

## Saskatchewan Wheat Pool

### 2nd Quarter Investor Conference Call – March 14, 2001

**Colleen Vancha:** Good Morning Ladies and Gentlemen. It is a pleasure to be hosting the Pool's 2<sup>nd</sup> quarter conference call for the period ending January 31.

Given that the quarterly report, press release and supporting materials are now being made available to you in advance, we will only be providing a brief overview of the results. This will allow additional time for the question and answer period.

Michael McCord, our Chief Financial Officer, will begin today's session with a summation of the results for the period. CEO, Mayo Schmidt will then comment on some of our more important operational accomplishments. We'll then move directly into the question and answer session. Richard Klassen, the head of the Food group, and Will Hill responsible for Grain and Agri-products will be available at that time to take your questions.

One item to note before we move into the presentation. As I'm sure all of you are aware, on February 28, Saskatchewan Wheat Pool announced that it had signed a term sheet with its financial institutions for credit facilities totaling \$557.5 million. I expect many of you would like to discuss the terms and conditions of those facilities. However, we will not be entertaining questions on this subject today. Additional disclosure will be made upon finalizing the transaction, which is currently contemplated to close this quarter.

Mike, if you would like to begin....

**Michael McCord:** Thank you, Colleen. Good Morning Ladies and Gentlemen.

To briefly highlight the results,

### **Sales and Margins**

Consolidated sales and operating revenue from the 3-month period were \$827 million compared to \$888 million in the second quarter of last year. Six-month sales increased to \$1.6 billion. Gross margins for all segments improved on a year-to-date basis.

- Sales in the Grain Handling and Marketing segment were \$535 million in the second quarter. Low commodity prices and timing of shipments out of the primary system have impacted sales for the quarter. Keep in mind that volumes, not sales are the key drivers of this segment's performance. Margins for the six months, improved as a result of our consolidation efforts and focus on cost containment.
- Agri-food Processing sales were down \$9 million for the quarter however margins continued to improve. The decline in sales was primarily due to lower commodity prices for CanAmera and lower sales at CSP Foods. CanAmera and CSP Foods accounted for 86% of the segment's sales. Margins improved at CSP Foods, CanAmera Foods and Can-Oat Milling.
- Sales and margins for the Agri-Products segment improved year over year driven by higher fertilizer sales.

- And in the Livestock Production and Marketing segment, an increase in the number of hogs marketed and improved livestock prices resulted in increased sales and margins.

## **Costs**

The Pool's continued emphasis on cost containment has resulted in a \$4.8 million reduction in selling and administrative expenses for the quarter. We have realized a \$6.9 million cost saving to date.

## **From an earnings perspective...**

EBITDA for the 2<sup>nd</sup> quarter was \$22 million and for the six-month period was \$52 million. All segments posted improved results on a year-to-date basis.

## **EBIT**

- Before provisions, earnings before interest and taxes were \$13.7 million on a year to date basis. In fact, the Pool has generated more EBIT in the first six months of this year than in all of fiscal 2000.

## **Loss Prior to Provisions**

- The consolidated loss prior to provisions for the 2<sup>nd</sup> quarter was \$11.2 million or \$0.30 per share compared to \$10.7 million or \$0.28 per share for the 2<sup>nd</sup> quarter of fiscal 2000.

- The Pool anticipated year-over-year improvements for the quarter. However, projected poor results from Premium Brands more than offset the improved contributions from other businesses for the quarter.
- On February 27, Premium Brands announced the sale of its Red Deer plant to a Quebec based co-operative for \$90 million.
- The Pool expects its share of any potential gain on sale to positively offset Premium's poor contributions to our 2<sup>nd</sup> quarter.
- In addition, not only will Premium have disposed of an under-performing asset, but the sale allows them to focus on their higher margin business - the Prepared Foods Division.

### **2<sup>nd</sup> Quarter Restructuring Charge**

With respect to the Pool's November restructuring announcement, you'll note the Pool recorded a pre-tax provision against 2<sup>nd</sup> quarter earnings of \$13.3 million. This translates into a \$0.20 per share after tax impact.

