HD **Q3 2014 Saputo Inc Earnings Conference Call - Final**

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LP

Presentation

OPERATOR: Ladies and gentleman, thank you for standing by and welcome to the Saputo's third-quarter results for FY14 conference call. During the presentation all participants will be in a listen-only mode. Afterwards we'll conduct a question-and-answer session.

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(Operator Instructions)

As a reminder today's call is being recorded Thursday, February 6, 2014. I would now like to turn the conference over to Mr. Lino Saputo, Junior.

LINO SAPUTO , CEO & VICE CHAIRMAN OF THE **BOARD**, SAPUTO INC: Thank you very much, Tommy.

SANDY VASSIADIS, DIRECTOR, CORPORATE COMMUNICATIONS, SAPUTO INC: Good afternoon everyone and thank you for joining us today. A press release detailing our results for the third quarter of FY14 was issued earlier today and is also available as we speak on our website at www.saputo.com. This call is being recorded and will be posted on our website for future reference. I would like to specify that our listeners on the phone and on the internet, as well as journalists, are on a listen-only mode. Members of the media are invited to ask their questions by phone after this call.

Before we proceed, I'll remind you that certain statements that will be made during this call may constitute forward-looking statements within the meaning of Securities Laws. Caution should be used in the interpretation of such statements. Since Management has made certain assumptions including among others; assumptions regarding projected revenues and expenses, and references to beliefs, expectations, objectives and strategy that are subject to a number of risks and uncertainties which could cause actual results to differ materially from those presented in such forward-looking statements.

For more information on these risks and uncertainties, please refer to the materials filed with the Canadian Securities Regulatory Authorities including our most recent annual report available on SEDAR. Any forward-looking statement made during this call is based on Management's current reasonable estimates, expectations and assumptions, and we do not undertake to update or revise such forward-looking statements except as required under Securities Laws.

The speakers today are Mr. Louis-Philippe Carriere, our Executive Vice President Finance and Administration; and Mr. Lino A Saputo, Junior, our Chief Executive Officer and Vice Chairman of the **Board**. After a brief presentation we will conclude the call with your questions. Louis-Philippe will now begin the conference, followed by Lino, Junior.

LOUIS-PHILIPPE CARRIERE, EVP FINANCE AND ADMINISTRATION, SAPUTO INC: Thank you, Sandy, and good afternoon. I will now present our results for the third quarter of FY14 in comparison to those of the corresponding quarter last fiscal year. At the beginning of this fiscal year we realigned our reporting structure, consistent with our operating structure, and are since reporting under three geographic sectors, specifically the Canada sector, USA sector and International sector. The comparative figures have been reclassified to reflect this reporting structure.

Net earnings total CAD144.1 **million**, an increase of CAD14.1 **million** or 10.8%. Earnings before interest, income taxes, depreciation and amortization, EBITDA, amounted to CAD260 **million**, an increase of CAD47.5 **million** or 22.4%. EBITDA for the Canada sector totaled CAD116.1 **million**, a decrease of CAD7.1 **million** or 5.8%. In the **Dairy** Division Canada, higher ingredients and operational costs offset the positive contribution of increased sales volume on EBITDA. The Bakery Division in EBITDA increased slightly for the quarter due to lower operational costs.

EBITDA for the USA sector totaled CAD121.1 million, an increase of CAD40.1 million or 49.5%. The increase was mainly due to the inclusion of the Morningstar acquisition. During the quarter, combined market factors had a positive impact of approximately CAD9 million on EBITDA. Such market factors include more favorable relationship between the average block market per pound of cheese and the cost of milk as raw material. More favorable realization of inventories and non-favorable absorption of fixed cost.

During the quarter, EBITDA was negatively affected by lower cheese sales volume, increased ingredient and operational cost, as well as higher milk costs resulting from the temporary revised milk pricing formula in California, partially offset by slightly favorable product mix. The weakening of the Canadian dollar versus the US dollar had a positive impact on EBITDA of approximately CAD5 million.

EBITDA for the International sector amounted to CAD22.8 million, a CAD14.5 million increase. EBITDA of the Dairy Division Argentina increased mainly due to increased sales volume and higher selling prices on the export market. EBITDA for the Dairy Ingredients Division was comparable to the corresponding quarter last fiscal year. As it benefited from better product mix, offsetting lower selling prices in the international market and increased operational cost. Consolidated revenue was amount to CAD2.343 billion an increase of CAD552.6 million or 30.1%. This increase was mainly due to the inclusion of the revenue was derived from the Morningstar acquisition.

