Alliance Grain Traders Q1 2010 Earnings Conference Call Transcript

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Speakers:

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From Producer to the World

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:
Thank you. Good afternoon and thank you for joining us and welcome to our First Quarter Conference Call.

On the line with us today we have Murad Al-Katib, President and CEO of Alliance Grain Traders, and Lori Ireland, our Chief Financial Officer.

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 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-GAAP financial measures.

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

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

MURAD AL-KATIB:
Thank you, Omer. I would like to thank you all as well for joining us on our First Quarter 2010 Conference Call.

It has certainly been an exciting time in our business and I would like to continue to share with you some of the developments we have seen unfold. Some of our future plans to contain to grow this business.

For the past two quarters, we have been speaking with shareholders and analysts on the strong harvest results of 2009. And then, the robust export data through late 2009, early 2010 continues to demonstrate the strong demand for our products in every market in which we are active. As well, the growing conditions and the new origins we have looked to diversify in our crop sourcing activities are showing very strong promise as we move forward.

We are now shifting from 2009 crop in Canada to seeding for the 2010 crop year and we wait for the start of the Turkish harvest season. New challenges and opportunities are unfolding before us. As for the opportunities, export data from Canada and US sources show the North

American pulse industry has more than made up for the late harvest with heavy shipping up to cut off of early 2010. Alliance Grain, with its operations in Canada and the USA, has been no exception.

With such strong exports in the past six months, on-farm stocks are tight, as farmers have been willing to sell more at higher prices and backed by customer demand, processors have been willing to purchase more for processing.

There remains a significant price premium for turn-crop stocks in comparison to new crop 2010 contracting levels. As AGTI neared the end of this crop year in transition for 2010/2011 harvest in August, in Canada, the price disparity between old and new crop stocks are expected to converge. The convergence in price is facilitated by matching Canadian farmers selling to international client buying and this convergence, while we feel that it is coming has been slow, and this has been affecting our demand forecast for the middle part of 2010.

International buyers are very sensitive to price and the time of transition between new crop in Canada, with the September harvest, to Australian in December to India in March and to Turkey in June. In a time of declining commodity prices, demand is affected as importers are cautious in their purchases, and only buy bare requirements and do not hold any excess stock levels for fear that international market prices will decline, and that they will lose on their inventory values.

This is a normal and temporary rationalization of demand that we have seen in years past that will end up catching up in subsequent time periods, as importers delay buying decisions temporarily. But eventually, stocks must come into markets to satisfy consumer demand for pulse products and protein. AGTIs success over this past quarter has come from our ability, during the annual convergence period that we have seen come and go each year, to match available stock from growers in all of our origins to international client buying and demand to the benefit of all, including our Company and of course our shareholders.

In doing this, we reported sales for the first quarter 2010 of $186.3 million compared to $86.8 million for the same period in 2009, which is an increase of 115%. Of course this reflects the new company post-acquisition and we have transformed this Company into a much larger size.

Now, EBITDA has also increased 100% to $21.9 million from $10.9 million Q1 2009. And all of our first quarter 2010 financial results are of course available on SEDAR or from our website at www.alliancegrain.com.

Management is pleased with the strong numbers in the two quarters since the Arbel acquisition. But these strong results are the result of strategic work we've done for many years, culminating in the acquisition of Arbel Finora and Parent Seeds and the implementation of our diversification strategy that has allowed us to maximize and grow our business.

This growth is allowing us to continue this new chapter of our business that we undertook through this transformational acquisition of Arbel in 2009. We have remained focused on our plan we have set in motion because we are confident that this is the roadmap to our growth for the Company and for delivering solid, consistent earnings to our shareholders.

The challenges though, are real as well. The core product that AGTI produces are profitable crops for farmers. Let's face it, everyone wants to make money, and farmers are no different. With high prices to farmers, they are reacting as any business would and that is to do more of the same to maximize their returns. This has resulted in unprecedented seeding levels in Canada and in the US, with Statistics Canada and USDA projecting acres at about 3.385 million acres in Canada and the US. So with these types of increases in Canada, North Dakota and Montana, we are expecting a much more significant supply to North America.