As of January 31, the Pool had virtually completed the rationalization of its grain handling facilities. A further 63 agri-products locations are scheduled to close July 31 after the spring sales season winds down.

The Pool has achieved approximately \$7 million in cost savings this year as a result of our consolidation efforts. The remainder of the savings, which total \$21

million for fiscal 2001, is expected to be achieved in the last six months of the year.

### **Cash Flow Review Section**

Cash flow from operations for the 2<sup>nd</sup> quarter was \$1.5 million similar to the 2<sup>nd</sup> quarter last year, prior to tax recoveries recorded in that period. For the six months, the Pool recorded cash from operations of \$12.2 million versus \$14.2 million in fiscal 2000. Excluding the impact of the tax recoveries in fiscal 2000, the Pool's cash flow improved \$17.9 million for the first six months as a result of significant improvements in EBITDA.

### **Looking at the balance sheet....**

The Pool's debt to equity ratio was 61:39, unchanged from the 1<sup>st</sup> quarter. At January 31, 2000, the ratio was 59:41. The Pool expects this ratio to improve during fiscal 2001.

Total long-term debt at January 31, 2001 was \$536 million. Proceeds of \$11 million from the sale of XCAN Grain were applied against long-term debt. The Pool's financial institutions waived the interest coverage test for the January period.

Finally, as many of you know, on February 8, DBRS announced a downgrade of the Pool's Medium Term Notes from a BB to a BB (low) and placed the debt under review pending completion of the Pool's bank financing agreement. Subsequent, to the downgrade, the Pool announced that it had entered into a term sheet with its

financial institutions. Progress is continuing and we currently expect to complete the financing arrangement this quarter.

Mayo will now summarize our operational performance for the quarter.

Mayo Schmidt:

Thank you Mike. I would like to begin by saying, as I said in our news release yesterday, that while we are pleased with our operating earnings and cash flow improvements, our focus remains on restoring this organization to profitability. We have heightened our expectations for performance from all of our operating units and we expect them to perform. The impact of Premium Brands' projected results on our quarter, highlights the importance of keeping our focus on each unit's performance and adjusting strategies accordingly. At Premium Brands, we believe the sale of the Red Deer plant will address the issues that have faced their Fresh Pork Division for some time.

I would now like to highlight some of the other initiatives we have undertaken over the past several months to improve the profit potential of the Company.

The Pool recently reached an agreement with a Regina-based firm, CWS Logistics, to outsource our agri-products distribution. The change in distribution will complement the Pool's rationalization of our agri-products system and is intended to:

- reduce the capital, operating and administrative costs to the Pool,
- improve net revenue

- lead to more efficient distribution of agri-products to our customers; and
- enhance customer service by shifting our employees' focus and energies from distribution to sales marketing,

CWS's strength in transportation, logistics and warehousing management will be significant to the Pool's ongoing Agri-products operations. In addition to warehousing various Pool products, CWS will manage the distribution of Pool crop protection products, equipment, machinery, bagged seeds, and other products. This allows us to further reduce our infrastructure requirements and maintain our market coverage.

We have also recently implemented a restructuring strategy at Western Co-operative Fertilizers, in conjunction with our partner Agricore. The restructuring is intended to reduce duplication between WCFL and its owners while controlling the cost base and enhancing operational efficiencies. WCFL will maintain its position as a competitively priced provider of high quality agri-product. Saskatchewan Wheat Pool employees will provide a direct marketing role and will become the single point of contact for Westco and Pool products. In addition, we will utilize Pool agronomic specialists to assist customers in their application and crop input needs. The restructuring at WCFL will impact approximately 40 employees and is expected to result in annual net savings of approximately \$2 million to the Pool.

We have also wound up our relationship with UFA, an agri-products co-operative based in Alberta. Pool employees at our AgPro locations in Alberta will now sell agri-products directly to those producers. This allows us to focus on marketing an

entire bundle of products and services offered through the Pool's integrated pipeline.

