Alliance GRAIN TRADERS

From Producer to the World

Alliance Grain Traders Q4 2009 & Year End Earnings Conference Call Transcript

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Speakers: **Murad Al-Katib**
President and CEO

Lori Ireland
Chief Financial Officer

Omer Al-Katib
Director, Corporate Affairs and Investor Relations

OPERATOR:

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

OMER AL-KATIB:

Good morning to you all. Thank you for joining us and welcome to our Fourth Quarter and Year-End 2009 Conference Call.

On the line with us today we have Murad Al-Katib, President and CEO of Alliance Grain Traders, and Lori Ireland, our CFO, and Gaetan Bourassa, our COO.

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

For additional information with respect to forward-looking statements, factors and assumptions, we direct you to our news release and our most recent information filed on SEDAR.

I'll now turn this over to Murad Al-Katib for some comments and then we'll go to questions.

MURAD AL-KATIB:

Thank you, Omer. I would like to thank all of you for joining our Year-End Conference Call for 2009.

2009 was indeed a transformational year for Alliance Grain Traders. It was a year of growth and change. The year started with the global economic crisis that threatened so many companies and brought an overwhelming sense of caution and concern to most industries around the globe.

While our industry was no different, we benefited from our industry's primary distinguishing factor, the fact that regardless of the financial crisis, people still have to eat.

As the year progressed, optimism began to grow, and following a season with low carry-over stocks and with Canada carrying the brunt of world demand due to a second year of low harvest in Turkey, and no product available and a good growing season in Canada and the US, gave everyone a feeling that things in our industry were getting better and stronger.

This optimism continued throughout the year with reports of improved conditions in Australia, good conditions in Turkey, and continued strong demand for our products throughout the year. By carefully managing our processing and export programs to match available products with demand and thanks to an ultimately robust North American harvest, our Company was able to reap the benefits of a strong program and our solid management team.

As a result in our year-end and fourth quarter results, we reported sales of $387.9 million, compared to $328.7 million in 2008, which was an increase of 18%. Our EBITDA more importantly increased 40% to $46.8 million from $32.5 million in 2008.

All of our year-end and fourth quarter 2009 results are available on SEDAR and from our website at www.Alliancegrain.com. These results were very positive for the work we have done, but we're not the same company ending the year that began it.

The big story for AGT in 2009 was the transformational changes late in the year. We converted the trust to a dividend paying corporation. We graduated from the Venture Exchange to the TSX, showing that we're ready for the future and to continue to grow this Company.

We added capacity through a refurbishment of existing facilities in Canada, the US and Australia, and through small tuck-in acquisitions like the Finora acquisition and Parent Seeds acquisitions completed at the end of 2009.

We added core assets and new platforms to our North American business, but those are not the factors that fully drove our growth. The real catalyst that will add to the growth of our company over the coming years is the acquisition of the Arbel Group in Turkey.

The Arbel acquisition is one that brings our Company full circle as the principles of our Arbel, the Arslan brothers and I, were the original partners who founded a private company called Saskcan Pulse Trading in 2001. This acquisition creates a truly global leader in the pulse industry by bringing together the two largest players in the Pulse Processing and Export business. It provides another piece of our global origin strategy of grain procurement from the four major pulse exporting regions spread throughout the globe. This gives AGT access to supply throughout the year, as harvest periods shift through these origins, it also provides us with significant diversification of our freight risk.

Additionally, the acquisition provides new platforms for growth to augment our already strong Pulse business, including a small pack retail business, milled wheat products like bulgur, semolina and the Arbella brand of pasta, rice and other foods like popcorn and sunflower seeds.

All of our product offerings are staple foods, in keeping with our view that consumer demand for quality staple foods will continue to grow globally.

Consumers are demanding higher quality nutritious foods. Those of you who joined us on our first ever investor tour of the Arbel facilities in Turkey, saw firsthand the state-of-the-art assets we acquired, as well as the management strength that Mr. Huseyin Arslan, who was named Executive Chairman of AGT in 2009, and the entire Arbel Group bring to our new company in the areas of production, merchandising, freight and logistics.

The Arbella Pasta brand is an exciting part of the acquisition, the growth of this line has been analogous with the growth of AGT overall. Do what you do well and the benefits will come to the Company.

In only three years, Arbella has become the number three domestic brand in Turkey. We've introduced this brand into 46 countries around the world. It's currently an import brand leader in Japan, Israel, and it's increasing its market share in many markets into which it's been introduced.

It's the number one export brand now from Turkey, which is number two export origin for pasta after Italy. Some analysts forecast that Turkey will surpass Italy as the top pasta export origin in the coming decade. The opportunities in that sector are there and growing.

Beans and chickpeas are another important growth platform, we feel will assist us in maintaining our lead in the Pulse business. Beans provide opportunities not seen in other products with year round consumption, rather than the traditional winter consumption peaks we see with other pulses.

