FINAL TRANSCRIPT

Sucro Limited

Second Quarter 2024 Results Conference Call

Event Date/Time: August 29, 2024 — 4:00 p.m. E.T.

Length: 27 minutes

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PRESENTATION

Operator

Good afternoon. My name is Jenny (phon), and I will be your conference Operator today. I would like to welcome everyone to the Sucro Second Quarter 2024 Results Conference Call.

All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. To ask a question during this time, simply press *, then the number 1 on your telephone keypad. To withdraw your question, please press *, then the number 2. Thank you.

Mr. Ian Tharp, you may begin your conference.

Ian Tharp — Investor Relations, LodeRock Advisors Inc.

Thank you and good afternoon. We will be reviewing Sucro's financial results for Q2.

With me on the call is Stefano D'Aniello, Sucro's Chief Financial Officer.

Sucro's Q2 2024 earnings release, financial statement, and MD&A are available on the Investor section of our website at www.sucro.us. And these statements have also been filed on Sucro's profile on SEDAR.

I want to remind listeners that our comments during this call may include forward-looking statements. These statements involve various known and unknown risks and uncertainties and are based on management's current expectations and beliefs, which may prove to be incorrect. Actual results could differ materially from those described in these forward-looking statements.

Please refer to the text in Sucro's earnings press release and financial filings for a discussion on the risk and uncertainties associated with the forward-looking statements.

All dollar figures referred to today are in US dollars unless stated otherwise.

Jonathan Taylor — Founder & CEO, Sucro Limited

Good afternoon. I will start with the highlights of our operational and business performance in Q2; Stefano D'Aniello, our CFO, will give details of our Q2 financial results; and I'll finish with our outlook.

From an operational perspective, our teams in Hamilton, Lackawanna continue to remain focused on increasing refining production volumes as well as ongoing operational improvements.

Sucro's aggregate refining volumes in Q2 of 2024 were 58,000 metric tons, which was 21 percent higher than Q2 of 2023.

Refining production from Hamilton was in line with expectation and continues to operate close to its maximum expected output.

At Lackawanna refinery in New York, we made contributions to our aggregate refining volumes.

However, due to delays experienced in our expansion project, late in Q1 and extending into early Q2, the expected gains in productions were limited. This particular capacity expansion initiative was completed halfway through Q2 and impacted our refining volumes during the quarter.

However, not only did we still achieve a year-over-year increase of 21 percent, but we have accelerated our production output and expect that we will make up some of the shortfall during the second half of the year.

We continue to work on completing remaining capital investments that will strengthen the Lackawanna refining throughput capabilities through the remaining quarters of 2024 and going forward.

There has been valuable learning for the Company in the commissioning of the Lackawanna refinery, although this has resulted in higher-than-expected capital expenditures, which Stefano will outline in greater detail.

Some of these changes have resulted in additional capital being spent in both refining capacities, as well as logistical capabilities. More importantly, this experience in adding (phon) insights have incorporated into the new Hamilton and University Park refining construction plans.

Our wholesale merchant sugar activities continue to contribute to our bottom line and further underscores the competitive advantage Sucro has by combining its core capabilities of both sugar refining and wholesale merchant distribution.

Sucro's Q2 volumes were 131,000 metric tons, which was 13.4 percent increase over Q2 of last year. Importantly, the volumes of our refineries were just under 60,000 metric tons for the quarter. Adjusted gross profit for these refinery shipments represents almost two-thirds of the total adjusted gross profit, highlighting just how important and profitable this growing segment is.

As we continue to achieve greater capacity improvements in future quarters, we expect to see sugar volumes from our refineries as the main volume and value driver for the Company.

Moving now to our financial highlights.

Q2 adjusted EBITDA was $8.3 million, a 23.8 percent decrease from Q2 at 2023.

As we continue to execute our plan to scale our North America refining business, we expect performance from our business segments to offer significant growth. And based on refinery production records being achieved, we remain focused on maximizing both sales and profitability through the second half of 2024.

I'll turn the call over to Stefano to review Q2 financial results in more detail. Stefano?

Stefano D'Aniello — CFO, Sucro Limited

Thanks, Jonathan, and good afternoon, everyone.

My comments today will focus on our financial results for the second quarter of 2024, in comparison to our Q2 performance for the same quarter last year. I'll then talk about our financial position at the end of Q2 and our CapEx plan for the remainder of 2024.

Again, I'll remind listeners that unless we state otherwise, all dollar figures referred to today are US dollars.

Starting with our sugar deliveries. Our aggregate sugar deliveries for Q2 were 131,000 metric tons, which were 13.4 percent higher than in Q2 of 2023, primarily due to higher volumes shipped from our refining facilities in Hamilton and Lackawanna.