Net cash generated from operating activities amounted to CAD209.8 million in comparison to CAD156.2 million for the corresponding quarter last fiscal year, an increase of CAD53.6 million. During the third quarter, CAD46.1 million were invested into addition to property, plant and equipment. And also during the quarter we repaid CAD39.9 million of long-term debt, issued shares as part of stock option plan for cash consideration of CAD7.9 million, paid CAD14.4 million for the repurchase of share capital as part of the normal course issuer bid, and paid CAD44.7 million in dividends.

The Board of Directors approved a dividend of CAD0.23 per share payable on March 14, 2014 to common shareholders of record on March 3, 2014. Lino Junior will now proceed with the presentation of our outlook.

LINO SAPUTO : Thank you, LP, and good afternoon to you all. It has been a very busy quarter, and I'm quite enthusiastic about our accomplishments and excited about the future. Net earnings, EBITDA and revenues are up in the double-digits. This mainly due to the inclusion of the Morningstar acquisition. Much like the previous quarter, Q3 was marked by continued competitiveness in our respective markets, especially in Canada. Dairy Division Canada has therefore continued to implement measures to subside the erosion on volume losses and on profit generation. As such, we now see a stabilization of EBITDA. Though the reality is, dairy consumption is declining in Canada. Therefore, our team continues to look for opportunities that bring additional value for our customers and our consumers.

In the Cheese Division USA we've maintained our focus on recuperating lost volume. We are now better aligned and are starting to reap the benefits of our actions. As always we will continue to closely monitor market fluctuations and will implement appropriate measures to mitigate any negative operational impacts when necessary. As for the Dairy Foods Division USA, we've seen an increase in volumes in comparison to last year. Notwithstanding the Division's profitability was impacted by an unfavorable product mix and other expenses.

Concerning the International sector, we've witnessed another strong quarter, both from a volume and profit perspectives. On the mergers and acquisitions front in early October we announced a takeover bid for the Australian dairy company, Warrnambool Cheese and Butter. For months we were one of three bidders vying for WCB, this battle was without a doubt the most public acquisition process we've ever experienced. And though there may have been many twists and turns, today I'm delighted to report we've acquired 79% of the WCB shares.

Our offer slated to close on February 12, unless we reach a relevant interest of more than 90% in which case the offer is automatically extended pursuant to Australian law. For quite some time I've stated acquiring a platform in Australia was something we've worked to accomplish for the better part of the last decade. We've been patient and have spent time in Australia and over the years we've gotten to know the team at Warrnambool quite well. We now look forward to officially welcoming them to our team soon.

Last month we also announced having entered into an agreement to acquire the fluid activities of Scotsburn Co-Operative Services Limited, based in Atlantic Canada. The transaction is expected to close in March. It will enable our Canadian dairy division to increase its presence in Atlantic Canada. Now, can we expect to see more acquisitions? I would certainly hope so.

We continue to evaluate possibilities. Our balance sheet remains strong. And we have the necessary resources to integrate multiple acquisitions at the same time. We will continue to look for growth

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opportunities and will aim to find ways to develop new markets while always remaining disciplined. On that note, I thank you for your time. And we will now proceed to answer your questions. Tommy?

Questions and Answers

OPERATOR: Thank you very much.

(Operator Instructions)

And we'll proceed with our first question on the line of Irene Nattel from RBC Capital Management. Go right ahead.

IRENE NATTEL, ANALYST, RBC CAPITAL MANAGEMENT: Thanks and good afternoon, everyone. If we could just start with WCB, yes many twists and turns, although we certainly seem to be pretty close to the finish line. Just wondering, I guess number one, if you don't quite get to the 90% by February 12, what happens? And number two, assuming that it's still nonetheless all goes forward, can you just walk us through what we should expect over the next several quarters in terms of visibility on our side around WCB?

LINO SAPUTO : I'll give you perhaps maybe a general outlook on that and then I think LP can add in some color with some technicalities on the legal side, but our hope is that we do get beyond the 90% by February 12. If we don't get beyond the 90% February 12, this will be a subsidy of Saputo Inc. and it will have to operate as a separate entity with an operating structure.

Again, we believe that irrespective of whether we have 100% or 90% or 80%, we are still very delighted with this **transaction**. We think as a subsidy it could be a very, very good platform for us, and I think we can leverage some of the strength that Saputo has to making Warrnambool a much stronger player in the international markets. On the technicalities, I'll ask LP to give a bit more color.

