

Sucro Limited

Third Quarter 2024 Results Conference Call

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CORPORATE PARTICIPANTS

Jonathan Taylor

Sucro Limited — Founder & CEO

Stefano D'Aniello

Sucro Limited — CFO

PRESENTATION

Operator

Good morning, ladies and gentlemen. My name is Joanna, and I will be your Conference Operator today. I would like to welcome everyone to the Sucro Third Quarter 2024 Results Conference Call. All lines are placed on mute to prevent any background noise.

Mr. Jonathan Taylor, you may begin your conference.

Jonathan Taylor — Founder & CEO, Sucro Limited

Thank you, Operator, and good afternoon to those joining today as we review Sucro's financial results for the three months ended September 30, 2024. With me on the call is Stefano, Sucro's Chief Financial Officer.

Sucro's Q3 2024 earnings release, financial statements, and MD&A are available on the Investors section of our website at www.sucro.us. These documents have also been filed on Sucro's profile on SEDAR+ at www.sedarplus.ca.

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 of the risks and uncertainties associated with these forward-looking statements.

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

I will now start with highlights of our operational and business performance in Q3. Stefano D’Aniello, our CFO, will give details of our Q3 financial results, and I’ll finish our opening comments with our outlook.

From an operational perspective, we continue to remain focused on increasing refining production volumes as well as ongoing operational improvements in the areas of product quality and operational consistency.

Our Lackawanna refinery in New York continues to increase output, and the vast majority of the overall Q3 refinery volume increases versus last year is due to added output from Lackawanna. The commissioning of the Lackawanna refinery’s now entering its later stages and most significant capital projects will be completed this year. Based on the progress reached thus far, we are very optimistic in reaching the next level of expected refinery output for 2025.

As stated previously, there has been valuable learning for the Company in the commissioning of the Lackawanna refinery. And although this has resulted in higher-than-expected capital expenditures, we believe this experience will contribute to a more effective construction and start-up of the new refinery projects in both Hamilton and University Park.

One of the standout features of this recent quarter was the continued contribution of our wholesale merchants’ sugar activities. We have consistently highlighted the operating synergies Sucro achieves through the effective coordination and integration of our wholesale distribution segment with that of our sugar refineries.

The continued volume and profit contribution underscores the competitive advantage Sucro has by combining these unique core capabilities of both sugar refining and wholesale merchant distribution.

Sucro's Q3 sugar delivery volumes were 181,000 metric tons, which was a 48 percent increase over Q3 of last year. The majority of this year-over-year increase was due to increased shipments within the wholesale distribution group and, in particular, Mexico and world market sales.

Volumes from our refineries were just under 60,000 metric tons for the quarter and are on track to achieve record volumes for the year. Adjusted gross profit contributions from both segments continue to drive improved performance and expected record levels for full year results.

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 drivers of the Company with added significant contributions from our distribution segment.

Moving now to our financial highlights.

For the first nine months of 2024, adjusted EBITDA was \$27.1 million compared to \$24.8 million for the same 2023 period.

As we continue to execute our plan to scale our North American refining business, we expect ongoing operational 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 last quarter of 2024.

Before I turn the call over to Stefano to review Q3 financial results in more detail, I would like to mention the recent acquisition of Sucro shares by Beta San Miguel, one of Mexico's leading sugar mills. We are very excited to be working so closely with Beta including its chairman, Patrik Palafox, who has joined Sucro's Board. There are numerous potential operating synergies from this new relationship, which we are confident will strengthen Sucro moving forward.

Additionally, it provides investors and current shareholders with a strong endorsement into the Sucro business model and the value of our growth strategy as well as the possible future takeover bid for the Company's shares.

Stefano?

Stefano D'Aniello — CFO, Sucro Limited

Thanks, Jonathan, and good afternoon, everyone.

My comments today will focus on our financial results for the third quarter of 2024 in comparison to our Q3 performance for last year. Then I'll talk about our financial position at the end of Q3 and our CapEx for the remainder of 2024.

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

Starting with our sugar deliveries, our aggregate sugar deliveries for Q3 were 181,000 metric tons, which were 48 percent higher than in Q3 of 2023.

Q3 revenues were \$172 million, an increase of almost 24 percent compared to Q3 of 2023.

Likewise, adjusted gross profit was \$14 million in Q3 of 2024, 6.6 percent higher than in Q3 of 2023.

These figures were driven by higher volumes from our Lackawanna and Hamilton refineries, and we saw a 54 percent increase in shipments as well as increased US organic and world market raw sugar volumes.

Adjusted gross profit margin for Q3 of 2024 was 8.1 percent, lower than last year's Q3 adjusted gross profit margin of 9.4 percent, primarily due to higher percentage of Q3 volumes coming from the wholesale distribution segment, which tends to carry a lower margin than our refining operations.