And crop levels in Turkey are returning to historical levels as well. Australia will seed in June 2010 into adequate moisture and the Indian harvest in March was again below expectations. So this creates strong demand fundamentals.

These are all good news parts of our story but all of this additional supply will present challenges. The significant estimated quantities that will require processing and movement are unprecedented, and again the dramatic jump in acres over the past ten years is an affirmation of the positive nature of growing pulses.

However, growing it is one thing, and moving it as a food to satisfy consumer demand for pulse products and protein are another. And as we have stated in the past, we feel Alliance Grain is well positioned to capitalize on the opportunities that the additional supply can present.

We have talked a number of times previously concerning our integration efforts, which is on time and going according to our plans. With the Arbel acquisition, the two businesses have worked together extensively in the past, and shared a common culture and practice. The tuck-in acquisitions are being integrated as we expected, no surprises there. We've talked about potential for acres increases and seeding and tension reports in Canada and the US, the growth in acres appears to be upon us.

What we have not talked about enough is the fact that we have the capacity ready to ramp up as needed in our plants around the world. When we were in acquisition mode through 2009, the question did come to us, why do you need all these facilities? Well, with the acres out there, it's becoming clear, it is not the facilities but the capacity that they represent that is key to our future growth.

With this much product out there in all major origins, the capacity needs to be put in place before the product needs to be processed and shipped. If it is not there, you have missed the opportunity and we do not intend to miss opportunities that are before us.

Our facilities are well located, we have established strong logistical relationships with Canadian Pacific, Canadian National Rail, BNSF Railways and International Steamship Lines. We have flexible production capacity that will continue to be utilized during peak seasonal demand and we will continue in our efforts to develop opportunities to utilize these assets more effectively in non-peak periods through finding new products and geographies to ship year-round.

In order to better capitalize on the opportunities, we need to be financially strong. We feel the strength of our balance sheet is one of the key assets in implementing our strategy. The completion of the $80 million equity financing in April 2010 will assist us in executing our plans for growth, both organically and through more tuck-in acquisitions. We have a strong management team, a solid business and strong consumer demand fundamentals and our strategy and direction is clear, as we work to realize the full potential of our business for the benefit of our producers, customers and shareholders.

Management remains confident in our strategy and our team and there are a number of key strategic drivers underlying this confidence.

Number one, tuck-in acquisitions in core areas of strength will continue to bolster our growth prospects. We are continuing to examine quality acquisition opportunities in the area of dry edible beans, chickpeas, pasta and rice, with a focus on smaller asset acquisitions that expand the reach of the company in its core business platforms. This strategy has been successful and earnings accretion for shareholders has been virtually immediate.

Number two, we have a strong global growth strategy and management team has a track record. You know, I think we now have the reputation of our ability to access the public equity markets, deliver strong financial performance, and with the steady demand of our products coupled with our ability to integrate acquisitions and bring them on line very quickly, we have a solid path and foundation for which to build and prosper. Boosting our capacity utilization will also support our objective to have positive earnings growth in 2010 and beyond.

Third reason is of course the addition of new products and product lines. We have talked a lot about the milled Durham wheat platform, bringing on parent seeds and entering the bean area and taking a look at all of these new products that we have added into our mix, has certainly allowed us to ensure that we are going to be very competitive going forward.

And I keep repeating number four, that demand fundamentals continue to be strong. I mean, global populations continue to consume protein and staple food products. The foods that we produce are customary and are relatively inelastic in their demand profiles. And non-traditional markets, for example in North America and Europe, are increasing consumption of certain pulses, adding food and ingredient markets to AGTIs market development targets.

With our efficient value-added processing, freight and logistical advantages, diversified markets and origins and a well-instituted risk management program, we are going to capitalize on these opportunities going forward.

