I think it was around $96 was the first time we reported in this segment, to $141 EBITDA per tonne this quarter, that's a pretty material improvement. Whether we'll keep that pace in a one- or two-year period, I can't tell you yes or no. What I can tell you is we continue to look at the fact that this is a very high fixed cost business, the food ingredient business, and increased utilization, increased value-add will improve margins going forward.

OPERATOR:

The next question comes from Paul Tepsich of High Rock Capital. Please go ahead.

PAUL TEPSICH:

Hey, Murad, congratulations, good quarter.

MURAD AL-KATIB:

Thanks.

PAUL TEPSICH:

Just on your—there was a lot of discussion on working capital and I got some of it and missed some, but your current ratio, your credit facility has a covenant of greater than one-and-a-quarter times—

MURAD AL-KATIB:

Yes.

PAUL TEPSICH:
...and you seem like you've dropped down a little bit here, and perhaps even over time.

MURAD AL-KATIB:
Yes, I think the only thing that would have caused the drop-down, I mean, some of that is currency-related, right? When you're translating back, say, Turkish lira-denominated working capital that gets translated back to a dollar basis, you're in a position where you do have that overall reduction. But, Paul, just to be very clear on one thing, though, the current ratio in our credit facility is at the subsidiary level, not at the AGT level, so it is actually at the Alliance Pulse Processors level, which is the syndicated credit borrower.

PAUL TEPSICH:
Yes, right, right.

MURAD AL-KATIB:
What I can tell you is from Q2 to Q3, the ratio was actually maintained at the consistent level, tested at about 2.02.

PAUL TEPSICH:
Okay, great. That's good clarification.

MURAD AL-KATIB:
We're head and shoulders above covenants. You know, Paul, as you and I have talked about in the past, there's two ways to manage your leverage, decrease debt or increase earnings. We chose to increase earnings and try and maintain the debt, and, as you know, our leverage profile is down to around probably 3.5 or 3.6 times total debt to EBITDA. When we take out that working capital piece, we'd be in the single-one-digit somewhere. So, I'm pretty happy with the progress on the working capital debt side.

PAUL TEPSICH:
Well done, and thanks for the clarification.

MURAD AL-KATIB:
No problem, Paul. Thanks.

OPERATOR:
Our next question is coming from Anoop Prihar from GMP Securities. Please go ahead.

ANOOP PRIHAR:
Good morning. Just two quick questions. First of all, what was capacity utilization on the processing segment during Q3?

MURAD AL-KATIB:
Anoop, when we look at the pulses and grain processing utilization, we were sitting actually—we were running, I think, around 88% in quarter, I guess in quarter one or—yes, in the periods where we had crop available, so last year and into quarter one, whereas when we look at this quarter, because the July and August period were still not the new crop, we came in at around 70% utilization in our traditional legacy business asset base, so utilization was down in the quarter, but if I look at the utilization in the month of September, Anoop, we would have been back up around that 87 to 88% range, which was running at quite high utilization.

Now, that would exclude the tonnes that were shipped on a bulk basis through the West Central Road and Rail. If I added those tonnes in, the utilization would go up, but it's hard to pin the number of what the capacity is on those. So, when I report to you capacity utilization from now on, we're going to try and give a bit more clarity in our disclosures, excluding the tonnes handled in the bulk system, so that you can start to track a bit more on the utilization.

What I can tell you, though, is I think that visibility-wise, Anoop, going forward, we're going to continue to run in our pulse value-added processing at very high utilization in quarter four and quarter one. The pasta processing side continued to run at full utilization, although invoiced tonnes were down, and I can tell you that that inventory that was built up after the maintenance period was shipped out and will continue to ship out in October, November and December. The food ingredients side, as I said, ran at around 69%, up from 65% or 66%, so we were up three or four points of the utilization there. Visibility-wise, though, the fourth quarter has been a good strong shipping period there, as well.

ANOOP PRIHAR:
Okay, and then just one last question on the ingredients side. I mean, you made it pretty clear that although the segmented volumes are showing as being down, actual ingredient volumes, per se, were up in the quarter. I noticed in the MD&A you talk about Ingredion rolling out into new markets, particularly China and Southeast Asia. So, what I'm wondering is how much of the food ingredients volume, the true food ingredients volume, is being used to stock those channels, as opposed to what would otherwise just be contracted sales.

MURAD AL-KATIB:
Anoop, I can tell you that the system with Ingredion does not have a material stocking component. So, the inventory levels that are stocked into warehouses and distribution are literally negligible volumes. They have a very sophisticated ability to project volumes on a contractual basis, so I can tell you there is zero material inventory that would have been shipped to stock that hasn't been sold. So, I think the total value of inventory that we'd have into Ingredion at any one time would be a few hundred thousand dollars maximum globally. They're running a just-in-time system. They are very cognizant of their working capital. There's no effect like that where it's stocked and it's not sold. Yes, I don't have any effects like that.

Now, the rollout of China and Asia, I think is an exciting side, because we've made significant progress in North America, our European progress started a few months later, we're making good progress there, but China needed to start, because we think the snack food market there is going to be—the snack food and the noodle markets are going to be material markets for us in the go-forward period. As you know, Anoop, we have the Tianjin, China processing plant that we built two years ago. It's a very material-sized asset, it's 68,000 square feet, located 34 kilometres from the Port of Tianjin. It's very well suited to be integrated into our ingredient platform in the future. So, I want China to go and I want it to—it's going to take some time, but I want it to start.

OPERATOR:
We have a follow-up question from Greg Coleman of National Bank Financial. Please go ahead.

GREG COLEMAN:
Hey, Murad, I just want to touch on your 2016 capital program here. You had some good commentary, talking about integrating your recent purchases, so I just want to talk about kind of the organic build. With the deflavouring line coming on and the potential for something else after that, what are you thinking the total organic spend is going to look like for 2016?

MURAD AL-KATIB:
Yes, like I said earlier on the deflavouring line and the building, I would say $15 million out of the $20 million has already been funded, so very minimal 2016 impact on that, probably about $5 million. We have budgeted globally about $20 million to $25 million globally, and that would be split up between—food ingredients would be around $15 million of that, there's around, say, $5 million to $10 million for what I would consider to be either growth or really more efficiency-based CapEx programs in our legacy business. So, an example is we're doing an automation project on our packaging systems in one of our factories in Canada that will allow us to go down to 5kg and 10kg packing. So, these are the types of projects that save labour, increase our ability to penetrate new wholesale retail markets in emerging markets. That would be kind of an efficiency CapEx program. Our maintenance CapEx, Greg, runs around $10 million to $12 million a year, and that's expensed, which would be pretty close to matching our depreciation and amortization. So, it's going to be a very managed CapEx program that we can fund through our free cash flow.

GREG COLEMAN:
Sorry, you said your maintenance is expensed?

MURAD AL-KATIB:
Yes, absolutely, a big bulk of our maintenance CapEx would be expensed.

GREG COLEMAN:
Great, thanks. That's it for me.

MURAD AL-KATIB:
Thank you.

OPERATOR:
This concludes time allocated for questions on today's call. I'll now hand the presentation back to Omer Al-Katib for closing remarks.

OMER AL-KATIB:
Thank you. That brings us to the end of the questions and the session. I'd like to thank you all for joining us on the call today, and I'd like remind anyone still on the call that if you do have follow-up questions, you can feel free to contact us at our Regina head office and we'd be more than happy to follow up with you. So, again, thanks for attending our call today and we wish you all a very good day.

OPERATOR:
This concludes today's conference call. You may now disconnect your lines. Thank you for participating and have a pleasant day.