



## Saskatchewan Wheat Pool

### First Quarter Investor Conference Call – 9:00 a.m. December 12, 2001

**Colleen Vancha:** Good Morning Ladies and Gentlemen. Thank you for joining us today. I would like to welcome the media and other members of the public who are participating on their first quarterly conference call with the Pool. We appreciate your interest.

We have approximately 45 minutes for today's call. For those shareholders participating in the question and answer period, we appreciate that you may want to remain anonymous with media listening in. You do not have to identify yourself publicly prior to asking your question. We will have the operator keep this information for our records only.

In addition to the information presented to you today, we have posted the quarterly report to the website, which you may reference in doing your analysis.

Today's session will begin with our Chief Executive Officer Mayo Schmidt, who will provide you with highlights from the quarter. Michael McCord will follow with a discussion of the financial results and Mr. Schmidt will wrap up with an outlook for the year. We will then open the call to questions.

**Mayo Schmidt:** Thank you, Colleen. Good morning, Ladies and Gentlemen.

As our press release indicates, our results for the first quarter reflect the impact that the drought in Western Canada had on all aspects of our business. Western Canadian production this year declined 21% and 30% in Saskatchewan.

- Wheat production is down by 21% with a 46% reduction in durum.
- Canola production, an important commodity for the Pool and its affiliates, dropped nearly 30% and
- Special crops declined over 24%.

These numbers should not come as a surprise to the marketplace. The drought has been highly publicized and we have been clear from the outset that this one-time event will have a significant impact on our earnings in fiscal 2002.

However, the drought has in fact provided us with additional time to enhance our operational efficiencies and execute our plans. We will remain focussed on what we can control and we intend to continue to work within our business model to further strengthen our competitive position for the long term.

We have achieved some very important operational improvements in the first quarter that clearly illustrate that our plan is the correct course of action. I believe that the management techniques we have employed to improve our overall performance will set us in good stead for the future. For those of you who are new to the Pool, we are focussed on five key priorities:

- We are managing our cost base to become the low cost service provider on the Prairies.
- We are divesting of non-core assets to refocus the organization and reduce debt,
- We are enhancing productivity by employing a continuous improvement model.
- We are continuing to expand our market opportunities through strategic alliances.
- And we are improving the quality of our services to prairie producers by managing our pipeline more efficiently and by developing innovative marketing programs to attract new business.

Allow me to summarize a number of achievements for the quarter:

- The Pool was the first grain company in western Canada to implement seasonal service adjustments and layoffs in areas directly impacted by the drought. At the same time we eliminated over 150 permanent positions. As a result, the Pool expects to save \$2 million in fiscal 2002 and \$5 million annually thereafter.
- For the first three months of fiscal 2002, the Pool eliminated \$10 million in operating costs and expects to exceed its fiscal 2002 cost reduction target of \$33 million by year-end.

- Consistent with the Pool's commitment to its core operations, the Company sold its interest in Heartland Livestock Services in the first quarter for a \$5.6 million gain on sale. And in November we closed the sale of 4 feed mills and a merchandizing operation to Masterfeeds. Our divestiture program is in full swing and additional announcements will be forthcoming throughout the remainder of fiscal 2002.
- Balance sheet debt declined \$76 million year-over-year or 9%, reflecting our efforts to de-leverage the company.

Operationally,

- Primary grain shipments remained strong at 2 million tonnes down only 7% and exceeding shipments by the rest of the industry which declined 12% in the first 3 months.
- The Pool has been successful in securing on average, one-third of the Canadian Wheat Board's tenders in the first three months of fiscal 2002 which reflects our multi-car loading dominance and logistics management expertise. It is also a primary reason for our strong performance at the Vancouver port terminal, which achieved similar volumes to last year, despite a decline of 14% in total shipments to that Port.
- We have reached our target for multi-car shipments with over 90% of volumes moving in multi-car loads. That is up from 77% in the first quarter last year. Over two-thirds of those shipments moved in 50's and 100's, again up from last year's 55%.
- We have also implemented a customer service strategy that is generating over 22,000 contacts per week. Those contacts are drawing grain into our system and as a result market share is improving. For fiscal 2002, the Pool's expects western Canadian market share to increase one to three market share points, which represents a growth rate of 5% to 14%.

Shareholders can expect the Pool to remain committed to these operational efficiencies throughout fiscal 2002.