I think the last point that I wanted to make is, I want to ensure that our investors know our diversification strategy is very, focused. AGTI will seek to grow as it executes this strategy and the strategy will really be focused on four key platforms. I keep mentioning beans, chickpeas, pasta and rice. And management continues to seek to build international sales opportunities, acquisition opportunities of a tuck-in nature to ensure that we investigate additional opportunities for these acquisitions, partnership and alliances in the Americas, Turkey and globally.

I think I am going to end my comments there and open it up for questions.

OPERATOR:
Thank you, certainly sir. We will now begin the question-and-answer session.
The first question is from Marc Robinson of Cormark Securities. Please go ahead.

MARC ROBINSON:
Hey guys, good afternoon.

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

MARC ROBINSON:
Good thanks. Just wanted to ask about, you talk about the incremental capacity you've built and you know there is commentary in the disclosure that talks about how up Finora, this quarter, even though the deal had closed, it was just managed a tolling business. To try and get a sense of what that business can actually do, if you had full leverage to it. Can you give us some metrics or anything you can provide and how much volume was actually done, out of Finora or

maybe just on a qualitative basis, how that business is ramping up and what you expect to see out of that going forward?

MURAD AL-KATIB:
Yes, good question. Just to clarify, under the asset purchase agreement with Noble Resources, Noble Grain out of Asia, when we purchased the Finora asset, part of the agreement was an undertaking by Alliance to assist them in an orderly wind-down of that particular business for them, because they were doing a complete exit of the pulses and special crops business. So, realistically Marc, until about March 20th or so, which basically encompassed the entire quarter, we were actually executing on just a toll processing, fee-for-service-basis for Nobel to allow them to wind down Finora.

So as a result of that, we were, in essence foregoing major parts of our margin stream in that transition phase for that particular business unit. So no origination margins, no marketing margins. We're basically just charging them a fee which will cover part of our costs and maybe made us a little bit of margin on top. So I think that ultimately -- when I look at the Finora acquisition, it's a very substantial capacity that we have acquired and I believe actually, effective on Friday last week, we have actually shut down that plant, the major Finora Wilkie plant. We are doing a major expansion/revision of the capacity both there and in the Assiniboine, Saskatchewan plant, to tool it up and get it ready for a new crop season starting in, let's say mid-August.

So we are adding optical color sorting for lentil shipping at the Finora Wilkie facility and we are adding additional equipment to be able to handle our B90 chick pea program at the Assiniboine factory. So we wanted to take these assets that we bought very cost-effectively and make some minor dollar investments, a couple of million of dollar investment to update and revise the capacity, so that we could change the use of the facilities. Because Finora was shipping a very large volume of peas into the Asia market, into China and India, and that margin profile just – you know we'll do some of that business, but it just doesn't fit what we are doing in terms of our overall margin focus. So those plants will be commissioned up to focus on lentils, on chickpeas and on some higher value green peas for the canning industry.

So we think it's going to be a very significant acquisition that will be ready to go by end of July, and they're certainly going to be a good contributor for the upcoming season.

MARC ROBINSON:
Okay, great. Thanks very much.

OPERATOR:
Next question comes from Keith Carpenter of Canaccord. Please go ahead.

KEITH CARPENTER:
Great, thank you. Hi Murad. Just had a question on, there was a boost in sales resulting from lower margin sales to some new markets, obviously positive to your bottom line. Should we look for further such sales occurring more frequently, or will they be more one-offs. And on that, if you can tell us what the sales dollar amount was for the UN tender?

MURAD AL-KATIB:
Yes, okay just to clarify a little bit, Keith the bottom line is the pursuit of different opportunities for us is driven by sometimes how busy we are in our core business. When I look at the last quarter, in particular in Turkey in Q1, we had an absence of available stocks of local lentils, so we were relying entirely on Canadian and/or Australian product arriving into that market, which kept the pulses business quite busy. But when we look at the new market segments of rice and Durham-wheat milling, we were actually successful on a major Turkish grain board tender, which was up to, I think it was 20,000 tons, about $14 million of sales. Which, when we look at those tenders, that was actually for Egyptian-origin rice, shipped into Turkey. So these only passed our logistics warehousing and distribution, they didn't touch our plants at all in terms of being processed. And so you do go after those opportunities, because in a time when you are not so busy, you need to generate margin.

