Lassonde

Lassonde Industries Inc.

Interim Management's Discussion & Analysis – Third quarter ended October 2, 2021

The following Management's Discussion and Analysis ("MD&A") presents the results, financial position, and cash flows of Lassonde Industries Inc. (the "Company") and should be read in conjunction with its unaudited interim condensed consolidated financial statements ("interim consolidated financial statements") and accompanying notes. In addition to containing an analysis of the third quarter ended October 2, 2021, this MD&A reports on items deemed significant that have taken place from October 2, 2021 up to and including November 12, 2021, which is the date on which this MD&A was approved by the Company's Board of Directors.

The financial information in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS").

Additional information, including the Annual Information Form and certifications of filings for the third quarter of 2021, is available on the SEDAR website at www.sedar.com. Unless otherwise indicated, the reporting currency for figures in this document is the Canadian dollar.

Forward-Looking Statements and Use of Estimates

Any statement contained in this report that does not constitute a historical fact may be deemed a forward-looking statement. Verbs such as "believe," "expect," "estimate" and other similar expressions, in addition to the negative forms of these terms or any variations thereof, appearing in this report generally indicate forward-looking statements. These forward-looking statements do not provide guarantees as to the future performance of Lassonde Industries Inc. and are subject to risks, both known and unknown, as well as uncertainties that may cause the outlook, profitability, and actual results of Lassonde Industries Inc. to differ significantly from the profitability or future results stated or implied by these statements. Detailed information on risks and uncertainties is provided in the "Uncertainties and Principal Risk Factors" section of the annual MD&A for the year ended December 31, 2020.

In preparing interim consolidated financial statements in accordance with IFRS, management must exercise judgment when applying accounting policies and use assumptions and estimates that have an impact on the amounts of the assets, liabilities, revenues and expenses reported and on the contingent liability and contingent asset information provided.

The main assumptions and estimates used by management are as follows:

- Measurements of revenues from product sales;
- Measurements of the quarterly effective tax rate;
- Measurements of right-of-use assets and lease liabilities;
- Measurements of defined benefit assets and liabilities;
- Measurements of non-financial assets;
- Purchase price allocations of businesses acquired as part of business combinations; and
- Fair value measurements of financial instruments classified in Level 3.

Because the use of assumptions and estimates is inherent to the financial reporting process, the actual results of items subject to assumptions and estimates may differ from these assumptions and estimates.

Corporate Profile

Lassonde Industries Inc. develops, manufactures and markets a wide range of ready-to-drink juices and drinks, fruit-based snacks in the form of bars and bites as well as frozen juice concentrates in North America. The Company is the largest producer of fruit juices and drinks in Canada and one of the two largest producers of store brand shelf-stable fruit juices and drinks in the United States. It is also a major producer of cranberry sauces. Furthermore, the Company develops, manufactures and markets specialty food products such as fondue broths and sauces as well as pasta sauces. In addition, it produces apple cider and cider-based beverages and imports selected wines from several countries of origin for packaging and marketing purposes.

The Company's principal operating subsidiaries are A. Lassonde Inc.; Apple & Eve, LLC; Arista Wines Inc.; Lassonde Pappas and Company, Inc. ("LPC"); Lassonde Specialties Inc.; and Old Orchard Brands, LLC ("OOB"). The Company produces superior quality products through the expertise of more than 2,700 people working in 17 plants across Canada and the United States. The shares of Lassonde Industries Inc. are listed on the Toronto Stock Exchange.

The Company is active in two market segments: the retail segment and the food service segment. Retail sales, which accounted for approximately 91% of total sales in 2020, consist of (i) sales to food retailers and wholesalers such as supermarket chains, independent grocers, superstores, warehouse clubs, major pharmacy chains and (ii) online sales. Food service sales, which accounted for approximately 9% of total sales in 2020, consist of sales to restaurants, hotels, hospitals, schools and wholesalers serving these institutions.

The Company's national brands are sold in various packages under several proprietary trademarks, including Antico, Apple & Eve, Arte Nova, Canton, Double Vie, Dublin's Pub, Everfresh, Fairlee, Fruité, Grown Right, Kiju, Mont-Rouge, Northland, Oasis, Old Orchard, Orange Maison, Rougemont, Ruby Kist, Sun-Rype, The Switch, Tropical Grove, as well as under trademarks for which the Company is a licensed user such as Allen's, Arizona, Del Monte, Graves, Nature's Best, and Tetley. On an annual basis, the Company's sales are geographically broken down as follows: 54.7% of the Company's sales are made in the United States, 45.1% in Canada, and 0.2% in other countries.