This year will also bring opportunities within the industry as competitors undertake significant rationalization of their elevator networks to eliminate excess capacity. Consolidation benefits all industry participants and should lead to more rationale pricing within the marketplace. The Pool completed its closure program last year taking out more than one million tonnes of excess capacity. Today, we have the majority of 100 car loaders in the industry and 85% of our capacity has 50 or 100 car loading capabilities. By completing our system renewal efforts ahead of the industry, we can now focus on refining our business processes and developing the innovative marketing programs that are in demand.

The merger of Agricore and United Grain Growers is also positive for the industry because it eliminates one competitor. They will merge two operations with significantly different cultures. At the Pool we understand the challenges that come with such significant change. While the merger will have little impact in Saskatchewan, we believe there is opportunity in our neighboring provinces, where we have new facilities. It is our intent to strengthen our competitive position in those markets to gain market share.

Before I review our expectations for the remainder of the year, I'll ask Michael McCord to summarize our financial performance for 1<sup>st</sup> quarter.

**Michael McCord:**

Thank you Mayo. Sales and operating revenues were \$673 million compared to \$792 million a year earlier. If we were to back out the contribution of XCAN Grain and Heartland Livestock, which were sold, our sales would only have declined by 1%.

Gross margins were \$38 million compared to \$56.5 million last year. The decline relates to the drought, which impacted both volumes and prices in our core operations.

EBITDA was \$17 million in the first quarter compared to \$31 million the previous year. It is important to note that the impact on EBITDA from the sales of Premium Brands, Heartland Livestock and XCAN Grain was insignificant. Drought was the key factor in the decline this quarter, particularly with respect to grain, agri-products and CanAmera Foods.

The operating loss, prior to interest, securitization and taxes was \$800,000 compared to earnings of \$12.6 million a year ago.

Interest and securitization costs increased \$1.7 million to \$21.7 million. Approximately \$1 million in deferred financing charges are written off each month, partially offset this quarter by interest savings as a result of declining rates and lower borrowings.

Lower securitization expense of \$500,000 reflected a decline in agri-products sales over the fall period and the impact of lower interest rates.

For its first quarter of fiscal 2002, the Pool reported a loss of \$15.7 million or \$0.42 per share, prior to the gain on sale of Heartland Livestock Services. This compares to a first quarter loss last year of \$5.6 million or \$0.15 per share.

The consolidated net loss for the period was \$12.4 million or \$0.33 per share.

Cash flow used in operations was \$6.1 million reflecting the drought impact while last year at this time, we generated cash flow from operations of \$12.5 million. For fiscal 2002, cash flow is expected to be sufficient to cover capital expenditures.

To summarize segment results:

The Pool's 2 million tonnes of primary shipments in the first quarter exceeded the industry's shipping performance by over 5 percentage points. 61% of the grain we shipped was for the account of the Canadian Wheat Board – similar to last year.

Port terminal volumes through our facility in Vancouver were also strong reflecting the Pool's success in the CWB tendering process. Volumes totaled 687,000 tonnes, similar to the first quarter last year even though the Port itself was down 14%. At Thunder Bay, volumes of 364,000 tonnes tracked the decline in CWB receipts through that Port. In total, wholly owned port terminal volumes were 1.1 million tonnes versus 1.2 million tonnes in the first quarter last year.

EBITDA in the Grain Handling and Marketing segment was \$10.8 million compared to \$13.9 million in the previous year. The decline results from a number of factors directly related to the drought:

The reduction in primary and port terminal volumes and grain margin contractions caused by competition, more than offset cost reductions throughout the grain network. In addition, changes in product mix resulted in higher shipments of non-board feed grains and less canola relative to last year, which is the higher margin crop.

Agri-product sales for the first three months of fiscal 2002 were \$53.0 million down from \$89.5 million year over year.

- In the first quarter last year, agri-products sales were unusually high as producers' pre-purchased fertilizer in anticipation of rapidly escalating prices.
- This year, producers applied less crop protection products and purchased less equipment due to drought conditions.
- In addition, insufficient moisture levels discouraged the application of fertilizer in the fall, further broadening the sales variance relative to last year's levels.

EBITDA was impacted for similar reasons with volume and margins declining. The segment generated a loss of \$700,000 versus earnings of \$3 million last year.