With the United Nations tenders, it was bulgur wheat, and there was a major initiative for Africa, released by the World Food Program, and that is usually about once a year they will do a major tendering program on wheat, and we were successful on about 14,000 tons in that as well.

So these opportunities are there, they're not re-occurring every quarter, but certainly when we have available capacity, it allows us to ramp up, and maybe it inflates a bit the sales figures, but it doesn't deliver the same margin profile but certainly a very positive margin. So we're going to continue on that path and when those opportunities are there, we'll take them.

And Keith, that's what having available capacity does for you, is it allows you to take those opportunities and add some earnings when you need them.

KEITH CARPENTER:
Okay, do you have that – understood, that's perfect. Do you have that sales figure for the UN?

MURAD AL-KATIB:
You know what, I don't have it exactly handy. I have a guess, but we can get you that figure and give it to you Keith.

KEITH CARPENTER:

Perfect. Thank you.

MURAD AL-KATIB:
You know, if you wanted my range of it, I think it was somewhere around, combined with the Turkish grain board, it probably would have been about $22 million to $25 million, of the quarter. So it was a very substantial portion of that $186 million.

KEITH CARPENTER:
That's good. Thank you.

OPERATOR:
The next question comes from Anoop Prihar of GMP Securities.

ANOOP PRIHAR:
Good afternoon. Just a question on the balance sheet, I noticed your inventory at $100 million is the highest it has ever been. Given that my understanding is you guys don't take on inventory risk, I am wondering if you can help me understand why that number is as high as it is.

MURAD AL-KATIB:
Well, there's two aspects to that Anoop. I mean, we're just that much of a bigger company and processing volumes have been very high. And so as a result of the growth in the business, we're going to have additional inventory levels.

The other thing is, is that we've actually had a fundamental change in one aspect of our business, is with the acquisition of the Arbel Group, we now have no inter-company sales any longer. You see, we used to actually account for those as related party sales because the Arslan Family owned, wholly, our ballot-only-owned shares in Alliance, so we used to sell them product.

Well today, as a result of the fact that we are 100% owners of that business, we actually just account for transfers of inventory from Canada or Australia or the US to Turkey, are just inventory transfers. And so you see, they're not sales, because under our revenue recognition policy, they would only be recognized as a sale once they are received in Turkey, processed and sold on to a customer.

So you are going to see, in times of transfer of a product, higher inventory levels, although that doesn't necessarily translate into inventory risk Anoop, because that product may actually be sold already, but it's just awaiting arrival, processing and sales. So it may be sold, the currency is hedged and we have a trade finance instrument but it stays in inventory until it's actually shipped and invoiced.

ANOOP PRIHAR:
Okay, so then can you help me understand how much of the $130 million of inventory is actually at risk? Because I mean if that's a fundamental part of your story, at least --.

MURAD AL-KATIB:
Hold on though, I'm saying that it is not at risk. The product that we ship to Arbel…

ANOOP PRIHAR:
No, I appreciate it's not really --.

MURAD AL-KATIB:
…is not really sold, right? So it's product that is being shipped there for processing and selling, so I'm not suggesting that a big portion of that inventory is actually at risk, because the story remains the same. Our global commodity positions in lentils, which is our major product, we would hold those at a 10,000 ton long or short position, as kind of a maximum risk management band, which if I assume $100 a ton volatility in the commodity, I'm talking about a material exposure of $1 million, so a very immaterial amount. So don't mistake the inventory value level for commodity risk, because they're not synonymous.

ANOOP PRIHAR:
So, even from a cash generation perspective on $180 million of revenues, you generated about $3 million in cash flow, the reason for that, the big reason for that is that you assumed a lot of cash on inventory. When is that going to get turned into actual cash?

