Saskatchewan Wheat Pool Conference Call
Second Quarter Results
March 13, 2002 9:00 a.m.

Colleen Vancha: Good Morning Ladies and Gentlemen. Thank you for joining us today. We will take approximately 45 minutes for today's call. The session will begin with a review of results followed by a question and answer session. We will allow questions from the media, however, we ask they hold their questions until we've finished the Q & A with the marketplace.

Chief Executive Officer Mayo Schmidt will kick off today's session with highlights from the quarter and a discussion of some key issues facing the industry. Because our CFO is unable to participate on today's call, Lyn Kristoff, our Vice President of Finance and Corporate Controller will review the results.

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

I want to begin by saying that I am impressed with the Board, management group and employee's commitment to our turnaround strategy. It's a process not an event and our team continues to make the tough choices to embrace those changes. We are starting to realize the benefits of those actions.

- Two years ago, we have made a commitment to our shareholders to strengthen the balance sheet, re-focus core operations, and reduce costs and we have made significant progress in each of these areas.

- The January 31, 2002 balance sheet debt declined by $157 million or 19% compared to January 31 last year. In addition to substantial decreases in short-term borrowings, we repaid $95 million of our term loan facility on November 30th.

- Through our divestiture program, we raised $25 million in cash proceeds in the second quarter. We sold four feed mills and a retail operation, our publishing division, the Western Producer Publications, as well as investments in Medicine Hat Feeding Company, Pound-Maker Agventures Ltd. and Saskatoon Livestock Sales Ltd. An additional $1.6 million was raised through our elevator sales program bringing our total to date to $6.4 million.

- After quarter-end, Saskatchewan Wheat Pool finalized the sale of CSP Foods for proceeds of $35 million.

- And on February 28, we repaid an additional $45 million of our term loan facility, which will be also reflected in the third quarter.

- On the cost side, the Pool's core operations reduced operating costs by $19 million during the first six months of this year, exceeding our mid-year target by 15%. And this was achieved while increasing grain volumes for the quarter. We are confident that we will exceed our $35 million cost reduction target this year.

- We continue to improve the performance of our core operations. Shipments through our primary grain handling system were 2.2 million tonnes in the second quarter, 40,000 tonnes ahead of the second quarter last year. Not only did we improve our market share for Canadian Wheat Board grains but we developed a strategy to import feed grains into the Alberta marketplace to meet the increasing demand for feed into that important livestock market.

- We secured one-third of the Canadian Wheat Board's tenders for the period. This, coupled with a successful grain marketing strategy has driven market share gains of approximately 4% to-date, or a full market share point, bringing western Canadian market share for the first six months up to 22.3%.

- 91% of our shipments moved in multi-car trains which is up from 77% last year. And despite tough industry conditions associated with last year's drought, the Pool's Grain Handling and Marketing segment generated 8% more EBITDA in the second quarter, reaching $11.3 million in the three-month period.

- We also announced an exciting new program for our producers, which we feel will drive agri-products sales on into the future. In January, Saskatchewan Wheat Pool and Farm Credit Canada entered into an alliance to offer Pool customers the most commercially competitive financing program available with low interest rates and extended credit terms. Unlike our competitors, we will administer the program to ensure we maintain the level of service our customers have come to expect. But the program will be financed by Farm Credit.

- More importantly, the program allows the Pool to eliminate up to $200 million in annual financing requirements.

- We also enhanced our alliance with John Deere Credit Inc., after a successful pilot in Alberta. We now offer the AgLine credit card option through all SWP facilities across Western Canada.

These initiatives, along with our core operational improvements were recently recognized by the Dominion Bond Rating Service, which confirmed our senior long-term debt and Medium Term Notes rating at B (high). They have also committed to reviewing the trend at year-end based business plan objectives. I do not want to leave the impression that we are satisfied with a B(high) rating. However, given the number of downgrades the organization has received over the past three years, the confirmation does speak to the integrity of our turnaround strategy and our ability to execute.

Now I'd like to discuss a couple of key issues which have been top of mind for many investors – the first being the weather.

As many of you know, the winter has been particular mild and precipitation levels have been low over much of the Prairies. There has been significant media coverage about the possibility of a 2nd year of drought. While I do not have a crystal ball to help predict the weather, there are some positive signs that I would like to highlight.

- Since the dirty 30's, there have been three drought years - One in 1961, one in 1988 and last year. Following both 1961 and 1988, yields returned to pre-drought levels. In other words, we have not experienced two consecutive years of drought in recent history.