With over 1 million metric tons of estimated consumption in the US market alone, there are big opportunities in beans. With no identifiable global multi-origin bean processor, we see the potential to take a significant piece of a fragmented global market.

When I move from beans to chickpeas, and specifically the hummus markets, we have in recent years seen hummus move out of the realm of ethnic food into mainstream food products. You can now find five or more varieties of hummus in rural markets all over North America.

In non-traditional markets, pulses are moving from the ethnic aisle of the supermarket and have become a mainstream food and food ingredient. Alliance Grain Traders is there in the market as a major supplier of this ingredient.

Our vision of pulses, as a significant food ingredient, is becoming a reality. We will not convert North American and Western European consumers into lentil consumers five times a week, but we will see moms buying foods for their children that contain pulse flour as a main ingredient, used to fortify protein, vitamin profile, while lowering the product's glycemic index.

Such products will include baked goods, breads, pastas, cookies, tortillas, just to name a few ideas. These pulse-based foods are increasingly coming on to the market and Alliance Grain Traders expects to continue its focus on being the preferred supplier to the food and ingredient companies of the world.

However, even with these new opportunities for growth, we're not turning away from the products that made us a success in the first place. With 3.2 million acres of lentil production forecast by some analysts in Saskatchewan, and production estimates increasing in virtually every pulse producing origin, we expect this core aspect of our business to remain strong with ample supply available for processing.

Production estimates from Turkey look good, and Alliance Grain Traders is positioned to capitalize on its diversification of grain procurement with excellent supply in all our major origins. The addition of capacity in Canada, through the acquisition of Finora and Parent Seed, ensures we will be ready come harvest time.

Poor growing conditions cannot be the norm in Australia every year, and we have fortified our position there with capacity and storage expansions of our operation in Victoria. When growing conditions in Canada, the US, Turkey and Australia are right, and consequently production levels are high, AGT is ready to move significant grain through our system and realize our full capacity potential at our facilities.

Opportunities for marketing premium products will be another component of the focus to incrementally grow our Pulse business. The exclusive marketing rights to the B90 Amit chickpea, a popular small caliber chickpea favored by hummus makers; the King Red lentil, billed as the biggest, boldest red lentil in the world; the Queen Green lentil, the first true green cotyledon lentil; and the Octane and Skyline navy beans have all been secured by Alliance Grain Traders for the coming years.

These programs will form a new business pursuit of over 100,000 acres of production in 2010 of exclusive varieties that will be marketed to our international distribution system; this adds to our opportunity for growth.

However, the coming year will not be without its challenges. Continuing the path of integration of the assets which we have acquired, making sure we keep focused on our core business, while always pursuing growth will be challenging. But with a strong market position and even a stronger management team, Alliance Grain Traders is up to the task.

In conclusion, the future of our Company looks bright. As our story has unfolded over the past year, it's becoming increasingly clear that ours is not a commodity story, it's a food story with one of the results being quality earnings for our shareholders.

We will continue to be diligent with respect to the integration of our assets, which we acquired in 2009 that have helped with the transformational change and growth of our Company. We'll continue to focus on the core aspects of our business and on increased usage of the capacity we have in our system to generate results.

We'll also continue to be ready to capitalize on the organic growth we expect in the coming years and to identify strategic opportunities and acquisitions that fit with our business both within and outside our existing product lines, to further grow our presence in the global staple food sector and strengthen our position in our key markets. This strong market position and the overall financial condition of our company will enable us to build on the success we've enjoyed to date and grow as opportunities present themselves.

I'd like to thank you for your support and your interest in Alliance Grain Traders. Along with members of our management, I'm pleased to start to take some questions. Thank you.

OPERATOR:
Certainly, sir. Thank you. The first question is from Robert Winslow of Wellington West Capital Markets. Please go ahead.

ROBERT WINSLOW:
Good morning.

MURAD AL-KATIB:
Hey, Robert, how are you?

ROBERT WINSLOW:

I'm well thanks, I'm well. Could you please --I don't know if you can do it for us, break out the EBITDA of your Arbel versus non-Arbel. I just would like to compare this quarter to the year ago Q4 '08.

MURAD AL-KATIB:

Yes, the Arbel Group, the overall Turkish business unit, contributed year-to-date, it was about $8 million; for the quarter it was about $6.6 million. So when we look at the comparison of quarter four last year to this year, we've had a significant improvement overall in our utilization and our overall programs.

So it's quite pleased, and I do want to remind everyone that there's a couple of factors in this quarter to consider. First of all, the Finora and Parent Seeds acquisition were booked on December 31, 2009. So there was not a single dollar of contribution from those acquisitions.