MURAD AL-KATIB:
As -- every quarter, as we get into seasonally slower periods, of course the inventory is then transferred into a sale, it becomes a sale, it becomes a receivable, the receivable is collected. And if you look at our Q2, Q3 cycle, we would have much less of a working capital requirement than we would in Q4 and Q1.

ANOOP PRIHAR:
So we should expect to see a big chunk of that coming through then in Q2?

MURAD AL-KATIB:
You should.

ANOOP PRIHAR:
Okay.

MURAD AL-KATIB:
Part of the normal cash cycle in the seasonality of the business.

ANOOP PRIHAR:
And then just, how many tax credits do you have, or what's the order of magnitude of tax credits remaining at Arbel?

MURAD AL-KATIB:
By the end of year 2010, the tax credits that we received as a part of the business combination will be exhausted. So if you look at the consolidated statement of income, you actually have the current taxes, which if you look at that on a percentage basis, is about a blended 25-and-change-percent. And then if you take out the future tax recovery, it lowered our tax rate to about 13%. But you should be considering that a blended tax rate going forward, we're looking at 20% flat tax in Turkey and a declining North American tax rate of let's say 27% or so, you're looking at a blended of about 23% to 23.5%.

So by the end of 2010, the benefit of that tax, future income tax asset will be exhausted. But it was a really nice little buy for the shareholders of the Company. When we did the combination, we got a nice-sized tax advantage.

ANOOP PRIHAR:
The 23% was sort of order magnitude for the balance of the year?

MURAD AL-KATIB:
Yes.

ANOOP PRIHAR:
Okay. All right and just last question and I'll go back to the end of the queue. What was the EBITDA contribution from Arbel during the quarter? Can you give me a rough sense of that?

MURAD AL-KATIB:
Yes, it was about $5.3 million. So they're on track, I mean seasonally this is kind of the overall -- I'm sorry Anoop, I'm just looking at my figures, about $5 million. So they're on track, I mean the business, there, I'm very pleased with the way it's going. We are obviously looking at a very transitional period in Q2 for them, where we're not shipping Canadian stocks because of price risk, and yet they're waiting for their new crop to come in late -- well it' I'll be early June to mid-June by the time large amounts of product are available.

But it really looks good for Q3 and beyond where supplies will be available in the local market, and the demand has been a little bit stagnant so pipelines are empty. So when we have product, we're going to fill them back up.

OPERATOR:
The next question comes from Harry Siemens of SiemensSays.com. Please go ahead.

HARRY SIEMENS:
Harry Siemens, SiemensSays.com.

MURAD AL-KATIB:
Okay, Harry. Hi, how are you?

HARRY SIEMENS:
Good, good. We talked once but we didn't quite get the interview done, but here I am. I am in Winkler, Manitoba. I want to ask about the former Parents plant. How is that going?

MURAD AL-KATIB:
Oh, you know Harry, it's going fantastically well. The southern Manitoba region for us represents kind of a new origin of sourcing.   So we're involved now in the dry edible bean side, that's going well. We have just completed a major expansion of the packaging capability, where we've added a second robot in for packaging pulses and specialty crops grown in Southern Manitoba. We're involved now in sunflower seeds and buckwheat, and a few other specialty crops grown around there.

So I couldn't be happier, and we have a team from Saskatchewan going over there this week looking at some further little expansions and tweaking of the capacity. So we are pretty excited about the opportunity at Parent Seeds

HARRY SIEMENS:
So what kind of changes do you anticipate? These are kind of in-house you can do, what, with the existing facility I guess?

MURAD AL-KATIB:
Yes, we are going to be expanding the capacity to handle more dry edible beans and more sunflower seeds. So those are kind of the two areas, so black beans, pinto beans, navy beans, sunflower seeds. That's really a strong focus for us in that area.

HARRY SIEMENS:
So obviously, more contracting and those kinds of things. What is --.

MURAD AL-KATIB:
You are going to see us very active in Manitoba and North Dakota, that's a big priority for growth.

HARRY SIEMENS:
What is the edible bean market like right now?