Focusing on the financial performance of our refineries, adjusted gross profit increased by \$2.1 million or 36 percent over last year to \$7.9 million, primarily driven by higher volumes.

Adjusted gross profit per metric ton delivered was \$138.68 per metric ton, an increase of approximately \$18 per metric ton, mainly driven by the raw sugar input of our US refining sales delivered for the quarter.

Improved volumes showed significant growth over Q3 of 2023, mainly due to the continued progress achieved in the commissioning of the Lackawanna refinery over the past year.

As we exit Q3 with enhanced production at our Lackawanna refinery, we expect these positive results will continue through the fourth quarter of the year.

Moving next to the EBITDA. Q3 EBITDA was \$15.5 million, an increase over Q3 last year of \$4.2 million or 37 percent, due primarily to higher volumes and a realized mark-to-market gain from physical and future sugar contracts, which are non-cash gains.

Adjusted EBITDA was \$8.3 million in Q3 of 2024, essentially flat from Q3 2023, as our improved adjusted gross profit was offset by higher selling, general, and administrative expenses. The most significant drivers for the increase in SG&A were professional fees associated with our ongoing public company compliance and reporting obligations, immediately pursuing the strategic transaction with Beta San Miguel, as well as payroll expenses related to the increase in our administrative headcount to support the growth in size and operation.

We expect SG&A to largely stabilize in 2025 as our infrastructure has now been optimized to fit our growth plan.

Finally, Q3 net income was \$7.4 million, an increase of \$5.4 million from the \$2 million posted in Q3 2023, primarily driven by higher and realized mark-to-market gains on physical and future sugar contracts.

Year to date, Sucro had a record adjusted EBITDA of \$27.1 million, EBITDA of \$60.2 million, and net income of \$31.1 million. As we exit the third quarter with strong production volumes from our refinery and significant contributions from our wholesale distribution business, we are well positioned to end 2024 with record results.

Looking now at our cash flow.

Q3 free cash flow was, net of effects of investment CapEx, was \$1.3 million compared to \$3.5 million for Q3 of 2023, with the year-to-date figures standing at \$8.5 million compared to \$6.8 million last year at this time last year.

Operating cash flow before changes in working capital for the first nine months of 2024 was \$10.3 million as compared to \$9.7 million for the same period in 2023.

For accounting (unintelligible) changes in non-cash working capital, cash flow provided by operating activities was \$24.2 million in the first nine months of 2023 compared to \$53.5 million used in operating activities for the corresponding 2023 period where our balance sheet grew substantially.

Positive factors for the nine months ended September 30, 2024, included decreases in inventory and increases in accounts payable, as we seek to optimize our balance sheet and reduce associated interest payments and other carrying costs.

For 2024, our forecast for capital expenditures remains at \$65 million. This is primarily investment CapEx relating to the Hamilton and University Park refinery projects where construction has

been progressing rapidly including payments for most equipment and materials, which are ordered and delivered ahead of time, as well as ground work and engineering.

The cost of our expansion projects will be mostly incurred in 2024 and 2025, and financing for these projects has been secured with long-term debt with the remainder being funded with cash on hand and cash from other operating activities.

We exited Q3 in a solid financial position.

As of September 30, our adjusted net debt was \$29.1 million compared to \$56 million at the year-end. For those same dates, our adjusted leverage ratio was 0.8 times compared to 1.7 times.

As of September 30, we had plenty of headroom in our credit facility to sustain both growth and changing market conditions.

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 Canada and the US, our outlook continues to be positive. Continued demand growth in both countries combined with structural deficits in domestic production has led to strong sugar pricing levels and the continued need for additional sugar capacity in both markets. Sucro continues to work diligently with its supportive customers in its efforts to add much needed capacity and provide customers with the competitive solutions they expect.

Despite some capacity-building delays earlier this year, we have made significant progress, which provides added confidence as we look forward.

As mentioned, the Hamilton project has made exceptional progress, and we are now hopeful of opening the refinery ahead of schedule. We are very excited about the progress to date and look forward to a more detailed update following our full year results.

We continue to see the tangible benefits of our combined refining and wholesale distribution segments, which demonstrate the competitive advantage of leading market participation in both segments. The two business segments are synergistic, and each continues to grow aided by the opportunities created by the other.

While Sucro is currently smaller than its older competitors, we believe we are adding more sugar refining capacity than the rest of the North American sugar industry combined. Never before have three sugar refineries been built and commissioned in North America by one company in such a short period of time. This could not possibly 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 to expand our presence as an essential supplier in these markets. We also continue to operate 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 are very excited about our outlook through the remainder of the year and beyond.

I want to thank, everybody, for joining us today and appreciate everybody's time.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference. We thank you for participating, and we ask that you please disconnect your lines.