Secondly, the Arbel contribution, while very positive and on our targets, it is a non-peak time in terms of available supply in Turkey. With the late crop in Canada, by the time we had product processed and it actually sailed to Turkey, we were looking at mid to third week November before they had any available Canadian product for processing. So given those conditions, I'm very, very pleased with the quarter.

ROBERT WINSLOW:

So that $6.6 million could look like closer to $8 million if you'd gotten all the product there in time. Would that be fair?

MURAD AL-KATIB:

Well, you know, Robert. We don't give guidance in earnings that way. But certainly there was an absence of product available for processing.

ROBERT WINSLOW:

Okay. Thanks.

OPERATOR:

Next question is from Christine Healy of Genuity Capital Markets. Please go ahead.

CHRISTINE HEALY:

Hello, guys. I've got a few questions for you.

MURAD AL-KATIB:

How are you?

CHRISTINE HEALY:

I'm good. How are you doing?

MURAD AL-KATIB:

Good, good. Go ahead, Christine.

CHRISTINE HEALY:

The first on, gross margins, definitely came in higher than I was looking for there. You came out at 21.8%. It's a lot higher than we've seen in previous quarters.

Just curious if you can give us some kind of ideas what's driving those higher margins. Is that from the pasta business in Turkey? Is that increased utilization of the Turkey plants?

Also, if you can give us a sense is this level sustainable? Or was there anything particular in that quarter that --.

MURAD AL-KATIB:

Listen, I mean, I obviously strive every quarter to have our team maximize our margin. But, you know, the gross margins definitely did come in a little bit higher than how we were forecasting it as well. So I was very pleased with the margin.

As we refine the business segments that we're looking at, we're obviously choosing spots and segments within each market that provide us the best margin profile.

So is it sustainable? I think definitely we were a little bit higher than what we had expected. But at the same time, we're driving towards improving those margins and having a sustainable improvement. So time will tell whether or not that will continue. Certainly the branded products markets do add to our margin profile.

CHRISTINE HEALY:

Okay.

MURAD AL-KATIB:

Of as utilization goes up, we do have a positive contribution to our margin with a very high fixed cost component of our business. So one of the things you're going to see, Christine, is you are going to see us in 2010 adopt a little bit of a change in the way we are actually presenting our reporting.

To me, gross margin is really a term that we have to define closely and see what cost items are contained within that. So we are looking at the financial integration of Arbel and Alliance, and actually noticing that the gross margin calculations for each business are done slightly differently.

So we will be choosing a common method going forward. And we'll presenting that where we're going to take a lot more of our direct processing costs and put them into cost of sales. Because we do have a mix of our costs more in the general administrative as we run our businesses as cost centers. So you'll see that change over time.

But, you know, overall the story is more differentiated products. So it doesn't even have to be the brand at Arbella Pasta type things. The more we can differentiate our products by color sorting, splitting, sizing, branding our bags, the better we can do in delivering a higher margin. That's really the aim of this game is to differentiate Alliance as the premium supplier in the world

CHRISTINE HEALY:

So it was just a bit higher than what you were expecting though. It wasn't way higher than you were expecting. So we shouldn't see it go back down to the 18% level.

MURAD AL-KATIB:

You know, again, I have to give you guys the same thing. We don't give you that much earnings guidance. But certainly, our view is to continue to push our margins to levels that we're at.

CHRISTINE HEALY:

Are you going to start showing pulses versus pasta versus other products going forward so we can have some transparency in the segments and how they're performing?

MURAD AL-KATIB:

Yes, we had a Board discussion recently on metrics. So we'll be designing up a more effective metrics package as we go forward.

CHRISTINE HEALY:

Okay. Second question is on beans. You've been running the bean facilities now for a few months in Q1. What are your expectations for margin per ton on beans? I know you can't provide specific dollar amounts here, but can you give us some kind of sense relative to margins on lentils what you're looking for on beans?

MURAD AL-KATIB:

Yes, I mean, the bean business is, relatively speaking is a very similar margin profile to our current business. You know, again, it's a very similar segment to lentils, where you have certain more bulk-type markets where you know, you're shipping let's say pinto beans into Africa at one margin.

But when we're dealing with a canner in Italy or Heinz in the UK, we have a very different margin profile for the high-end processed food segment. So when I look at an average margin, we'd be at or at the high-end of our existing margin profile, which is one of the reasons why we really like the bean segment going forward.

So when you look at our staple food strategy that we're implementing, the entire goal is to grow the company by maintaining -- while maintaining our existing margin profile. So when we look at it, we look at beans; we like the profile of that.

We like the chickpea segment because it's very focused on the hummus, the canning markets, the packing markets. We really like rice because we're taking paddy rice from the farmer and we're transforming it into white rice in a 500 gram package in Turkey.