MURAD AL-KATIB:
Strong consumption, the US market, Western Europe is continuing its demand. We have continued growth of demand in Mexico and South America. So we're very optimistic about our ability to compete there so.   Let's move onto the next one here, what have we got?

OPERATOR:
The next question comes from Robert Winslow of Wellington West. Please go ahead.

ROBERT WINSLOW:
Good morning.

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

ROBERT WINSLOW:
Good thanks. I will ask my one question and get back in the queue. It is really about MNA, Murad you raised $80 odd million here recently. How would you characterize the way you're going spend that money? Are we going to see you put the brunt of that capital to work by the end of this year so that we've got some accretion earnings by 2011? Are we going to see some tuck-ins, are there going to be some bolt-ons or bigger deals and where might they be? That's kind of one question with seven parts. Thanks.

MURAD AL-KATIB:
Good one Robert. Listen, we've been very clear, beans, chickpeas, rice and pasta, where you're going to see us.   You're going to see in the next 12 months, our ability to put this money to work. At the same time, I'm not going to rush into spending it just for the sake of spending it, but we took the money because we want to continue to grow. I t will be divided between our different business platforms. You're going to see the bean side focused very much on some further expansion in North America. That's our original 12-month focus, so expect North Dakota or the US in general, North Dakota, Minnesota to be a potential focus for us to expand the reach that we‘ve started with the Parent Seeds acquisition and the dry edible beans and sunflower seeds.

On pasta, it's simply an expansion of the Arbela capacity. We added line number four last year at the acquisition time, and I'm happy to report to the shareholders that 2009 year-end, we totalled up 46 countries of export for Arbela and so with that long-cut demand for spaghetti and fettuccini driving further shortcut demand for penne, rotini and other types of pasta, we need more capacity on the pasta side. So we will be adding line number five into that over the next six-month cycle.

On rice, we leased a mill in the Thrakien region of Turkey to take Turkish origin patty rice and convert it into white rice and make it 500 gram packs. And we are looking at both build versus a buy decision in the Thrakien region of Turkey, to establish a permanent processing presence in rice. And you're also going to see us, Robert, taking a look at both Australia and India to further look at our lentil platform globally, in lentils and chickpeas, where we're looking at those two origins as providing us further growth in Australia and South Australia near Adelaide.

For those of you who were over in Australia recently on some of the investor tours, you recognized that Melbourne shipping and Adelaide shipping are very independent, and they are independent production origins. So when I look at Australia, I still see, even though weather is volatile, we see it being a part of our future. And we see India being a major consumption market for products shipped out of Canada, US, Australia, Turkey, but also local production of lentils and also chickpeas for export being a big opportunity for us.

So that's where you're going to see us focuses and that's where I think we will go.

ROBERT WINSLOW:
Thanks Murad.

MURAD AL-KATIB:
Sean Pratt, I think you are next.

OPERATOR:
Sean Pratt of Western Producer Newspaper. Please go ahead.

MURAD AL-KATIB:
Hey Sean, how is it going?

SEAN PRATT:
Good, how are you Murad?

MURAD AL-KATIB:
Good, good thanks.

SEAN PRATT:
You talked a lot about the convergence in new crop and old crop lentil prices, and I know our readers would be interested in hearing your thoughts on that a little further. When do you sort of see this convergence happening, and are new crop prices going to come up or old crop prices fall?

MURAD AL-KATIB:
Well I think, Sean we've already saw pretty major change over the last, say 45 days, where part of the reason for the commentary is to have investors understand that, when you -- in this current period of March through June, basically the world pulse market goes through a major transitional period where, as you know, reporting to your readers, the growers in Western Canada, where we have been hit with an Indian new crop, which we all know wasn't very strong. We have a Turkish crop which is looking very good compared to last year. And we have record plantings in plans for Canada and for the US. And then we are in a position where strong demand fundamentals would increase supply just leaves a bit of uncertainty in the market. What we see is we see very predictably cautious demand on behalf of importers in the world.