- 2001 was drier than the 30's and yet production was only down 20%. This speaks to advanced farming practices, herbicide use, and the utilization of drought tolerant and higher yielding varieties by producers.

The other positive sign comes from Environment Canada which recently revised its precipitation forecasts and is now predicting above average spring rains through the March to May time periods. If these predictions hold, we will see normal growing conditions return to the Prairies.

We are prepared, however, in the event that moisture conditions remain below average. Given historical trends, we believe that a drought scenario this year will be no worse than Fiscal 2001. As such, months ahead of a potential event, we have implemented additional cost containment measures to insulate us from the impact. Even under a 20% drought scenario, we believe that the actions we have taken will allow us to weather a 2nd year of drought and keep us on track with our turnaround plans.

The other issue that is getting significant discussion is the Canadian Wheat Board's tendering process, and the potential for margin erosion due to competition. On average, tendered volumes generate less margin than non-tendered volumes. However, for the Pool, we have the advantage of leading the industry in terms of 100 car loaders, which command significant rail incentives. As a result, we are able to balance the discounts with our multi-car incentives. We are also one of a few companies that have port facilities, which provide additional pipeline revenue. Our experience and results to date illustrate that, for the Pool, the incremental market share gains that we have successfully achieved through tendering have offset the premiums required to secure those volumes.

The competitive landscape will dictate how the industry responds to the move next year, to increase Board tendering to 50%. We believe we are well positioned and have a solid footprint to compete effectively in this new environment.

The other issue that has plagued the agricultural industry over the past several years has been over-capacity. While the Pool has virtually completed its consolidation initiative, recent reports by our competitors have indicated they intend to accelerate their efforts to close facilities. While somewhat disruptive for producers, long-term these actions will be positive for the industry and particularly positive for the Pool, as we are already in position. It is my view that consolidation will continue at a rapid pace and that in the future, facilities with 50 and 100 car capacity will dominate the Prairie landscape.

I would like to now ask Lyn Kristoff to review our results and provide you with our financial outlook to the end of fiscal 2002.

Lyn Kristoff

Thank you Mayo.

As Mayo has discussed, one of our primary objectives over the past year has been debt reduction. During the 2nd quarter of this year, our results include a number of one-time provisions resulting from our divestiture activity. These divestitures have resulted in a net after-tax charge for the quarter of $13.2 million or $0.35 per share.

We recognize that with all the changes we have undertaken this year, comparing year-over-year results will be a challenge. To assist you in your analysis we have put additional disclosure in our M D & A, which is available on our web-site and I encourage you to review the quarterly report in conjunction with the information we present today.

The results from operations for the quarter – a $12.8 million loss, which compares to the loss last year of $10.9 million - are strong when you consider that the western provinces are coming off one the most significant production declines in recent memory. The drought last year resulted in:

- Canola margin shortfalls at CanAmera
- Lower volumes and lower margins at Western Cooperative Fertilizers, our fertilizer affiliate
- Production declines and a change in the type of commodities available to the grain industry, and
- Increased feed input costs to our pork operations.

Keeping these issues in mind let me turn to the traditional review of our financial results.

Sales and operating revenues were down 6% for the quarter to $774 million and on a year-to-date basis were off approximately 11%, primarily as a result of divestitures and last fall's drought.

- If you were to exclude the sales contribution of divested businesses, the decline was only 6% for the six-month period.

- In the Grain business, sales for the quarter were on par with last year, but for the first six months were down as a result of lower volumes resulting from last year's drought. As well, the lower grain production has reduced the availability of higher valued commodities and as a result, our mix of grain has changed impacting sales values.

- The drought also has had an impact on both the sales dollars and volumes in the Agri-product segment. Last year, when fertilizer prices were high, producers pre-bought in anticipation that prices would increase further. This year, fertilizer prices have declined and the dry fall hampered demand. Sales were down for both the Pool and Western Cooperative Fertilizers.

- Sales increases in the Agri-food Processing segment were driven by Can-Oat Milling, which continues to experience strong growth. Prairie Malt and CanAmera also had higher sales and CSP Foods was down slightly from the previous periods.

- And in the Livestock segment the variance is primarily associated with divestitures.

EBITDA for the 2nd quarter was $17.7 million compared to $22.4 million in the second quarter last year. On a year-to-date basis, EBITDA was $34.7 million versus $53.8 million. Year-to-date contributions from our divested operations were not substantial in either the quarter or year-to-date periods and a chart has been provided in the M D&A to reflect the earnings impact of the divested operations.

