

SunOpta Inc.
Form 10-Q
August 10, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **July 2, 2016**

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission file number: 001-34198

SUNOPTA INC.

(Exact name of registrant as specified in its charter)

CANADA

(State or other jurisdiction of incorporation or organization)

Not Applicable

(I.R.S. Employer Identification No.)

2233 Argentia Road

Mississauga, Ontario L5N 2X7, Canada

(Address of principal executive offices)

(905) 821-9669

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The number of the registrant's common shares outstanding as of August 5, 2016 was 85,613,246.

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Basis of Presentation		

Except where the context otherwise requires, all references in this Quarterly Report on Form 10-Q ("Form 10-Q") to the Company , SunOpta , we , us , our or similar words and phrases are to SunOpta Inc. and its subsidiaries, taken together.

In this report, all currency amounts are expressed in thousands of United States ("U.S.") dollars ("\$"), except per share amounts, unless otherwise stated. Amounts expressed in Canadian dollars are expressed in thousands of Canadian dollars and preceded by the symbol "Cdn \$", and amounts expressed in euros are expressed in thousands of euros and preceded by the symbol "€". As at July 2, 2016, the closing rates of exchange for the U.S. dollar, expressed in Canadian dollars and euros, were \$1.00 = Cdn \$1.2917 and \$1.00 = €0.9013. These rates are provided solely for convenience and do not necessarily reflect the rates used in the preparation of our financial statements.

Forward-Looking Statements

This Form 10-Q contains forward-looking statements which are based on our current expectations and assumptions and involve a number of risks and uncertainties. Generally, forward-looking statements do not relate strictly to historical or current facts and are typically accompanied by words such as "anticipate", "estimate", "intend", "project", "potential", "continue", "believe", "expect", "could", "would", "should", "might", "plan", "will", "may", "predict", "estimate", and words and phrases of similar impact and include, but are not limited to references to our acquisition of Sunrise Holdings (Delaware) Inc. ("Sunrise"); business acquisition transaction values; future financial and operating results, plans, objectives, expectations and intentions, and other statements that are not historical facts; estimated losses and related insurance recoveries associated with the recall of certain roasted sunflower kernel products; possible operational consolidation; reduction of non-core assets and operations; business strategies; plant and production

capacities; revenue generation potential; anticipated construction costs; competitive strengths; goals; capital expenditure plans; business and operational growth and expansion plans; anticipated operating margins and operating income targets; gains or losses associated with business transactions; cost reductions; rationalization and improved efficiency initiatives; proposed new product offerings; and references to the future growth of our business and global markets for our products. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are based on certain assumptions, expectations and analyses we make in light of our experience and our interpretation of current conditions, historical trends and expected future developments, as well as other factors that we believe are appropriate in the circumstances

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Whether actual results and developments will agree with and meet our expectations and predictions is subject to many risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from our expectations and predictions. We believe these factors include, but are not limited to, the following:

- our ability to successfully integrate the operations of Sunrise (as well as other recent acquisitions) into our business and, once integrated, the effects of this acquisition on our future financial condition, operating results, strategy and plans, including the impact of the substantial additional debt incurred to finance this acquisition and our ability to achieve the estimated synergies from this acquisition;
- our ability to retain key management and employees of acquired businesses;
- restrictions in our five-year revolving asset-based credit facility (the Global Credit Facility) on how we may operate our business;
- our ability to meet the covenants of the Global Credit Facility or to obtain necessary waivers from our lenders;
- our ability to obtain additional capital as required to maintain current growth rates;
- our ability to successfully consummate possible future divestitures of businesses;
- our increased vulnerability to economic downturns and adverse industry conditions due to our level of indebtedness;
- that our customers may choose not to buy products from us;
- loss of one or more key customers;
- changes and difficulty in predicting consumer preferences for natural and organic food products;
- the highly competitive industry in which we operate;
- an interruption at one or more of our manufacturing facilities;
- technology failures that could disrupt our operations and negatively impact our business;
- the loss of service of our key management;
- labor shortages or increased labor costs;
- the effective management of our supply chain;
- volatility in the prices of raw materials and energy;
- the availability of organic and non-genetically modified ingredients;
- enactment of climate change laws;
- unfavorable growing and operating conditions due to adverse weather conditions;
- dilution in the value of our common shares through the exercise of stock options, participation in our employee stock purchase plan and issuance of additional securities;
- impairment charges in goodwill or other intangible assets;
- technological innovation by our competitors;
- our ability to protect our intellectual property and proprietary rights;