LOUIS-PHILIPPE CARRIERE: As you certainly saw as of January 21, we essentially surpassed the 50% threshold. So that means that essentially as of that date we going to start to consolidate even the balance sheet, more importantly, the results into our numbers.

So we should expect certainly for, let's say, the quarter ending in March for which we're going to consolidate the entire balance sheet with the numbers from the **purchase** price with the allocation as we usually do. Certainly depending if we end up with 100% or if we end up to a lower level, a lower level, that would mean essentially minority interest on the balance sheet, and the same kind of method will be true from a P&L or result perspective.

So that means that essentially we're going to have the revenue EBITDA, all the expense from a P&L perspective, and depending for the period of January 21 up to the end of March, and depending again if we're ending up with 100%, that's an easy one. If we're ending up with less than 100%, we again are going to have a line for minority interest for their proportion of the net earning. So that would be essentially it, but everything will be consolidated into Saputo as of -- for the next publication, which is going to be our year-end and the fourth quarter.

IRENE NATTEL: Just LP, will it be in the international segment or will you add another segment?

LOUIS-PHILIPPE CARRIERE: Yes, it will be in the international segment, as we're contemplating when we reorganize or realign our structure last year, that will be part from the financial reporting aspect, it will be part certainly of the international segment.

IRENE NATTEL: That's great. And from an integration perspective, but -- what are the current plans or is it too early to talk about it?

LINO SAPUTO : It's a little early to talk about integration plans. Of course, it will be heavily dependent upon whether we're at 80% or 100%, but our message has been very, very clear from the very beginning in terms of our intentions.

We would like to be facilitators for the organization to ramp up on some of the plans that they've had for a very long time, and perhaps didn't have the finances to execute. Again, I think Warrnambool can leverage on the strength that Saputo has in the international markets; instead of being price takers, they can be price drivers, so I think that there could be some benefit there.

But from an operating standpoint, we have a lot of confidence in David and his team. Like I said in my opening remarks, I've had the opportunity over the course of last 10 years to get to know Warrnambool and their management quite well. In fact, over the course of the last month and-a-half, I've had more intense discussions with them.

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I have full confidence that David can manage that division very, very well. With our financial support and perhaps some sales guidance, I think that the division can flourish.

IRENE NATTEL: That's great. One more question, if I might, and this is going back to your small North American **business**. Could you just talk a little bit about the evolution of competitive intensity and some of the steps that you've taken to, I guess, strengthen your **business** in the face of that competitive intensity and how it might have changed since the last quarter?

LINO SAPUTO : Well, Canada, the unfortunate thing about this market is that it's in the decline mode. Now, having said that, despite the fact that Canada's per capita consumption is declining around 2% per year, we, Saputo, have seen growth in our volume, so we're defending our position extremely well. The unfortunate thing, again, is that it comes at the expense of some margin.

We've got the right people in place, we know this **business** inside out. We know our customers extremely well, we know our competitors extremely well. And I think that we've leveraged on our strength to be able to grow the market, even though consumption is declining.

And of course, that would make our competitors that much more aggressive in terms of trying to find ways that they can grow their market share. This is the nature of the beast in Canada, it unfortunately is a characteristic of a market that's not in growth, and I think we're defending ourselves extremely well here.

IRENE NATTEL: That's great. Thank you.

LINO SAPUTO : Thank you, Irene.

OPERATOR: We'll proceed to our next question; it is from the line of Michael Van Aelst from TD Securities. Go right ahead.

MICHAEL VAN AELST, ANALYST, TD SECURITIES: Thank you. Just to continue on Canada for now, you mentioned during your comments something about profit having stabilized in Canada. Can you just explain that?

LINO SAPUTO : Well, initially at the -- when we looked at the beginning of our fiscal year, we were coming right off of a **milk** price increase that typically is an uneventful experience in Canada. This year, unfortunately, some of that **milk** price increase was not able to be passed on to some of our customers, again because of the competitive nature of the landscape here.

We have since had a chance to re-look at our product mix and product portfolio, had a chance to even at times look at some contracts with some of our long-standing customers and extend those beyond this year and next. And so I think that we've taken good, concrete measures to look at controlling our own destiny for the foreseeable future. And so despite, again, some of the competitive nature that we've seen in the industry, our folks have taken some proactive measures to try to give us some stability as we look into 2015.

MICHAEL VAN AELST: When you say your profits stabilized, it doesn't mean it's stabilized on a year-over-year basis, you mean that you kind of hit a level where you think you can -- it can be sustained given your contracted **business** and things like that?