These are the type of businesses that give us the margin upside, as compared to shipping more bulk peas to China or India, which is only a fraction of our current margin. So I can grow the top line of the Company, but I don't want to grow the top line while sacrificing my margin profile. So we're looking for business segments that fit.

CHRISTINE HEALY:

Okay. Have you had to do some upgrades to those new facilities? Do you still have more upgrades to do?

MURAD AL-KATIB:

You know, the Parent Seeds facility is actually -- really was a wonderful location. So we have very little upgrade to do.

At Finora, the same thing, the only thing we'll be doing in 2010 is adding more optical color sorting capacity. Because our view of the world is that because we're the highest quality supplier, we like to pass all of our pulse products through these optical color sorters to make sure that the color is absolutely uniform, which gets us a premium in the market, which translates into higher margins.

So there'll be a pretty modest capital program, but we'll make a few tweaks. But the plants are ready to roll.

CHRISTINE HEALY:

Okay. Just one last question and I'll jump back in the queue.

I know you've talked about this in the past and MD&A is mentioning it, just how you see further growth and some future acquisitions. Can you discuss just what your expected mode of funding these acquisitions to be? Do you expect to use your credit facility? Do you think operating cash flow will be sufficient?

MURAD AL-KATIB:

Yes, I think that certainly there's two modes in my mind for funding further growth and acquisitions. It's free cash flow, which we do have a very high free cash flow business. Then we will look to the markets for additional equity when the time is right, and continue to grow the Company that way.

Our debt capacity, Christine, we feel is largely going to be utilized by operating credit requirements to actually turn the very large book of business. I mean, don't forget, if I look at your analyst concensus for 2010, I think the revenue figure is somewhere around $0.75 billion and with $750 million in sales, we will certainly have a significant working capital requirement.

So our debt capacity we're going to use for that. Keep the Company modestly levered and continue to grow.

CHRISTINE HEALY:

Okay, excellent. Thanks, Murad.

OPERATOR:

The next question is from David Pupo of Macquarie Capital Markets. Please go ahead.

DAVID PUPO:

Yes, good morning. I just wanted to get a better feeling for the lentil supply. Now I understand probably about 60% of Canada's lentils sold very quickly, and there was a little bit of a game of chicken between some processors and the farmers themselves.

Have they started selling again? What does the supply look like?

You did make an indication in the press -- or in the financial MD&A that just a little bit of caution put into the possibility of a supply issue going into Q2. If you could discuss that a little bit for us.

Oh and, what might have lentils been as a percentage of the quarter? Because you did break it out in the past when you did the Arbel acquisition.

MURAD AL-KATIB:

Yes, okay, let me take question one. Question one on the lentil supply, good catch on my caution, David.

I mean, ultimately, we've had an extremely strong export year as a country. So the Canadian supply, while we expected it to be significantly higher, and it was, we even made the comment that it would be very healthy for us to have a carryover from year-to-year.

We're now in a position where we expect that the overall lentil supply, by the time we get to May-June, we're going to be strained at the end of the supply again.

Now, the beauty of the Alliance model is of course, when we are strained for product, then Turkey will come in with a new crop again in end May, June, July. So you'll see us be in a position where at the end of quarter two and the beginning of quarter three, we'll have one of our major operating divisions humming at high utilization with a new crop available.

So we are expecting -- farmers are selling. It is a struggle because Canadian farmers have made a lot of money over the last few years. When you sell -- if you look at anybody, if you've sold 70% of your product, or 75%, the last 25% you want to get what you want for it. So I wouldn't characterize it as chicken, but the growers are holding until the point that they know they can't hold any more and then they'll sell it out.

So I think that the positive side over supply, David, is next year's acreage is going to come up again by another 30% or 40%. So we will certainly be in a position, I think, next year where we'll have a carryover to have a smooth transition from crop year to crop year.

DAVID PUPO:

Yes, looking for a 33% increase in land and almost 12% increase in production in Canada.

MURAD AL-KATIB:

Yes, I mean, again, the statistics use average yield and they use 10-year average yield. One thing to recognize is that the current new varieties actually yield significantly better than the average of the 10-years because they're just agronomically improved. So I would see that number being higher than what they're forecasting today.

DAVID PUPO:

Okay.

MURAD AL-KATIB:

Now in terms of a break out of lentils as a part of the quarter, I don't have that number exactly in front of me, David. But my estimate would be that lentils would have made up probably about 65% of the quarter.

DAVID PUPO:

Okay, great. Thanks.

OPERATOR:

The next question is from Marc Robinson of Cormark. Please go ahead, sir.

MURAD AL-KATIB:

Hey, Marc.

MARC ROBINSON:

Hey, guys. Congrats on the great quarter and a terrific year.

MURAD AL-KATIB:

Thank you.