Q2 revenues were $137.7 million, an increase of 16.6 percent compared to Q2 of 2023, due to higher sugar deliveries, combined with higher realized selling prices during this quarter as a result of higher average market pricing.

Adjusted gross profit was $14.2 million in Q2 of 2024, 11.7 percent lower than in Q2 2023, as lower gross profits from our wholesale distribution division more than offset the continued margin and volume growth derived from our US and Canadian refining operations.

Adjusted gross profit margin for Q2 of 2024 was 10.3 percent, which was lower than last year's Q2 adjusted gross profit margin of 13.6 percent.

Adjusted gross profit margin per metric ton delivered, net of cash settlements, was $108.45 per metric ton, a 22 percent decrease from Q2 of 2023.

Focusing on the financial performance of our refineries, however, adjusted gross profit increased over 38 percent to $9.3 million; and adjusted gross profit per metric ton delivered was $159 per metric ton.

Both values showed significant growth over Q2 of 2023, mainly due to the continued progress achieved in the commissioning of the Lackawanna refinery over the past year and improved results from the Hamilton refinery.

As we exit Q2 with enhanced production at our Lackawanna refinery, we expect strong results in the second half of the year.

Moving next to EBITDA. Q2 EBITDA of $13.7 million was less than Q2 of last year, due primarily to lower unrealized mark-to-market gains on physical sugar contracts, which I remind the audience are non-cash gains driven by a decrease in booked forward contracts as of June 30, 2024, compared to a year earlier; and, to a lesser extent, by lower adjusted gross profit and higher selling, general, and administrative expenses, which increased in line with our expectations.

Adjusted EBITDA was $8.3 million in Q2 of 2024, a decrease of 29.8 percent from Q2 of 2023, mainly as a result of lower adjusted gross profit and higher selling, general, and administrative expenses, as commented earlier.

Finally, Q2 net income was $4 million, a decrease of $12.9 million from the $16.9 million posted in Q2 of 2023, driven primarily by lower adjusted mark-to-market—by lower unrealized mark-to-market gains on physical sugar contracts; and, to a lesser extent, lower adjusted profit and higher selling, general, administrative expenses and interest expense, the latter primarily relating to an increase in average balance of our revolving working capital credit facility to support our growing operations.

Year to date, we remain on track to meet our targets with adjusted EBITDA of $18.8 million, EBIT of $44.7 million, and net income of $23.7 million as we exit the second quarter with strong production volumes from our refineries, which operate in a high-margin segment.

Looking now at our cash flow. Q2 free cash flow, which is net of the effects of investment CapEx, was $2.2 million compared to $4.8 million for Q2 of 2023.

Operating cash flow, before changes in working capital for the first half of 2024 was $8.2 million, as compared to $6.9 million for the same period in 2023.

After accounting for the effect of changes in non-cash working capital, cash flow provided by operating activities were $37.3 million in the first half of 2023, compared to $67 million used in operating activities for the first half of 2023, where our balance sheet grew substantially.

Positive factors for the six months ended June 30, 2024, included decreases in inventory as we seek to optimize our inventory levels and reduce associated interest and other carrying costs.

For 2024, our forecast for capital expenditures has now been revised to $65 million, up from our prior estimate of $46.3 million. This is primarily investment CapEx relating to the Hamilton and University Park refineries, where construction has been progressing rapidly, including payments for most equipment and materials, which are ordered and delivered ahead of time, as well as groundwork and engineering.

To a lesser extent, this revised CapEx estimate also reflects expenses incurred for the ongoing improvements to our Lackawanna refinery, where we continue to increase our production levels to meet our target 250,000 metric tons for fiscal 2027.

Finally, the revised CapEx estimate also reflects an estimated $5 million of additional capital expenses for the Hamilton refinery project, as well as maintenance CapEx of under $2 million for this year.

The cost of our expansion projects will be mostly incurred in 2024 and 2025, and financing for these projects is expected to be funded predominantly with long-term debt, and the remainder with cash in hand and cash from operating activities.

As of today, we have close to nearly $50 million in financing commitments for the development of our University Park and Hamilton refineries, which have a total estimated CapEx of $70 million.

We exited Q2 in a solid financial position. As of June 30, our adjusted net debt was $26.6 million compared to $56 million at the end of the (phon) year.

For those same dates, our adjusted leverage ratio was 0.8 times compared to 1.7 times.

As of June 30, we have plenty of headroom in our credit facilities to sustain both growth and changing market conditions.

Finally, I want to comment on the favourable renewal of our syndicated credit facility, which was oversubscribed for the third year in a row. The revised terms of the facility give us more borrowing capacity with $325 million in the aggregate, plus a $50 million accordion feature. This is a two-year facility that, in addition to our other credit facilities, we expect will be sufficient to support our growing operations.