And so we have seen the divergence between current crop and new crop on lentils, let's say in Canada. And if we look at about 45 days ago, we could put at $0.20 a pound for new crop and $0.30 a pound for old crop, whereas today, you would be at around $0.24, $0.25 for current crop and $0.20 for new crop. So we were already half way converged with current crop coming down, new crop not moving up. I think that you're definitely going to see that convergence happen in the next 30 days, because we are now with the warm weather and the sunshine. Lentils are getting in the ground and Turkish crop will start coming in the next 14 days. So we are expecting the prices to converge and to move towards a start of the new crop level.

I'm still very optimistic though, that lentils are going to remain a very profitable crop for growers and with strong fundamentals, the crop will move.

SEAN PRATT:
So are you saying new crop is going to stick in that $0.20 range?

MURAD AL-KATIB:
You know, Sean you've known me long enough now that I can't give you that kind of a price view. I just view demand fundamentals as being strong enough and growers in Canada being disciplined enough, that I believe that we are in a range of 10% down, 10% up and what you see is what you get.

SEAN PRATT:
Okay, thanks.

MURAD AL-KATIB:
All right.

OPERATOR:
We have a follow-up question from Marc Robinson of Cormark Securities. Please go ahead.

MARC ROBINSON:
Okay, I just wanted to ask and maybe give you the opportunity to provide your thoughts on your exposure to some of these volatile overseas markets. I think there might be a view out there on the market that you're highly levered to the international marketplace, and so I thought I would give you an opportunity to sort of respond to that and how you expect demand to react with the continued volatility overseas?

MURAD AL-KATIB:
Yes, you know there are a couple of things. One of the questions abound out there is with the close geographic proximity of Turkey to Greece, and being in the Mediterranean region, what is the effect of the current sovereign debt crisis on our operations? One of the things we like to remind people is that if we look at government debt, the GDP in Turkey, Turkey had been through this crisis already back in 2001 with the major economic crisis, a major correction in their currency and a banking crisis which, really was related to just the fundamentals in the economy, and government debt being out of control.

So I think currently the debt-to-GDP ratio is around 48% and so as a result of that, we see that economy as very, very strong compared to its neighbors. So when we look at it overall, we look at all of the major currencies of the importing nations that we sell to, they've been tracking with the US dollar, and they haven't been tracking with the euro. So we're looking at a fundamental, euro-currency devaluation and you are looking at ultimately other currencies tracking very much with the US dollar. So we're not seeing the economic flu that we see in Europe as really affecting North Africa, Middle East, India and Subcontinent, Latin America and the Caribbean market demands for pulses.

We're talking about relatively inelastic commodities, basic staple proteins that people are going to continue to consume. I think that the stronger thing affecting our current market is the actual price correction downwards on commodity prices, which is a very positive thing for the overall demand fundamentals of our crops. So we're not seeing a major affect market at this point where we've seen liquidity affected like we did back in 2008 during that financial crisis.

So we're very optimistic that this is a storm that is going to be weathered and will continue on.

MARC ROBINSON:
Okay, great. Thanks.

OPERATOR:
Next question comes from John Day of KDI Capital Partners. Please go ahead.

JOHN DAY:
Good afternoon, Murad. On the issue of convergence, can you expand on how that affected the timing of revenues in the first quarter, what it will do in the second quarter and in the remainder of the year?

MURAD AL-KATIB:
I think basically, I wouldn't see there being a big effect on quarter one. Quarter one, because the bulk of the demand for the Indian subcontinent was done by the end of February, let's say, we didn't see that having a big effect. With the convergence and the relative caution in the market, is really a second quarter phenomenon, so we are going to see weaker sales in the second quarter.

But then as I said, in our minds, this is a normal course of activity that you see in any year where you have declining commodity prices, coupled with a supply forecast that's going very high. It leads to what people perceive as price volatility risk. So as a result of that, they're very cautious and they don't want to get caught with stock levels where they lose inventory value.