LOUIS-PHILIPPE CARRIERE: Yes, and certainly if we're referring to, let's say, from the beginning of the year, certainly they can't not be more than stable than that from CAD115.7 **million** to CAD116.1, so we're pretty stable since the beginning of the year. Certainly in Q1, we were certainly below of the preceding year. That was essentially the trend in Q2 and Q3, but on a stable basis we delivered in the CAD115 **million** to CAD116 **million** back at back, first three quarters.

MICHAEL VAN AELST: The **transaction** costs of CAD6.6 **million** for Warrnambool, have those been capitalized or are those in another line item?

LOUIS-PHILIPPE CARRIERE: No you're going to find out in the OCI, that's the sheet on the other comprehensive income, it's a technicality, and light of essentially we end up in the end of December with 12% of the shares of Warrnambool. So the investment first is qualifying as a portfolio investment, that's the nature of the accounting at that point, so it's a portfolio investment. There's a mark-to-market, there was a small gain on that in comparison to the stock price at the end of December, and also the expense related to the **transaction** which accounts for about CAD6.5 **million**, or globalized into a net kind of loss on which you can find out in the statement of other comprehensive income.

Just to continue on that precision for next quarter, certainly in light of being a full subsidy of Saputo and all the consolidation and all that stuff, certainly the **acquisition** cost will be reverted to against -- into the P&L, so we'll find out into the expense. Similarly, as we saw in Q4 of last year, when we account for the

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Morningstar acquisition, for which there was some acquisition cost. So there would be reverted in Q4 into the -- as expense into the profit and loss statement.

MICHAEL VAN AELST: Okay. And in the international business, in particular in Argentina, can you explain you how the milk and the operating costs, like labor and energy, are affected in US dollar terms, as the peso devaluates? So are they decreasing as in US dollar terms as the peso goes down, or is the inflation there offsetting it and keeping those costs in US dollar terms similar? So just trying to gauge how it's affecting your profitability, both in the domestic market in Argentina versus the profitability on the international market.

LOUIS-PHILIPPE CARRIERE: Well, first we're buying, let's say, for electricity or any good that we're buying in Argentina, there are essentially purchased into pesos, so at the end of the devaluation of the currency per se is not being affected. We're not trading, we're not buying let's say in US dollars. So everything that's in pesos is in pesos, essentially.

Certainly even the devaluation as you see there's certainly some impact, in terms of the revenue being impact, globally speaking. But certainly dealing on the international market, we are recapturing I would say a good portion of it in terms of the net impact.

MICHAEL VAN AELST: So when you talk about the higher, the issues with the rising cost of raw milk in Argentina, your profits surged in this quarter on the international side. Is that mostly or almost entirely then because of the high export prices?

LOUIS-PHILIPPE CARRIERE: I would say both, a bit of both volume and export prices.

MICHAEL VAN AELST: Was volume just op related -- as a rebound off of the floods last year or was there also some growth on top of that?

LINO SAPUTO : We had some growth on top of that. We had announced a capital project that would give us the potential to take on more milk, run more capacity through our plants. We're in the mode now of start-up for that new incremental capacity, and so we are actually processing more milk and we are collecting more milk off the farms.

MICHAEL VAN AELST: Is there enough growth in the supply to keep pace with the capacity that you're adding?

LINO SAPUTO : Yes. Understand that we are the plant of last resort for all of the farmers that we've committed to, and so there is some upside in terms of ability for us to produce more product, run more capacity through our plants, but everything is going pretty much as we had expected it would be. We should close out this year with the amount of milk processed that we budgeted at the beginning of our fiscal year.

MICHAEL VAN AELST: All right. Thank you very much.

LINO SAPUTO : Thanks, Michael.

OPERATOR: Thank you. We'll proceed with our next question, from the line of David Hartley with Credit Suisse. Go right ahead.

DAVID HARTLEY, ANALYST, CREDIT SUISSE: Thanks. Good afternoon. Just want to ask you a bit about profitability in the US over the past quarter -- four quarters, EBITDA margin's been around the 10%, 11% range, and finishing up on the high end in the quarter. What do you see as we move forward here for the US margin and the volatility or the range of profitability that you would expect in that business?

LINO SAPUTO : Well, there are two aspects to our US business. One is the cheese side, the other one is the dairy foods side. The dairy foods side, and you probably noticed this at the time of acquisition, the margins typically and historically have been lower, and again that is heavily influenced by product mix as well.

If I look at the cheese side, this quarter we were positively impacted by inventory realization with the run-up of the block price. Operationally we're doing extremely well in terms of volume; we have recaptured a lot of the volume that we had lost the beginning of the fiscal year, so the US cheese side is really running at a very good pace and had a nice little bump-up at the end of the quarter because of the high block price.