In addition, the revised facility has more favourable pricing that will make a difference to our results going forward. In addition to renewing commitments from 100 percent of our existing syndicate members, we added a leading Canadian institution to the group, which enhances the capabilities of our banking relationships.

With that, I'll pass the call back to Jonathan.

Jonathan Taylor

Thanks, Stefano. I'll finish our prepared comments today with a few words on our strategy to build the long-term value of Sucro.

Looking at the current sugar market dynamics in the Canada and the US, our outlook continues to be positive. Sucro continues to work diligently with its supportive customers in its efforts to add much-added (sic) capacity and provide customers with the competitive solutions they expect.

Despite some capacity-building delays earlier this year, we are now adding operational capabilities at accelerated rate, which provides added confidence for a strong second half.

The Hamilton project is running on schedule, and the refinery building is almost erected. Chicago area refinery is expected to follow Hamilton refinery, and that has not changed.

We expect to provide more meaningful and detailed update on University Park construction in the next quarter. We are very excited about the progress to date and look forward to a more detailed update in the near future.

We also expect to demonstrate the continued tangible benefits of our combined refining and wholesale distribution segments, which continues to demonstrate the competitive advantage of the leading market participation in both segments. All three of the refinery projects are critical to Sucro's growth and are a testament to the emerging market leadership of Sucro.

While Sucro is currently smaller than older competitors, we believe we are adding more capacity than the rest of North America industry combined. Never before have three sugar refineries been built and commissioned by one company in such a short period of time. This could not possibly—this could not be achieved without the combined efforts of our dedicated employees and our very supportive customers.

We continue to see strong, steady growth in sugar demand in Canada and the US, and this supports our plan for expanding our presence as the national (phon) supplier in these markets.

We continue to operate in a highly efficient network of importing organic sugar into North America, and Sucro continues its market share leadership, supplying industrial food and beverage manufacturers.

To wrap up my comments today, we're pleased with the significant progress we have achieved to date, and we're very excited about the outlook through the remainder of the year.

Thank you for joining the call, and I'll turn it back to the Operator to provide more instructions.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the *, followed by the 1 on your touch-tone phone. You will hear a prompt that your hand has been raised. Questions will be taken in the order received. Should you wish to cancel your request, please press the *, followed by the 2. If you are using a speakerphone, please lift the handset before pressing any keys.

Once again, that is *, 1, should you wish to ask a question.

Your first question is from Ty Collin from Eight Capital. Please ask your question.

Ty Collin — Eight Capital

Hey. Good afternoon, gentlemen. Thanks for the question. Maybe for my first one, another really strong quarter here for the self-refining gross margins. Seems to be trending a little bit higher than the prior quarter and where you said you expect it to be at for the rest of the year.

Could you just speak to where some of that upside came from this quarter?

And whether there were any onetime factors involved in that?

Jonathan Taylor

Hi. This is Jonathan. Yes. I mean, I think it's volume-driven, some of the contracts that came into this quarter with higher margins that maybe got carried in. But as we mentioned on the previous quarter, we're at the production rates that we were hoping to achieve mid or late in Q1. And we came in late on that part and were at those production levels in Lackawanna, more or less around Q2, so I think you're seeing some of that.

Ty Collin

Okay. Great. And then, maybe, spending on the production levels. Could you just maybe update us on how you're tracking at this point against the fiscal '24 volume guidance you guys put out last quarter? I think that was 210,000 to 230,000 in total.

And what capacity level and output level do you expect the Lackawanna refinery to be at by year-end?

Jonathan Taylor

Yeah. I think we're tracking there. I mean, I think we're still confident we can—we'll end up there. And like I said, we're at—on a weekly basis, we're there. So as long as we can continue—which we don't expect that not to be the case—we should end up more or less there.

Ty Collin

Okay. Great. Next one just on the CapEx piece. I want to understand, I guess, of the roughly $20 million increase that you're expecting now for fiscal '24, how much of that is kind of just spending being pulled forward into this year versus actually increasing the overall expected spend for those two projects.

Stefano D'Aniello

Hi, Ty. It's Stefano.

So most of the $20 million is really accelerate the rapid pace of the progress on the facilities. I think, in the next three months, we'll have—right now, the time line remains early 2026. But in the next three months, we will have much greater visibility of that time line to see if we can achieve something a little earlier.

So most of it is how fast the work has been progressing. A lot of equipment, materials, engineering, groundwork, a lot of that have been completed. That's the most cash-intensive part of the construction process.

So there's been a modest increase in the Hamilton budget of $5 million, as we put in our MD&A; maintenance CapEx is about $1.2 million. Right? So that leaves—there's probably around—this year, we have maybe $6.5 million in Lackawanna CapEx, so maybe $3 million or so more than we anticipated.