- The Pool's focus on its core operations has resulted in solid contributions so far this year, particularly given tough industry conditions. As Mayo highlighted, our Grain segment generated an 8% increase in EBITDA or $11.3 million in the three months, primarily due to cost containment strategies. On a year-to-date basis, EBITDA was $22.1 million down only $2.2 million compared to the prior year. This reflects slightly lower volumes but increased competition due to drought conditions.

- In the Agri-product segment, the Pool's core retail operation also posted results on par with last year as a result of cost containment strategies.

However, drought conditions have impacted the results of two of our affiliated companies, and to a lesser extent our livestock segment.

- At CanAmera Foods, the lack of canola supply from last year's crop coupled with low canola crushing margins has led to substantial EBITDA declines this year.
- At Western Co-operative Fertilizers, declining fertilizer volumes and prices were the primary factor in the variance experienced by the Agri-products segment.
- And in our Livestock segment, high feed costs reduced margins for the pork production operations, which combined with the poor results from our aquaculture operation, which is experiencing historically low prices caused by oversupply and lack of demand.

Looking at our interest and securitization expenses, costs declined $2 million to $16.8 million in the quarter as a result of lower debt levels and declining interest rates. On a year-to-date basis, interest and securitization expenses were $38.5 million, just slightly below the previous year's level.

- You may wonder why interest costs are not down significantly. Keep in mind however, as we disclosed last quarter, the company is amortizing approximately $1 million per month for bank fees. We do however, expect interest expenses to decline noticeably by year-end as a result of our divestitures and debt reduction strategies.

For the second quarter of fiscal 2002, the Pool reported a loss, prior to provisions of $12.8 million or $0.34 per share, just $1.9 million off last year's results. Stronger results from the Pool's core operations and Can-Oat Milling were offset by reduced contributions from WCFL, CanAmera, and to a lesser extent, the Livestock segment.

On a year-to-date basis, the pre-provision loss was $28.5 million or $0.76 per share compared to a $16.5 million loss or $0.44 per share last year.

Included in the bottom line this quarter, were a number of provisions and unusual items including:

- an $8.5 million gain on sale for the Western Producer;
- an $8.2 million loss on sale for our feed mills; and
- a $13.5 million impairment in value of CSP Foods Division which was sold subsequent to the end of the second quarter. These numbers are all after-tax and as I said earlier resulted in a charge to earnings of $13.2 million or $0.35 per share.

The consolidated net loss for the quarter was $26.0 million or $0.69 per share. On a year-to-date basis, the net loss was $38.4 million, or $1.03 per share compared to a $24.1 million loss or $0.64 per share for the same period last year.

Cash flow from operations was $1.3 million or $0.04 per share in the quarter, which compares to $1.9 million of $0.05 per share in the second quarter last year. Year to date cash used in operations was $4.8 million versus cash generated of $14.4 million last year. Again, the decline primarily reflects decreased earnings from non-controlled affiliates. For fiscal 2002, cash flow is expected to be sufficient to cover capital expenditures.

Looking at the balance sheet….

Working capital at January 31, 2002 was $57.8 million, up from $45.7 million at January 31 2001. The current ratio was 1.15 compared to 1.09 last year.

Total debt at January 31, 2002 compared to January 2001 is down $157 million reflecting the impact of the Pool's divestiture program and $95 million in debt repayments made in November 2001. Subsequent to quarter-end, the Pool repaid an additional $45 million which will be reflected in next quarter results.

The Pool's total debt to equity ratio at January 31, 2002 was 59:41 compared to 61:39 at January 31, 2001.

Looking forward, the remainder of the year will be challenging as the effects of last year's drought begin to impact the availability of grain. Dry moisture conditions throughout the Prairies this winter may also impact agri-products sales although rain predicted for the spring period, would alleviate this concern. Results from the Agri-food Processing segment will reflect poorer results from CanAmera, partially offset by strong improvements at Can-Oat Milling. 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 good fourth quarter from its agri-products operations. Overall, management remains committed to its divestiture program and its debt and cost reduction initiatives to improve the long-term profit potential for Saskatchewan Wheat Pool.

Colleen Vancha: Question and Answer Period.
Operator, we will now take questions from the market.

If there are no other questions from the market, we will now entertain media inquiries.

Colleen Vancha: Conclusion: Thank you very much for your participation today. This call has been recorded and can be accessed by dialling 416-695-9728. The playback feature is available until available until Friday March 15. Again, thank you for your interest in Saskatchewan Wheat Pool.