



## Will SunOpta, Inc. Finally Capitalize on the Fast-Growing Organic Foods Market?

### Description

After hiccups and struggles with margins and growth, **SunOpta, Inc.** ([TSX:SOY](#))([NASDAQ:STKL](#)) may finally be positioned for sustainable growth and profitability.

The organic food market has brought excitement back to the food industry. We have seen evidence of this in grocery stores, as more and more shelves are dedicated to organic foods.

A little over 10 years ago, organic food retail sales were \$7 billion per year with a growth rate of 15-20% per year. In 2015, U.S. organic food sales were \$43.3 billion, representing a growth rate of 11%, far stronger than the overall food market's growth of 3%. Currently, organic food retail sales growth rates are still going strong. Organic food represents just 5% of the overall market, and it is estimated that its growth will be 14% per year for the next few years.

This is a secular trend that does not seem to be going away, and food retailers have been scrambling to get in on it over the past few years. This has resulted in big struggles for premium grocer **Whole Foods Market Inc.**, which once pretty much had the market cornered. **Loblaw Companies Limited**, **Wal-Mart Stores, Inc.**, and **Target Corporation**, to name a few, have significantly ramped up their organic food offerings.

So we know the demand is there. The problem with SunOpta is that in spite of being in an industry that is experiencing strong secular growth, the company has struggled to capitalize financially and has failed to meet expectations for a few years now. Results have been disappointing, and management has struggled to sustainably increase margins. For the first nine months of 2016, the company achieved a 10.4% gross margin, which is increasing from lows of 8% but still below the 11% that was achieved in 2014.

But I still want to believe in the story. The company should be able to get on track and profit from the strong growth in its industry.

The last couple of years were years of transformation. With three acquisitions completed in 2015 — Sunrise Growers, which provides scale and market leadership in the private-label frozen-fruit category; Cirtusource and Niagara Natural; and the \$6.2 million divestiture of Opta Minerals — we can see that

the company is making strides.

I also like the fact that management's incentive program has been reset to be based on margin improvement and debt-reduction targets. And, most recently, the appointment of former chief operating officer of Diamond Foods, David Colo as CEO, may be just what SunOpta needs to move forward.

Finally, and very key, is that fact that the board of SunOpta has given Mr. Colo added incentive to drive the company and the stock higher. If he buys \$1,000,000 worth of stock, he will get options which will be vested only if the stock price hits certain thresholds. One-third will vest if and when the stock hits \$11; one-third will vest at \$14; and the remaining third will vest at \$18.

## **CATEGORY**

1. Investing

## **TICKERS GLOBAL**

1. TSX:SOY (SunOpta Inc.)

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1. Investing

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