MARC ROBINSON:

Just around your volumes process, I noticed this quarter you didn't include the information around an increase and decrease in actual volumes, where I think you'd done that in previous quarters.

Is it possible to get the increase-decrease, not the actual number of the volume ideally in Turkey and in the rest of the business?

MURAD AL-KATIB:

Yes, I don't have those numbers at my fingertips, Marc. So we'll have to try and pull it.

But anecdotally, I can tell you that capacity utilization was definitely significantly up in the Canadian business segment, because we're into a full new crop available.

In Turkey, of course utilization was up because we did have Canadian crop arrive into Turkey, but really not until around the 15th or the 20th of November.

We only had a contribution of the pulse and grains segment for a shortened period in the quarter from Turkey. So I do expect the overall contribution from Turkey to be higher when product is available.

When I look at -- we're just actually looking at the numbers as we're speaking, so, when we look at quarter three versus quarter four --. We've got that quarter three number handy there? So I think -- I'll have to get back to you with the exact number. I don't have the -- but the quarter three number I don't have right in front of me here.

I know we've -- just one second. We're just seeing if we've got that number here. Yes, so we're up about -- on utilization in terms of invoiced versus quarter three versus quarter four, we're up about 40% in terms of our tonnage that we invoice.

MARC ROBINSON:

That would be across the entire business?

MURAD AL-KATIB:

The entire consolidated. I don't have the breakdown by division.

MARC ROBINSON:

Okay, all right.

MURAD AL-KATIB:

We'd expect that of course with the crop coming. I mean remember in Q3 with the late harvest, we were dealing on fumes from last year.

MARC ROBINSON:

Yes. So would these domestic facilities been fully utilized for, you know, if you had an even larger crop, could you have processed that?

MURAD AL-KATIB:

I mean, I will tell you, during this quarter one of the motivations of acquiring Finora is in our traditional product segments. We were at full utilization during these quarters. So when we look at availability of additional product to put through our existing plants, we didn't have a lot of additional time.

Although you can appreciate that we're certain small occurrences like the CN Rail disruption that happened, which put a little bit of a bottleneck into some shipping this quarter. But overall utilization was quite high. In order to react to the new crop coming with a much more significant acreage and tonnage projected, we need more capacity for the peak periods.

MARC ROBINSON:

Can you comment just on Finora? Because I know that was severely underutilized when you purchased it. Now having one quarter under your belt, how well that's being integrated into the business and how utilization there is improving?

MURAD AL-KATIB:

Well, there's two factors there; I mean the integration's going well. We knew all the staff; we maintained all of the production staff there. So the integration was very smooth and very simple.

Even they used the same accounting system that we used. So the accounting grain management system we use is a program called, ProSoft, so from that perspective we had a very smooth integration there.

The assets are great assets, and very high capacity, very good quality. We're going to make a few tweaks to add some optical color sorting at the Finora Wilkie plant that doesn't exist today. But we expect a very good contribution of those assets in 2009.

MARC ROBINSON:

Okay, great. Thanks.

OPERATOR:

The next question is from Anoop Prihar of GMP Securities. Please go ahead, sir.

ANOOP PRIHAR:

Good morning. I have a couple of questions. First, with respect to your disclosure, I noticed that you're now breaking out manufacturing and processing costs. On the year-end numbers it was to the tune of about $7.7 million.

Now, I'm assuming that previously this was all included in the cost of sales. So I'm curious to know what is it about these costs --?

MURAD AL-KATIB:

No, Anoop. Let me stop you there. That's the point. They're not in cost of sales.

ANOOP PRIHAR:

Previously they were in cost of sales --.

MURAD AL-KATIB:

It's actually part of the transition phase of standardizing our cost on the consolidation of Arbel and of Alliance. So what we decided to do this time is we wanted to actually point out the breakdown of the general and administrative expenses between processing related costs and indirect -- direct and indirect costs.

Then we will be looking at implementing an accounting, you know, kind of a classification. It's not really a policy change, but we'll actually move a portion of those costs up to cost of sales as we do the final integration of Arbel in the first quarter of 2010.

ANOOP PRIHAR:

So you're just showing them here separately on an interim basis?

MURAD AL-KATIB:

Yes, I think we actually just ran by our board the accounting classification change. We will go to a quarter one implementation of all of our direct processing costs, and all of our global operations will go into our cost of sales.

So we'll be able to make a note of that and be able to give you guys some information on the past quarters. So that when you're doing your comparatives, you can see how that change would have affected past results.

ANOOP PRIHAR:

Okay, fine.

MURAD AL-KATIB:

So want to -- that's why we did it. We wanted to start to say, hey, there is a portion of our direct manufacturing costs that are actually within our general administrative expenses, because we run as cost centers.

So the way we've always grouped these is we've grouped them that way. This is not a change, so the past results have all been done the same way.