In the normal course of operations, the Company is involved in apple and cranberry processing. These processing activities take place mainly from August to November. Processing the harvested fruit crops generally increases inventory levels during the last quarter of the year.

Overall Performance

For the third quarter of 2021, the Company's sales totalled $469.3 million, down $25.9 million or 5.2% from $495.2 million in the same quarter of 2020. Excluding a $14.2 million unfavourable foreign exchange impact, the Company's third-quarter sales were down $11.7 million or 2.4% year over year. This decrease was largely due to lower sales of private label products in the United States as certain plants experienced a slower production rate given labour scarcity, partly offset by a higher sales volume of national brands in the United States and by selling price adjustments that had a favourable impact on the Company's national brand sales.

The Company's operating profit for the third quarter of 2021 totalled $25.4 million, down $14.6 million from $40.0 million in the same quarter last year. This decrease came mainly from a lower gross margin realized by U.S. operations. This lower gross margin is explained by (i) a decrease in sales of private label products, which had an unfavourable impact on the allocation of manufacturing overhead to product costs and by (ii) an increase in the cost of certain inputs. As for the Canadian operations, the gross margin was slightly lower, essentially reflecting higher costs for certain inputs, partly offset by a favourable foreign exchange impact applicable to purchases of raw materials in foreign currencies. Operating profit was also affected by increases in marketing expenses and warehousing costs in Canada and by higher global transportation costs, partly offset by lower performance-related salary expenses.

The Company's financial expenses went from $4.0 million in the third quarter of 2020 to $2.6 million in the third quarter of 2021. This decrease was essentially due to a decrease in the interest expense on long-term debt resulting from a lower debt level.

"Other (gains) losses" went from a $0.7 million loss in the third quarter of 2020 to a $0.5 million gain in the third quarter of 2021. This 2021 third-quarter gain was mainly due to a change in the fair value of financial instruments, whereas the 2020 third-quarter loss was essentially due to $0.5 million in foreign exchange losses.

Profit before income taxes totalled $23.3 million in the third quarter of 2021, down $11.9 million from $35.2 million in the third quarter of 2020.

Income tax expense went from $8.8 million in the third quarter of 2020 to $6.1 million in the third quarter of 2021. At 26.2%, the 2021 third-quarter effective income tax rate is higher than the 25.1% rate in the same quarter of 2020. This higher 2021 effective income tax rate mainly reflects a decrease in the deductible amounts on the Company's interest expense.

The 2021 third-quarter profit totalled $17.2 million, down $9.2 million from $26.4 million in the third quarter of 2020.

Profit attributable to the Company's shareholders was $16.8 million, resulting in basic and diluted earnings per share of $2.43 for the third quarter of 2021. In the third quarter of 2020, profit attributable to the Company's shareholders had totalled $25.3 million, resulting in basic and diluted earnings per share of $3.65.

The Company's operating activities generated $23.9 million in cash during the third quarter of 2021, while they had generated $65.9 million in cash during the same quarter last year. Financing activities used $15.2 million in cash during the third quarter of 2021, while they had used $53.9 million in the same quarter of 2020. Investing activities used $8.9 million in cash during the third quarter of 2021 compared to $11.1 million used in the same quarter of 2020. At the end of the third quarter of fiscal 2021, the Company reported a cash and cash equivalents balance of $3.2 million and a bank overdraft balance of $5.9 million, whereas, at the end of the third quarter of 2020, the cash and cash equivalents balance was $6.4 million and the bank overdraft was $0.1 million.

Quarterly Financial Information

Consolidated Income Data

(in thousands of dollars, unless otherwise indicated)	**Third quarters ended** **Oct. 2, 2021**	**Sept. 26, 2020**
	$	$
Sales	**469,263**	495,207
Cost of sales	**343,116**	352,449
Selling and administrative expenses	**100,739**	102,727
(Gains) losses on capital assets	**-**	13
	443,855	455,189
Operating profit	**25,408**	40,018
Share in the profit or (loss) of an associate	**(102)**	(79)
Financial expenses	**2,560**	4,043
Other (gains) losses	**(511)**	691
Profit before income taxes	**23,257**	35,205
Income tax expense	**6,084**	8,835
Profit	**17,173**	26,370
Attributable to:		
Company's shareholders	**16,832**	25,333
Non-controlling interest	**341**	1,037
	17,173	26,370
Basic and diluted earnings per share *(in $)*	**2.43**	3.65
Weighted average number of shares outstanding *(in thousands)*	**6,934**	6,934