On the dairy food side, our volumes are greater than what Morningstar had achieved last year. However, the product mix was unfavorable. We sold a lot more of the less than value-added product, more commodity products than we would have liked. Again, we're in tight with a lot of our customers, and on the one hand we're following the trends of our customers and on the other hand we're bringing new categories

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of product in front of them, and so our expectation as we move forward is to focus more on value-added products for the dairy foods division.

DAVID HARTLEY: Okay. So when I think about that and the unfavorable product mix you just mentioned, is that related -- kind of macroeconomic driven if you will, consumer driven, and do you expect that to kind of change around as times get better, if you will, in the US?

LINO SAPUTO : I think it's driven by the menu items that our customers are actually promoting. Over the course of the last couple of quarters, a lot of promotion on just driving volume through the QSRs, and again, we're following our customers in terms of the quantities and volumes that they would require.

Again, it's our responsibility as a progressive, innovative dairy company to come up with new recipes that could not only drive volume through the QSR but also add value. Those are the types of initiatives we're working on now with dairy foods.

DAVID HARTLEY: I notice that you are spending some time rejigging packaging and introducing new higher end products in the channels. Is that an accurate description for what's going on in the US now and how is that going so far?

LINO SAPUTO : That is precise, yes, and so we do have especially since we have acquired the platform of DCI a couple of years ago, we are looking at value-added categories of products. Sometimes that would be new product development in the way of cheeses, and other times it would be product development in terms of packaging and packaging formats. So yes, it's a combination of the two that would allow us to have categories of products that are less commodity-driven and more value-driven.

DAVID HARTLEY: Okay. That's helpful. Just thinking about Canada a little bit, given the state of affairs that you described, and I noticed the Scotsburn acquisition and some of your competitors -- one of your competitors in particular buying up a lot of small operations in Canada. Is that what you expect the trend will be for the next year, that a lot of small operations will come onto the market and will get purchased by the likes of yourself or your other two big Canadian competitors?

LINO SAPUTO : Yes, I think so. There's the three of us that have about 75% of the milk intake here in Canada. Again, the characteristic of this market is that the only way that you can find growth really is either to steal volume from your competitor, or perhaps even to make some acquisitions. So I'm not overly surprised to see ourselves, and perhaps some of our competitors, making acquisitions.

DAVID HARTLEY: Okay, and in terms of major acquisitions on a global sense, whether it be Brazil, or further Australia, is there anything pressing, could you characterize kind of the state of affairs for a big acquisition right now for Saputo?

LINO SAPUTO : Well, David, I've said that we always have three or four files on our desk at any given time. For us, they're all pressing and they're all exciting. We materializes two acquisitions in the span of maybe three or four months, Warrnambool and Scotsburn. These are files that we've had on or table, and ideas and priorities that we've been thinking about, in some cases, in Warrnambool, for the better part of 10 years, and the opportunity came along for us to actually make a play for it.

So again, we've always -- we always have files on our table. I would say the runway still is very, very long. I see that in the US space both on the cheese and on the dairy foods side, despite our size, we represent a small percentage of the overall volume, so I think that there could be some other potential acquisitions in the US.

You talked about Brazil. I did mention that in previous conference calls that we have taken trips out to Brazil on a number of occasions. We're exporting product from Argentina into Brazil, and so it's a natural evolution for us to be a player with manufacturing infrastructure in Brazil. We just need to find the right one at the right price, with the right strategic value for us.

Beyond that, I'd say now with Warrnambool we have a strong, solid platform in Australia, perhaps if there could be some other small tuck-in businesses in Australia, we would be more than happy to look at it now that we have a management team that would be able to absorb it, and manage it and run it. And I would also say that New Zealand looks pretty interesting for us as well, now that in Oceania we do have that infrastructure.

So again, I'm very bullish on the market. I feel very, very good about our position on the world stage in dairy. I feel very good about the industry in dairy.

In fact, I just came from a conference in California where the dairy players meet on a yearly basis, and all of the economists that are talking about the dairy space right now are extremely bullish about supply and demand. I believe that the demand will outpace supply, and in fact we're seeing some of that right now, and

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this is why we're seeing the international prices as strong as they are, and we're also seeing the effects of that on the US market.

So we feel very good about our position. We've always tried to keep our balance sheet extremely clean, so we can capitalize on some of those **acquisition** opportunities that come about. And LP and I work on a regular basis at planting seeds to see, perhaps, if a tree can grow somewhere.