So the decision was do you make the change in fourth quarter at a year-end, or do you make the change for a fresh year so that each quarter could be compared on the same policy. We decided to change in 2010.

ANOOP PRIHAR:

Okay. Then just out of curiosity, why do you include your FX gains in your EBITDA number?

MURAD AL-KATIB:

Again, we define it; EBITDA is not a GAAP measure. We include the FX gain. We note it separately, so you guys can strip it out if you want to.

ANOOP PRIHAR:

My understanding was that with the FX policy you implemented, particularly in Turkey, that you would never be offside more than $0.5 million. So I'm just a little surprised --.

MURAD AL-KATIB:

Well actually, these are not related to Turkey. In fact, Turkey's FX --.

LORI IRELAND:

It's over $100,000.

MURAD AL-KATIB:

It was $100,000 in Turkey. This is just a snapshot mark-to-market year-end FX contracts being mark-to-market. It's an unrealized item. It will actually reverse itself as we go forward.

ANOOP PRIHAR:

Okay, fair enough, then how much of your -- because of the lateness in the Q4 harvest, how much of that spilled over into Q1?

MURAD AL-KATIB:

Well the lateness would only have spilled over mostly into the Turkish operation because the cargo would have been in transit. So we wouldn't necessarily say that there's a significant spill over from the Canadian or US business from quarter four to quarter one. It's just regular course of business.

ANOOP PRIHAR:

Okay. Then last question, if I'm not -- if I'm correct, our thinking said that you were going to put about $5 million in synergies on the back of the Arbel deal. I'm curious to know where you are in terms of realizing on that $5 million number.

MURAD AL-KATIB:

I would say that there's very little with the exception of the interest savings that have started to kick in now. But 2010 is the year that you're going to see the synergies.

So we're implementing the freight savings program, the option origin shipping programs that are going to allow us to capture more margin. So we're very confident in our ability to deliver the synergies that we indicated in the prospectus on the Arbel acquisition.

Which again, we maintain our position that this is a very transformational and accretive acquisition. We're very pleased with the way it's going so far.

ANOOP PRIHAR:

Okay, thanks.

OPERATOR:

The next question is from Steve Anderson from Venator Capital Management. Please go ahead.

STEVE ANDERSON:

Hello, Murad.

MURAD AL-KATIB:

Hello, Steve. How's it going?

STEVE ANDERSON:

Good, you?

MURAD AL-KATIB:

Good thanks.

STEVE ANDERSON:

Good. My question is more of a strategic question, the way you envision it.

Obviously, the seasonality still exists because of the size of the lentil business in your current business. So you've got a strong Q4, a strong Q1 and then a weaker Q2-Q3, and that's expected on an annual basis.

But I'm wondering over time, and what pieces you have of the puzzle currently in place to smooth that out. Where do you see it and how many more acquisitions do you envision having to go through to get to a point where you can smooth that out with different crops?

MURAD AL-KATIB:

Yes, a very good question, Steve. I mean the ultimate pursuit of a staple food strategy is to choose products that have a very different demand profile than the winter consumption of lentils.

If you notice in my prepared comments, I focused on the bean and the chickpea segments to talk about the fact that bean consumption -- I mean, when we look at refried bean consumption in US Tex-Mex restaurants, that's not a winter or a spring or a summer item. It's a year round consumption, or black beans or hummus is not a winter or summer. Pasta is not consumed more in one season versus the other; rice is a year round item.

So when we look at the new growth segments of chickpeas, beans, pasta and rice, these are the business segments that are actually aimed at transforming this company from a seasonal products company in staple foods to a global multi-origin staple foods company with a very consistent business that's spread through the four quarters of the year.

So that is the ultimate goal, and one of the things that's very important is we need to be processing these products year round to actually be able to boost our utilization of our existing assets. So when I look at my existing assets that do lentils, we have a very strong focus on chickpeas, on canary seed, on flax seed, on mustard seed, on all of these different products that will allow us to use the same assets at different times of the year to boost our utilization.

Because the bottom line is, as Marc from Cormark when he asked his question, during the peak shipping season, our assets are at 85% to 90% utilization currently. So what we're really looking for is businesses that allow us to utilize our existing assets at different times of the year, and we're trying to find new business lines that give us earnings consistently throughout the year, and that will be the acquisition focus.

So, as I look at the growth forward, our view is within a three to five-year cycle of growth in this business, with a much more significant focus on North America and Western Europe for more food and ingredient type marketing of our pulse crops, and the new product lines that we're in, within a three to five-year cycle with some good tuck-in acquisitions and some organic capacity growth, we should achieve a much more smooth seasonal quarter two and quarter three.
Now, don't forget as well, that quarter three will actually be smoothed somewhat by the acquisition of Arbel, because the crop in Turkey comes in the end of May, beginning of June. So really a peak shipping period for Turkey is late June through late August.