In the agri-food processing segment, sales were up 4.5% to \$159.8 million led by a strong improvement at Can-Oat Milling where their sales of finished goods represented 74% of their business. This is up 24% reflecting strong demand from new and existing customers. CanAmera Foods and Prairie Malt also recorded sales increases, while CSP Foods' sales were similar to the previous year's quarter

EBITDA for the Agri-food Processing segment were \$7.6 million compared to \$12.1 million recorded in the first quarter last year. Can-Oat Milling continued to exceed expectations with EBITDA growth of 8% in the first three months.

At CanAmera, EBITDA declined significantly reflecting a dramatic reduction in Canadian canola supplies. Margins on canola oil have plummeted as a result of increased domestic prices and high world oil supplies. In addition, while CanAmera can swing its crush operations to soybeans, poor soybean crops in Ontario have led to soybean purchases from the U.S. where the commodity is highly subsidized and extremely costly to import.

EBITDA from CSP Foods and Prairie Malt were similar to the previous year's quarter.

In the Livestock Production and Marketing segment, sales totalled \$28.5 million versus \$55.7 million last year. The decline largely reflects the sale of Heartland Livestock Services effective August 1, 2001. Heartland Pork marketed 84,000 finished hogs versus 80,000 last year and Heartland Feeds' sales grew 13%, reflecting increased demand for cattle feed and steady demand by Heartland Pork.

From an EBITDA perspective, the segment generated \$3 million compared to \$5.2 million last year, which largely reflects the livestock divestiture.

And finally, sales and EBITDA from the Publishing segment were similar to last year's level.

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

Working capital at October 31, 2001 was \$125 million, an increase of \$48.6 million from October 31, 2000. This reflects less short-term borrowings as a result of asset sales and the refinancing arrangement announced in the spring of 2001. The current ratio was 1.26 at the end of the first quarter this year, which compared to 1.11 at October 31, 2000.

Total debt at October 31, 2001 compared to October 2000 is down \$76 million reflecting the sales of XCAN Grain Pool, Premium Brands and Heartland Livestock Services.

The Pool's total debt to equity ratio at October 31, 2001 was 62:38 unchanged from October 31, 2000 with debt reductions offsetting the earnings decline. I would also like to note that subsequent to quarter-end, the Pool reduced its term loan facilities by \$95 million, a commitment we made under our banking arrangement. We continue to have sufficient availability to meet the needs of our business plan and remain committed to improving our debt to equity ratio during fiscal 2002 as we continue to repay a significant portion of our debt.

#### **Mayo Schmidt:**

Thank you Mike.

As we look forward, primary shipments are expected to track production declines with supplies diminishing by year-end. Competition will remain fierce as grain companies vie for a smaller crop and compete against a backdrop of lower Canadian Wheat Board export commitments.

On the Agri-products side, assuming a return to normal crop conditions in the spring, the outlook for this segment is positive. Precipitation over the coming months can quickly restore moisture levels and encourage strong sales in the spring and early summer. In addition, seeded canola acreage is expected to increase, which will be positive for the seed component of our agri-product business. At WCFL, results are expected to be reasonably strong but are not anticipated to reach fiscal 2001 levels since lower sales volumes and decreased selling prices for urea and ammonia will continue to be a factor in their performance for the year.

The outlook in the Agri-food segment is mixed. Can-Oat Milling expects its contribution to improve once again this year on strong sales and better margins from the sale of valued-added products.

The issues affecting CanAmera's performance in the first quarter of fiscal 2002 are expected to continue for the next several months with canola margins under significant pressure. Good crop conditions in the spring would improve CanAmera's performance in fiscal 2003 and the longer-term outlook for CanAmera remains positive. CSP Foods and Prairie Malt are expected to generate EBITDA at fiscal 2001 levels.

The Pool will manage through the grain volume and EBITDA reductions caused by the drought this year, by focussing on improving margins, eliminating costs and capitalizing on its pipeline dominance. Earnings and cash flows for the remainder of the year will be lower than last year's levels. Assuming a return to regular growing conditions in the spring, the Pool expects a strong fourth quarter from its agri-products operations. However, earnings in the fourth quarter will not offset the results of the first three-quarters. Management remains committed to its divestiture program and its debt and cost reduction initiatives. We will continue to adjust operations to the new economic realities in western Canadian agriculture and are driving towards profitability in fiscal 2003.

Colleen Vancha: Thank you Mayo. We can begin with the question and answer period. Will Hill, head of the grain group and Bill Dorgan, Vice President of Agri-products are also available today to take 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 416-695-9731. The playback feature is available until available until Friday December 14. Again, thank you for your interest in Saskatchewan Wheat Pool.