DAVID HARTLEY: Thank you very much for that.

OPERATOR: Thank you.

(Operator Instructions)

Our next question from the line of Mark Petrie with CIBC. Go right ahead.

MARK PETRIE, ANALYST, CIBC WORLD MARKETS: You actually just sort of touched on my first question. But it was -- could you just give your sort of outlook for **dairy** prices and the **dairy** market in general over the rest of the year?

LINO SAPUTO : Well, the timing is actually quite good for me to do that, because I have insight from a few of the economists that I spoke to and listened to at the **dairy** conference. What everyone is looking at right now is that there is a rising demand of **dairy** protein around the world.

And if you look at what's going on in **China**, **China** in fact is declining in their own domestic production of **milk**. Economic conditions as well as other factors have made it such that from 35 **billion** liters of **milk**, where they once were, now they're starting to recede below that. In addition to that, you've got a rising demand from the middle class that continues to grow.

That is present not only in **China** but we're starting to see a lot of interest from Japan, Taiwan, the Middle East, Russia continues to be a strong platform of net importer of **dairy** products. Brazil is a strong importer of **dairy** products. And there are only so many countries around the world that have the infrastructure and the capability to produce the **milk**.

This is why we thought that Australia was so key for us, in terms of our long-term outlook as a **dairy** player on a global scale. If I look at different countries around the world that have the infrastructure, you've got the US that went from 10 years ago 2% of its total production being exported, now it's up closer to 15% or 16%.

Argentina, our platform in the 10 years that we've been there, we've doubled our throughput, our capacity, and yet 50% of our production is still going to the export market, and so that has grown quite substantially. And then you look at New Zealand, with their **milk** base, that's been growing and Australia over the course of the last 10 years has been either stable or declining. But again, those are the real platforms of **dairy** production, and so if you want to be a player on a global scale, provide the tools to your workforce to be able to get out there, your sales force to be able to get out there and offer product from different regions, there are only maybe four or five regions in the world that make sense, and this is why Australia and WCB made a whole lot of sense for us.

MARK PETRIE: And in terms of WCB and the Australian **milk** production, is it just a matter of the international price holding in to see production in Australia grow?

LINO SAPUTO : I think so. I had the chance in the month of November and early December to talk to a lot of different farmers, and quite frankly, they've been beaten down, and I think that the level of optimism was actually quite low. I talked about -- with the **dairy** farmers while I was there what I'**m** seeing on the market. It's not that we're creating it but this is what we see and I shared with them my optimism about the **dairy** industry.

I think that if **dairy** demand continues, the prices will hold **firm**, and if the prices hold **firm** then all stakeholders in the **dairy** industry will benefit, including **dairy** farmers. We need to make sure that the **dairy** farmers are making money, if we want **dairy** farmers to be in **business** long term. So I think that the high international pricing does and will have an effect on the **milk** production in Australia.

MARK PETRIE: Okay, that's helpful. Thanks. And just on Australia, just sort of taking a step back, can you just talk a bit about Warrnambool and their production, and their production capacity, and what they're actually producing, their product mix, and how that fits into the Saputo portfolio now internationally, as you kind of think about serving those international markets over the course of time? Like is there synergy opportunity really, I guess, between Australian production and Argentina and even the US?

LINO SAPUTO : I think there is a lot of synergy, and again, with my conversations that I've had over the course of the last few months more intensively with David and Terry, who's the Chairman of the **Board**, I

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think some of the synergies, to their own admission, is that they're making commodity products and they're price takers on the market. We are specialty oriented. Perhaps we can make some products that would have derive higher value on the market.

I think our sales force at Saputo has a very, very good understanding of the different markets, the growing markets, the specialty markets, and I think that there could be some synergies there, just by sharing ideas and allowing that management team to flourish under some of our guidance and perhaps some of our fiscal support.

Some of the products of categories are similar, when you look at block **cheese** or pressed-type cheeses, we're making those in Argentina as well as in the United States and in Canada. WCB produces pressed-type cheeses, but there are also other categories of product that WCB produces that's we don't produce.

They have a specialized bi-product that they're selling in partnership with FrieslandCampina, which is a great, innovative product. They manufacture a lactoferrin, which is a specialized protein, which Saputo does not have access to. So I think there are going to be some synergies in what WCB does in terms of them adding value to the Saputo portfolio, and perhaps Saputo adding value to the go-to-market strategies that WCB can employ.