That is a time where Canadian crop is usually very scarce. So that acquisition alone will help to smooth the seasonality of that quarter three.

The quarter two smoothing is largely focused on South America for us. So as we get further into that -- remember, the winter consumption in South America is in the quarter two period versus the winter consumption in the rest of the world which is more in quarter three, quarter four, quarter one. So the southern hemisphere markets provide us another opportunity.

STEVE ANDERSON:

So I guess in the last quarter, lentils were what, 65% of the revenue? Is that, I think, what you --.

MURAD AL-KATIB:

Yes, absolutely. My goal would be to -- I mean remember, lentils sound like a very narrow category. But you have 10 different types of lentils going to 85 countries. So really, you could consider lentils to be 10 different products, but we group it together, but we do want to reduce our reliance on lentils. I'd like to have that down around 35% to 40% of our book within the next three to five years.

STEVE ANDERSON:

Okay. So you're well into your process right now. It's more of a tuck-in acquisition or are you looking at majors still?

MURAD AL-KATIB:

I mean, I've got to be honest. In the Pulses sector there are no majors to do. We did the only major that was on our horizon, that was Arbel. So now the focus of the Pulses business is on tuck-in acquisitions. The size of those may rise from that $5 million to $15 million to the $10 million to $25 million, so we'll continue to go on that path.

But the acquisitions could exist in the pasta sector, the rice sector. But again, I want to take those sectors slow. I mean, we want to make sure we grow our market; we don't want to jump in too far and stray away from what's made us very successful.

STEVE ANDERSON:

Now, are there acquisitions you can do in, let's say, the rice sector? Or is it a pretty fragmented market?

MURAD AL-KATIB:

There are actually, there's some very large rice players in the world. The more you get into the rice milling side, we look at the US rice milling industry and we see a very big opportunity for us to get involved in that, then to continue to grow our presence in Turkey and North Africa.

So the strategy will be focused on North America and then the region of Turkey, North Africa. So they're very distinct regions. So in the US alone, there are a number of acquisitions that we could be looking at in the coming five years in rice.

STEVE ANDERSON:

Okay. So if I'm hearing you right, then I guess, with the Arbel acquisition and through this year, we should probably expect to see this year a bit smoother than we've seen in previous years.

MURAD AL-KATIB:

That's the pursuit. I mean definitely, the pursuit is products that give us a much smoother profile.

STEVE ANDERSON:

Okay. So there's not as much volatility or variability between the quarters hopefully.

MURAD AL-KATIB:

I mean the only thing that's going to affect that, as I keep saying is, available supply. Right? So --.

MURAD AL-KATIB:

You know, we did put out a little bit of a cautionary statement already in the MD&A to say, when Canadian product -- I mean a lot of our capacity's in Canada. We can't forget that today. If Canadian supply is very tight, there ultimately will be a capacity utilization affect on the Canadian operations.

STEVE ANDERSON:

Where does storage play into all of that with the other crops? So if you're processing, I guess through put is lower on lentils and you have other crops stored up that you can put through in the slower months to get your utilization up.

How much more storage do you have to build out?

MURAD AL-KATIB:

Well the thing is, remember, our model is very much based on back to back from the grower to the end use customer, hedging the risks along the chain. So additional storage implies price risk, and as a result of the fact that we don't have hedging mechanisms for the commodities that we handle, we don't see that being a model that we're going to pursue in our North American business.

Because on-farm storage exists, and ultimately, what we need to do is encourage more acreage of the crops or be diversified to be able to take crops that move at different times of the year, hence the pursuit on flax and on canary seed and on mustard and on other specialty products that we can use to fill in our gaps.

STEVE ANDERSON:

Great. Thank you very much.

MURAD AL-KATIB:

Thank you.

OPERATOR:

Next question is from Sandy El Baroudi, a private investor. Please go ahead.

MURAD AL-KATIB:

Hello, Sandy.

SANDY EL BAROUDI:

Hello, just a little question, in the release you show a very big net income for 2009 representing a 35% increase over 2008. However, the earnings per share are lower in 2009 than in 2008. Could you comment on that please?

MURAD AL-KATIB:

Yes, I mean, obviously we've had a very transformational year with a very significant increase in the number of our shares. The Arbel acquisition actually warranted us to go out and raise -- we did $100 million subscription receipts deal that I think we increased our share count from 6.5 million to 17 million.

So when we look at the shares that we've actually issued, the capital that we've actually raised, and the acquisitions that we've actually undertaken, the income effect of those acquisitions have not been realized yet. They'll be realized in 2010 in a lot of cases.

So if you look at Arbel, we only have one quarter or actually 105 days really, one quarter and 10 days in the other quarter, of their earnings included. If you look at the Finora and the Parent Seeds acquisition, they were done on the last day of the year, so none of those earnings have shown in.