The Pool also significantly enhanced its international marketing strategy. We have moved to a 3-point integrated grain marketing strategy that will allow us to reduce operating costs and significantly enhance our access to global markets.

First, we finalized the sale of XCAN on January 31st, which we expect will save the Pool approximately \$1 million annually. We will continue to utilize XCAN in the Japanese market where they have a 50% market share in canola.

Secondly, we continue to strengthen our in-house marketing expertise focussing staff on the Pool's integrated commodity pipeline concept and promoting the Pool's brand to existing and new customers.

The third piece involves building new alliances with other international marketers who require the Pool's organizational strength in managing specific qualities and quantities that meet the requirements of end-use customers. Our strategic alliance with Toepfer International strengthens our presence in the global agri-food marketplace. We are able to capitalize on Toepfer's 40 years of marketing relationships while accessing new markets and limiting our credit exposure and country risk.

I'd now like to turn the focus to operations for a moment:

The Pool continued to capitalize on its leading multi-car loading capabilities in western Canada receiving multi-car incentives on 77% of its shipments. This compares to 61% for the same period last year. 56% of total shipments moved in 50 or 100 cars, compared to only 35% last year. Our focus for the remainder of the year is to maximize movement in 50 and 100 car units.

In the first quarter of this year, we reported that the Pool had exceeded the industry with respect to meeting the quality and quantity specifications required by destination customers. On November 1<sup>st</sup>, the industry moved to a monetary penalty system in which grain companies are penalized for every car that does not meet shipping specifications. Information on the industry's performance for the second quarter is not yet available. However, we believe the new level of discipline we are employing for quality control and inventory management will continue to result in monetary benefits for the Pool going forward.

Looking to the remainder of the year:

- **In the grain segment**, current expectations for similar volumes through the primary system are dependent upon the ability of the industry and the Canadian Wheat Board's to resolve the issues affecting tendering and efficiencies in the grain transportation system. The Pool intends to aggressively participate in the tendering of CWB grains when this issue is resolved.

- Volumes through our wholly owned port terminals are expected to be better than last year in total, with improvements in Vancouver more than offsetting potential declines at Thunder Bay. Volumes through port terminal affiliates are expected to lag last year as a result of the significant declines at Prince Rupert Grain to date.
- **In the Agri-products segment,** we believe that the efficiencies that I have just outlined for you will have a positive impact on the costs of our Agri-products business. WCFL has made a strong contribution to date and we expect this to continue through the remainder of the year. For the segment as a whole, uncertainty always exists at this time of the year because so much is dependent upon favourable weather conditions and producers' seeding intentions in the spring. This year the impact of increased fertilizer prices on producer's buying patterns will be a factor that we will monitor closely.

**In the Agri-food segment,** we expect to see improved results from the key businesses - CanAmera, CSP Foods and Can-Oat. Further out, a decline in canola crushing volumes and margins and an increase in world oil stocks may impact market conditions for CanAmera.

**In the Livestock segment, expectations have not changed**

- Heartland Pork will be at full production this year, which should improve results for both the pork production and feed businesses.
- The cattle business will remain steady.

Overall we expect operating performance to improve significantly this year; however, the third quarter will be challenging. On a whole, I must state that this is

a transitional year for the Pool. We will continue to execute on our plan, which has resulted in strong year-over-year improvements in the first six months. We will continue to resize our business and divest of those assets that are not deemed essential to our long-term success. Our focus is on balance sheet strength, improving earnings potential and achieving financial flexibility.

I appreciate your interest in Saskatchewan Wheat Pool and look forward to continuing to work on your behalf to restore the Pool to profitability. Thank you for your attention. We would be please to entertain your questions.

**Question and Answer Period.**

**Colleen Vancha: Conclusion:** Thank you very much for your participation today. This call has been recorded and can be accessed by dialling 416-626-4100 Reservation #18099193. Postview service will begin today at 11:00 a.m. and be available until Friday March 16. Please provide the number to your colleagues or clients. Again, thank you for your interest. We look forward to speaking to you again.