MARK PETRIE: Okay. Thanks. And then just one quick question. In Argentina, I mean you talked about it already, but just too sort of be clear, forgetting international pricing and then the movement of the peso, fundamentally there, it seems like things have improved and stabilized. Is the outlook -- forgetting those external factors, is the outlook for that **business** to continue to improve profitability?

LOUIS-PHILIPPE CARRIERE: I would say so, certainly in light of in addition to what Lino was mentioning; adding capacity, getting more **milk**, and certainly everything is aligned in a good direction.

MARK PETRIE: Thanks very much.

LINO SAPUTO : Thank you.

OPERATOR: Thank you very much. I will proceed with our next question, from the line of Keith Howlett with Desjardins Securities. Go right ahead.

KEITH HOWLETT, ANALYST, DESJARDINS SECURITIES: Yes, I had some questions on Argentina. First one was, what do you mean that you're the plant of last resort there?

LINO SAPUTO : Well, what that means essentially is that the system is unlike any that we operate in. When we make a commitment to a **dairy** farmer, we make a commitment to take 100% of his **milk**, and there is some seasonality and some fluctuation in his **milk** production.

So ultimately if he's going to be growing his base of **milk** production by, say, 10% or 15% or 20%, he has no other place to go; we are his plant of last resort. So we need to make sure that we have the capacity to take on his incremental volume. And so the reference to that was that we had built additional capacity in Argentina to make sure that when we're at the peak of production, we are taking all of our farmers' **milk**, even if that means certain times of the year we're running below our 100% capacity utilization.

KEITH HOWLETT: Nice, and then just on Australia, what percentage of the -- I don't know whether volume or dollars is the better way to do this, is exported versus domestically consumed?

LOUIS-PHILIPPE CARRIERE: I would say about 50% of their volume goes to the international market.

KEITH HOWLETT: And when you mention the currency effect is about CAD17 **million** from the decline in the Argentine peso, is that just looking at the domestic portion of the Argentine **business** or does that include the benefit of the international as well?

LOUIS-PHILIPPE CARRIERE: Two aspects, even if we're dealing on the international level with US currency, you need to keep in mind that -- let's say in Argentina I would say the ledgers are all in pesos at the end of the day, and certainly we're taking those ledgers and we're converting them into Canadian dollar, so this is where the variation is created.

KEITH HOWLETT: Great. Thank you. And then just on the **China** market, where is Australia in that? Do they need a free trade agreement to access the **China** market or they don't need that or --?

LINO SAPUTO : There is no free trade agreement as it stands, but they have access to the market so it's really based on competitive pricing of their solids that they can manufacture and sell into the market. But there is no free trade agreement right now with **China**.

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But again, let me make something clear here. China is one market; China is not the only market. We're selling into 40 or 50 different countries around the world, and that's the way we like it.

We're not going to put all of our eggs in one basket. Whether that would be from the platform of United States, whether that would be from Argentina and in the future Australia as well.

We don't believe that there's only one market for us. There are 40, 50 different countries around the world that are net importers of dairy product. Our sales force is experienced enough to understand those markets and understand where we can derive the best value for our solids.

KEITH HOWLETT: And when it comes to Argentina, are they the pretty much fully booked as it were, just exporting within Latin America or are they sending things to Asia as well?

LINO SAPUTO : Argentina's sending things all over the world. Of course, the proximity to Brazil makes it easy for us to export product into Brazil, but it certainly is not the only market that we're selling into. We are selling into 40, 50 different countries around the world from the Argentinean base right now.

KEITH HOWLETT: Just had some questions on the Canadian market. In terms of product lineup, there was a mozzarella company that was recently sold. Are you still interested in expanding mozzarella by acquisition or are you already sort of too large to make an acquisition there?

LINO SAPUTO : I think if there are dairy assets that become available in Canada, we would definitely look at them, mozzarella included. We are leaders in mozzarella in Canada, but that doesn't mean that we wouldn't look at acquiring another asset that would have a mozzarella platform. So I think there still are some small tuck-in businesses that's could make sense for us including other mozzarella manufacturers.

KEITH HOWLETT: And then just on the yogurt category, which I guess is one that has experienced growth, what is -- is that anything that you'd like to get into or not really?

LINO SAPUTO : Well, I have to be clear about our strengths and our weaknesses. We're very, very strong R&D folks on the cheese side. I think we're very, very strong R&D folks on the bi-product side; I think we've grown our platforms substantially there.

We work in every category of dairy that could derive a very good profit for us where we can serve our customers. The category that's we're not in dairy would be things like ice cream.