So I think when you evaluate our performance at the end of 2010, and you look at the earnings that we've been able to generate from the funds that we've actually raised as a result of issuing more equity, you're going to find that the acquisitions have been very accretive and management views that the earnings per share are going to be able to illustrate that and show it.

SANDI EL BAROUDI:

Thank you very much. That's very helpful, much appreciated.

MURAD AL-KATIB:

No problem, Sandy.

OPERATOR:

We have a follow-up question from Robert Winslow of Wellington West Capital Markets. Please go ahead.

ROBERT WINSLOW:

Hey, gross margin per ton, can you enlighten us what we would have seen in Q4? Ideally we'd get a range plus or minus $10 and if not, maybe you can just give us a relative change in that gross margin per ton versus Q3 '09 and Q4 '08, please.

MURAD AL-KATIB:

Robert, in terms of gross margin per ton, as you know, we don't really go that deep in our disclosure. But certainly the percentages are higher and if you look at the overall growth in the tons that we've invoiced, we have seen a -- we've not seen a very significant change in that overall gross margin per ton.

We did a lot more tons. We generated a lot more earnings. I wouldn't say that the margin profile overall has been dramatically different as compared to traditional.

I mean, margins in this business can move 10% up or down in terms of the overall dollar of the -- let me just rephrase that. They can go up 10% or go down 10% on the actual dollar per metric ton that we're handling.

So as a result of that, we really don't see a very significant variance. But don't forget, on a percentage basis, as the price goes down our percentages go up. We have seen a very significant reduction in the commodity prices, the base prices.

So when you look at our sales growth for instance, you guys have to recognize that the sales growth is really a function of the commodity price. So if we look at the volume handled growth over the sales growth, our volumes grew much more than our sales.

So as a result, you're seeing a much stronger earnings, which is what we should expect. So a normalized commodity price, because we target a fixed dollar margin per ton, as commodity prices go down, you're going to see our results, if you look at it on a traditional sense of percentages, we're going to look like we're getting more and more profitable. When realistically we're not getting that much more profitable, we're just continuing to maintain our margin profile as we go forward.

Now, sustainable improvement in that margin is a different category. We may change our dollar margin target depending on the product segments. As we move into different product segments, that margin expectation goes higher. As a result of that, you see a sustainable improvement.

ROBERT WINSLOW:

Thank you.

OPERATOR:

The next question, it's a follow-up from Anoop Prihar of GMP Securities. Please go ahead

ANOOP PRIHAR:

Yes, thank you. Just coming back to 2010 and the same utilization issue that I think we're all trying to get our heads around, if we assume that for 2009 across the platform you're running about 55%, given the forecast we have for crops and yields in Canada and Turkey right now, is it reasonable to assume that utilization could go from something like 55% to 65%?

MURAD AL-KATIB:

I won't tell you it will go from 55% to 65%, but it's reasonable to assume it has a chance to be boosted in that fashion.

ANOOP PRIHAR:

Okay. Would that be on a full-year basis, or would that just be inferring that by the end of the year, you'd be getting there?

MURAD AL-KATIB:

I think that ultimately remember, part of the -- I mean the boost in capacity utilization in Turkey is aimed at having available crop. Okay, so if the crop there comes in as expected, we expect utilization there to be significantly higher than last year, which in itself will boost the 55% utilization across the platform.

The Canadian side realistically, if quarter two is short on products then ultimately our assets are fairly utilized through the last half of the year. We don't see significant growth there.

However, we are going to ramp up utilization on Finora and Parent Seeds. So that percentage might not change, but the actual tons handled will definitely be enhanced by those acquisitions.

ANOOP PRIHAR:

But when you talked about 55% utilization in Canada, I'm assuming that you included in that number the capacity that you acquired at the close of December.

MURAD AL-KATIB:

No, we did not. I mean, those capacities were not -- well first of all, I -- the 55% is just an estimate. I mean, we didn't say 55% utilization in our filings.

ANOOP PRIHAR:

Fair enough.

MURAD AL-KATIB:

The utilization of our capacity -- I mean, I guess, yes, it could be including that because their utilization was running around that level. So it won't affect our current state as we include them January 1st onwards.

ANOOP PRIHAR:
Okay, thanks.

OMER AL-KATIB:
And with that, we'll wrap up our conference call. I'd like to thank everyone for participating.

I'd just like to remind everyone that an audio archive and a transcript of this call will be posted on our website on March 25th. If you do need to replay the call, please refer to our news release regarding this call for replay instructions. Or you can visit our website at www.Alliancegrain.com.

If you have any further questions today, please don't hesitate to give us a call at the office and we'll be happy to answer them. I'd like to wish you all a great day.

OPERATOR:
Ladies and gentlemen, this concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.