Does that mean that demand that we missed is actually gone? The answer is no. It's just a temporary postponement of the eventual demand. And so what we'll see is – and it will play well into the supply actually for us, because our supply peaks are quarter three, quarter four, quarter one. So we're saying that caution in quarter two will lead to further strong demand in Q3, Q4. So really what you're doing is you are just shuffling the deck. So the deck will shuffle some cards from Q2 to Q3 and Q4. And so we are still viewing a very strong year ahead of us.

Did that answer the question, John or do you want a follow up on that?

JOHN DAY:
No, that's good, thank you.

MURAD AL-KATIB:
All right.

OPERATOR:
We have a follow-up question from Keith Carpenter of Canaccord. Please go ahead, sir.

KEITH CARPENTER:
Thank you. With all the opportunities that you guys have out there on expanding your business from -- the origination side, are there new markets that you're beginning to sell into, so to speak, paving the way for this increased expansion?

MURAD AL-KATIB:
You know, I don't know if it's necessarily more markets that we are selling into, or whether or not it is actually just an ability or we've identified the ability to sell more into our current distribution channels, Keith.

So when we talk about the new product areas, in particular on the pulse's side, with beans and chickpeas, it's the same importer in -- I met a large Mexican importer on Saturday, and he was at our office here. And we're talking about the lentils and the canary seed that we are selling him, and we are just learning about the large volume of beans that he is currently buying from our Parent Seeds division.

So we look at the distribution and we know it's common, but we're just refining those sales opportunities. Now, when we look at the expansion though, it is not only about selling it, it's about having multiple origins and the most competitive origins and qualities for our buyers, no matter what the crop cycle is year-round.

So when I look at dry edible beans, we are looking at consumption markets in Latin America, but we are also looking at production and when I look at it, today on beans; the US, Mexico, Argentina and China would be four major production origins that we want to be in and depending on the origin, it's either an export focused origin for us, or it could be a local production and export.

So in the case of Mexico and Argentina, they produce, they consume and they export. Those are the ones we like, and China, it's just straight export. So in China, you're really looking at disadvantaged areas like the Dalian Region, where dry edible beans are very, advantaged for production, but other crops maybe aren't. So from that perspective, we see that as an opportunity to originate beans there, ship them under a quality controlled shipping program that we would control with our own asset, and go directly into markets in Western Europe and North America, giving our quality control program with the confidence that they need to import from China.

So ultimately, it's more a market distribution or chain development that we are doing now, where we are understanding how much our current distribution chain can take of different products, and then we're going to be matching that up with production on the tuck-in acquisition front.

OMER AL-KATIB:
Do we have time for one more question?

OPERATOR:
The next question is a follow up from Anoop Prihar of GMP Securities. Please go ahead.

ANOOP PRIHAR:
Hi, just can you give us a sense of what your system-wide capacity utilization was during the quarter?

MURAD AL-KATIB:
Sorry Anoop, you cut out, you are going to have to give me that one more time.

ANOOP PRIHAR:
Can you give us a sense of what your system-wide capacity utilization was during Q1?

MURAD AL-KATIB:
During Q1, I think we would have been running, again I would have to check the numbers. I should have know you would ask that question, Anoop. But I would say, when we look, Turkey was still not running at very strong utilization, but we would have been better than in the prior quarter as a result of some of these tenders and things we did.

So we would have been running probably in the high 50s, that is a guess.

ANOOP PRIHAR:
Great, thanks a lot.

OMER AL-KATIB:
I would like to thank you all for being with us today. I would like to remind you all that if you have any follow-up questions, you can feel free to contact us at the Regina, head office, it would be more than happy to follow up with you.

Also, one other reminder, we will be doing our very first Investor's day tour of our Regina and Wilson facilities on June 20-22, so it is coming up in about a month. If you are interested in attending that, please feel free to contact me directly, and we would certainly be more than happy to give you some more information on that.

Again, I would like to thank you all for attending and please have a great day.

MURAD AL-KATIB:
And just as a follow up on the investor day, we have limited space and it's filling up quickly, so if you are interested, please get your name in quickly because we can only accommodate so many on the tours.

OMER AL-KATIB:
So thank you everybody.