We had ventured into ice cream; I think it was in 1999 or 2000 or so, around that time frame when we bought Cremerie des Trois Rivieries, they were manufacturing ice cream. We realized the dynamics of the ice cream market are very competitive, and perhaps we were in a position where we were not controlling our own destiny, and quite frankly, we were not innovative in that category of product and we decided to exit that.

We have the same reflection with yogurt; there are some big very innovative companies that do a very, very good job in yogurt. We are yogurt manufacturers, but I you would not say we are the most innovative Company when it comes to yogurt. I think our energy, and our resources, and our focus will be perhaps better suited in cheeses and in other dairy solids.

KEITH HOWLETT: And just finally on the sports drink milk products that you've been innovating on in the last few years, how is that process or project going?

LINO SAPUTO : It's very good; in fact, in the single serve value-added milk we are the number one player, with a wide range of flavored products. We did launch, and you're probably referring to the Milk 2 Go Sport, we're capitalizing on the value of the Milk 2 Go brand, but really segmenting it towards athletes that are looking for a recuperation drink after physical activity. It's very much in line with what we stand for as a company, in terms of having full profile of healthy eating and physical activity to stay active and stay healthy, and so Milk 2 Go really follows that channel and follows that focus.

KEITH HOWLETT: Thanks very much.

LINO SAPUTO : Thank you.

OPERATOR: Our next question is it another follow-up question from the line of Michael Van Aelst from TD Securities.

MICHAEL VAN AELST: Just understanding Morningstar, did some of the cost, some of those unusual costs that you had in I think it was Q2, did those fall off in Q3 or were they still present?

LOUIS-PHILIPPE CARRIERE: I would say for vast majority, they fall off.

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MICHAEL VAN AELST: Okay. And the performance of cottage cheese and sour cream that you highlighted last time being a little weaker in Q2, how did -- what happened in Q3 with those products?

LINO SAPUTO : Cottage cheese and sour cream is a flat category. We've got some good brands. Friendship is a very recognized brand in East Coast USA, but quite frankly, it's a flat category.

MICHAEL VAN AELST: But you didn't see the drops that you saw in Q2?

LINO SAPUTO : No, no, those drops have stabilized.

MICHAEL VAN AELST: And then just finally, I guess if I -- I'm still trying to understand that huge jump in the international profit. Can you just give us an idea of the conditions that need to be in place for that level of dollar profit to be sustainable?

LOUIS-PHILIPPE CARRIERE: That would be to give you our recipe, and we'll not give you the recipe. At the end of the day certainly in light of additional volume, and there's not much more that I can say, additional volume is certainly the pricing that we are getting for our product on the international, certainly helped throughout the quarter.

Again, if we're comparing quarter to probably weaker quarter last year, so we're improving. The market is giving certainly us a reward for that, and there's not much more that I you can give you in terms of the recipe for our numbers.

MICHAEL VAN AELST: Okay. But is there anything that was timing in the quarter that might -- or the prices ran up ahead of the costs and the costs are just catching up, or is it just normal market?

LOUIS-PHILIPPE CARRIERE: You need to keep in mind also that we are recapturing from pricing, in the sense that pricing is evolving in the right direction. Certainly we're not producing only product in the same month, so milk price is rising also in Argentina, so certainly out of it we're benefiting from better price, from inventory that were certainly probably manufactured at lower cost. So all in all, that's what essentially we were able to generate throughout the quarter, and which we're very happy.

MICHAEL VAN AELST: All right. Thank you.

LOUIS-PHILIPPE CARRIERE: You're welcome.

OPERATOR: Thank you. We do have another follow-up from the line of Keith Howlett from Desjardins Securities. Go right ahead.

KEITH HOWLETT: Just a question on the Morningstar. Are you now completely disengaged from the Dean Foods infrastructure?

LOUIS-PHILIPPE CARRIERE: Yes, from a system perspective on which we were connected until I would suspect mid-November, so everything we're by our own actually, and which -- we're okay with that and which is going good, actually. So we can plan for the future working on our infrastructure.

KEITH HOWLETT: Thank you.

OPERATOR: Thank you very much. And Mr. Saputo, we have no further questions. I'll turn it back to you.

LINO SAPUTO : Thank you very much, Tommy.

UNIDENTIFIED COMPANY REPRESENTATIVE, SAPUTO INC: We thank you for taking part in this conference call. We hope you will join us for the presentation of our 2014 fourth quarter and year-end results on June 5, 2014. Have a nice day.

OPERATOR: Thank you very much, ladies and gentlemen. This concludes the call for today. We thank you for your participation and ask that you disconnect your lines. Have a great day, everyone.

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