And the rest, the difference is going to be your construction, right, so roughly $10 million or so. It's just how fast things have gone, and things have basically moved to 2024 as opposed to 2025.

Ty Collin

Okay. Great. That's helpful. And then just last one for me. Stefano, could you maybe just repeat the comments you made earlier in the call about being on track to hit your targets? I think you mentioned $18 million in adjusted EBITDA. Maybe I didn't quite catch those remarks. It would just be helpful if you could repeat those.

Stefano D'Aniello

Yeah. So we're not moving—we're not changing our guidance at this point. I think, as Jonathan said, it's hard to make up for lost ground. The first few months of the year when we were doing this work in Lackawanna, we lost quite a bit of ground.

But now, we are at a good—on a run rate—actually, we are at our target 2025 run rate at this point in Lackawanna. That's what we're getting out of it. So we're going to make up—we expect to make up quite a bit. And we have some encouraging signs on volume, and as well as margin from Lackawanna, coming into late 2024. That's why we're not revising our margins at this point—

Ty Collin

Okay. Thanks. I'll jump back in—

Stefano D'Aniello

—for our guidance. Yeah.

Ty Collin

Okay. Thanks.

Operator

Thank you. Once again, please press *, 1, should you wish to ask a question.

Your next question is from Kyle McPhee from Cormark Securities. Please ask your question.

Kyle McPhee — Cormark Securities

I just wanted to—you spoke to your refining business volume targets for this year. What about next year? Can you help us kind of quantify the remaining ramp-up at Lackawanna? What kind of throughput should you be exiting with in 2025?

Jonathan Taylor

Yeah. I mean, I don't—I think for Lackawanna, I think we're more or less at around 3,000 tons per week, which is about, what, about 150,000 tons a year. That's more or less what we're estimating.

Kyle McPhee

Got it. Okay. And then so—but beyond the $6.5 million of like that you—you said you're spending about $6.5 million more CapEx at Lackawanna. So when does that translate to kind of more throughput? Is that a longer term, beyond '25?

Jonathan Taylor

Yeah. I mean, I think it's low. I think there's also some logistical—there's some time frames or some logistics have to iron out, which we expect that to happen within the next couple years. So I think we're expecting kind of a continued rollout and increased volumes, '25 being more or less there, and then a gradual increase for '26 and so forth. But—

Kyle McPhee

Okay.

Jonathan Taylor

But I think, in terms of capacity, we should be there by the end of this year.

Kyle McPhee

Got it. Okay. Last one for me here. I'm hoping you can provide some colour on the moving parts within your trading and distribution business here. Your MD&A called out that lower margin. Mexico and Caribbean trading volume pulled back as supply shortages alleviated in those markets.

But can you comment on the volume and margins for the organic side of your trading and distribution business and the liquid sugar manufacturing side of your business?

Are those two pockets seeing any meaningful volume or margin momentum changes?

Jonathan Taylor

I think on the organic side, I think we're more or less there on—I mean, and maybe a slight increase from last year. And everything else, we did see a pickup out of Mexico, and that's mostly supply issues, production issues out of Mexico and opportunities there. But on the US side, on the organic side, I think it's pretty steady, I would say.

Kyle McPhee

Okay. And what about the value on liquid sugar manufacturing? Is that largely still being used at full capacity with expected margins?

Jonathan Taylor

Yep. I think it's more or less on track and steady as well.

Kyle McPhee

Okay. Thank you. That's it for me.

Operator

Thank you. Once again, that is *, 1, should you wish to ask a question.

We have a follow-up question from Ty Collin from Eight Capital. Please ask your question.

Ty Collin

Hey, guys. Just one quick follow-up on the SG&A this quarter. Could you speak to the sequential and year-over-year increase in the other operating expense line item? The MD&A says that was driven by outside labour expenses. I'm just wondering if you could provide a little more detail on what that cost item is, and whether we should expect SG&A to remain around that $5 million level going forward, or whether there will be a bit of a normalization back to prior quarter levels.

Stefano D'Aniello

Yeah. That's something that we count on (phon) later on in our review, and it's—you'll see it in next quarter, reclassified into cost of sales. It should have gone into cost of sales. It makes a very small difference in the margin and that's why we didn't reclassify it. It was later on that we noticed it.

Ty Collin

Okay. Great. Thanks, Stefano.

Operator

Thank you. There are no further questions at this time. Please proceed.

Jonathan Taylor

Thanks, everybody, and appreciate your time.

Operator

Thank you. Ladies and gentlemen, the conference has now ended. Thank you all for joining. You may all disconnect your lines.