- substantial environmental regulation and policies to which we are subject;
- significant food and health regulations to which we are subject;
- agricultural policies that influence our operations;
- product liability suits, recalls and threatened market withdrawals that may arise or be brought against us;
- food safety concerns and instances of food-borne illnesses that could harm our business;
- litigation and regulatory enforcement concerning marketing and labeling of food products;
- our exposure to our international operations;
- that we do not currently intend to, and are restricted in our ability to, pay any cash dividends on our common shares in the foreseeable future;
- fluctuations in exchange rates, interest rates and the prices of certain commodities;
- our ability to effectively manage our growth and integrate acquired companies; and
- the volatility of our operating results and share price.

All forward-looking statements made herein are qualified by these cautionary statements, and our actual results or the developments we anticipate may not be realized. We do not undertake any obligation to update our forward-looking statements after the date of this report for any reason, even if new information becomes available or other events occur in the future, except as may be required under applicable securities laws. The foregoing factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and our Annual Report on Form 10-K for the fiscal year ended January 2, 2016. Additional information about these factors and about the material factors or assumptions underlying such forward-looking statements may be found under Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended January 2, 2016, under Item 1A. Risk Factors of this report, and in our other filings with the U.S. Securities and Exchange Commission and the Canadian Securities Administrators.

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PART I - FINANCIAL INFORMATION**Item 1. Financial Statements****SunOpta Inc.**

Consolidated Statements of Operations

For the quarters and two quarters ended July 2, 2016 and July 4, 2015

(Unaudited)

(All dollar amounts expressed in thousands of U.S. dollars)

	July 2, 2016 \$	Quarter ended July 4, 2015 \$	July 2, 2016 \$	Two quarters ended July 4, 2015 \$
		(note 1)		(note 1)
Revenues	348,146	277,594	700,460	551,543
Cost of goods sold	312,168	247,941	632,581	492,720
Gross profit	35,978	29,653	67,879	58,823
Selling, general and administrative expenses	24,489	19,314	48,761	40,011
Intangible asset amortization	2,824	694	5,646	1,319
Other expense, net (note 9)	8,433	637	12,411	741
Foreign exchange loss (gain)	(180)	653	1,992	(1,450)
Earnings (loss) from continuing operations before the following	412	8,355	(931)	18,202
Interest expense, net	11,548	1,141	22,570	2,068
Earnings (loss) from continuing operations before income taxes	(11,136)	7,214	(23,501)	16,134
Provision for (recovery of) income taxes (note 10)	(7,135)	2,385	(10,221)	5,406
Earnings (loss) from continuing operations	(4,001)	4,829	(13,280)	10,728
Discontinued operations (note 3)				
Loss from discontinued operations	-	(2,905)	(1,993)	(4,250)
Gain on classification as held for sale	-	-	560	-
Recovery of (provision for) income taxes	-	(1,153)	599	(889)
Loss from discontinued operations attributable to non-controlling interests	-	1,311	264	1,672

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Loss from discontinued operations attributable to SunOpta Inc.	-	(2,747)	(570)	(3,467)
Earnings (loss)	(4,001)	2,082	(13,850)	7,261
Earnings (loss) attributable to non-controlling interests	123	33	507	(22)
Earnings (loss) attributable to SunOpta Inc.	(4,124)	2,049	(14,357)	7,283
Earnings (loss) per share basic (note 11)				
- from continuing operations	(0.05)	0.07	(0.16)	0.16
- from discontinued operations	-	(0.04)	(0.01)	(0.05)
	(0.05)	0.03	(0.17)	0.11
Earnings (loss) per share diluted (note 11)				
- from continuing operations	(0.05)	0.07	(0.16)	0.16
- from discontinued operations	-	(0.04)	(0.01)	(0.05)
	(0.05)	0.03	(0.17)	0.11

(See accompanying notes to consolidated financial statements)

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Consolidated Statements of Comprehensive Earnings

For the quarters and two quarters ended July 2, 2016 and July 4, 2015

(Unaudited)

(All dollar amounts expressed in thousands of U.S. dollars)

	July 2, 2016 \$	Quarter ended July 4, 2015 \$	July 2, 2016 \$	Two quarters ended July 4, 2015 \$
		(note 1)		(note 1)
Earnings (loss) from continuing operations	(4,001)	4,829	(13,280)	10,728
Loss from discontinued operations attributable to SunOpta Inc.	-	(2,747)	(570)	(3,467)
Earnings (loss)	(4,001)	2,082	(13,850)	7,261
Change in fair value of interest rate swap, net of taxes	-	67	-	(129)
Reclassification adjustment for loss included in earnings	-	339	-	339
Unrealized gain on interest rate swap, net	-	406	-	210
Currency translation adjustment	(2,346)	605	(407)	(3,832)
Other comprehensive earnings (loss), net of income taxes	(2,346)	1,011	(407)	(3,622)
Comprehensive earnings (loss)	(6,347)	3,093	(14,257)	3,639
Comprehensive loss attributable to non-controlling interest	(245)	(1,341)	(4)	(2,123)
Comprehensive earnings (loss) attributable to SunOpta Inc.	(6,102)	4,434	(14,253)	5,762

(See accompanying notes to consolidated financial statements)

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Consolidated Balance Sheets

As at July 2, 2016 and January 2, 2016

(Unaudited)

(All dollar amounts expressed in thousands of U.S. dollars)

	July 2, 2016 \$	January 2, 2016 \$
ASSETS		
Current assets		
Cash and cash equivalents	4,292	2,274
Accounts receivable	151,299	117,412
Inventories (note 6)	400,162	371,223
Prepaid expenses and other current assets	21,583	20,088
Current income taxes recoverable	20,588	21,728
Current assets held for sale (notes 1 and 3)	-	64,330
Total current assets	597,924	597,055
Property, plant and equipment	171,758	176,513
Goodwill (note 2)	241,669	241,690
Intangible assets (note 2)	189,406	195,008
Deferred income taxes	952	958
Other assets	13,455	7,979
Total assets	1,215,164	1,219,203
LIABILITIES		
Current liabilities		
Bank indebtedness (note 7)	239,733	159,773
Accounts payable and accrued liabilities	159,872	151,831
Customer and other deposits	1,477	5,322
Income taxes payable	5,964	1,720
Other current liabilities	1,554	1,521
Current portion of long-term debt (note 7)	2,140	1,773
Current portion of long-term liabilities (note 2)	5,500	5,243
Current liabilities held for sale (notes 1 and 3)	-	52,486
Total current liabilities	416,240	379,669
Long-term debt (note 7)	315,944	321,222
Long-term liabilities (note 2)	15,945	17,809
Deferred income taxes	59,810	74,324
Total liabilities	807,939	793,024
EQUITY		
SunOpta Inc. shareholders' equity		
Common shares, no par value, unlimited shares authorized, 85,611,496 shares issued and outstanding (January 2, 2016 - 85,417,849)	299,128	297,987
Additional paid-in capital	23,901	22,327
Retained earnings	92,481	106,838

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Accumulated other comprehensive loss	(11,367)	(6,113)
	404,143	421,039
Non-controlling interests	3,082	5,140
Total equity	407,225	426,179
Total equity and liabilities	1,215,164	1,219,203
Commitments and contingencies (note 13)		

(See accompanying notes to consolidated financial statements)

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Consolidated Statements of Shareholders' Equity

As at and for the two quarters ended July 2, 2016 and July 4, 2015

(Unaudited)

(All dollar amounts expressed in thousands of U.S. dollars)

		Common shares	Additional paid-in capital	Retained earnings	Accumulated other com- prehensive loss	Non- controlling interests	Total
	000s	\$	\$	\$	\$	\$	\$
Balance at January 2, 2016	85,418						