In the third quarter of 2021, sales totalled $469.3 million, down $25.9 million (5.2%) from $495.2 million in the third quarter of 2020. This decrease in sales was mainly due to the combined impact of the following items:

(i) a net $21.0 million decrease in sales of private label products resulting from a decrease in the United States, as certain plants experienced a slower production rate given labour scarcity, partly offset by an increase in private label product sales in Canada;

(ii) a $14.2 million unfavourable foreign exchange impact;

(iii) selling price adjustments that had a $4.4 million favourable impact on the Company's national brand sales;

(iv) a net $4.2 million increase in the sales volume of national brands arising from the combined impact of an increase in the United States and a decrease in Canada; and

(v) a favourable change in the sales mix of national brands, generating a net $0.8 million increase in sales.

For the first nine months of 2021, sales totalled $1,405.3 million, down 4.1% from $1,465.9 million in the first nine months of 2020.

Cost of sales went from $352.4 million (71.2% of sales) in the third quarter of 2020 to $343.1 million (73.1% of sales) in the third quarter of 2021, down $9.3 million or 2.6%. When compared to the 5.2% decrease in sales, this 2.6% decrease in cost of sales essentially reflects:

(i) an unfavourable impact of a slower production rate in the United States on the allocation of manufacturing overhead costs to product costs;

(ii) an increase in the cost of certain inputs, especially apple and orange concentrates as well as PET resin; and

(iii) a $2.1 million expense resulting from an adjustment related to taxes not recoverable by the Company.

These items were partly offset by a favourable foreign exchange impact that affected the raw materials purchases in foreign currencies of the Canadian entities.

For the first nine months of 2021, cost of sales stood at $1,017.5 million (72.4% of sales), down 3.4% from $1,053.5 million (71.9% of sales) in the first nine months of 2020.

Selling and administrative expenses went from $102.7 million in the third quarter of 2020 to $100.7 million in the third quarter of 2021, a $2.0 million decrease that was mainly due to lower performance-related salary expenses and a favourable foreign exchange impact resulting from the conversion of the selling and administrative expenses of the U.S. entities into Canadian dollars. These items were partly offset by increases in marketing expenses and warehousing costs in Canada and by higher transportation costs. For the first nine months of 2021, selling and administrative expenses stood at $301.1 million, up 0.6% from $299.3 million in the first nine months of 2020.

For the third quarter of 2021, the Company's operating profit totalled $25.4 million, down $14.6 million from $40.0 million in the same quarter last year. For the first nine months of 2021, the Company's operating profit totalled $86.7 million, down $26.3 million from $113.0 million in the first nine months of 2020.

The Company's financial expenses went from $4.0 million in the third quarter of 2020 to $2.6 million in the third quarter of 2021. This decrease was essentially due to a decrease in the interest expense on long-term debt resulting from a lower debt level. For the nine-month periods, financial expenses went from $13.6 million in 2020 to $8.4 million in 2021.

"Other (gains) losses" went from a $0.7 million loss in the third quarter of 2020 to a $0.5 million gain in the third quarter of 2021. This 2021 third-quarter gain was mainly due to a change in the fair value of financial instruments, whereas the 2020 third-quarter loss was essentially due to $0.5 million in foreign exchange losses. For the nine-month periods, the "Other (gains) losses" item was a $1.0 million loss in 2021 compared to a $2.1 million gain in 2020.

Profit before income taxes totalled $23.3 million in the third quarter of 2021, down $11.9 million from $35.2 million in the third quarter of 2020. For the first nine months of 2021, profit before income taxes stood at $76.8 million, down $24.0 million from $100.8 million in the first nine months of 2020.

Income tax expense went from $8.8 million in the third quarter of 2020 to $6.1 million in the third quarter of 2021. At 26.2%, the 2021 third-quarter effective income tax rate is higher than the 25.1% rate in the same quarter of 2020. This higher 2021 effective income tax rate mainly reflects a decrease in the deductible amounts on the Company's interest expense. Income tax expense for the first nine months of 2021 stood at $20.2 million, down $3.0 million from $23.2 million in the first nine months of 2020.

The 2021 third-quarter profit totalled $17.2 million, down $9.2 million from $26.4 million in the third quarter of 2020. For the first nine months of 2021, profit totalled $56.7 million versus profit of $77.6 million in the first nine months of 2020.

Profit attributable to the Company's shareholders was $16.8 million, resulting in basic and diluted earnings per share of $2.43 for the third quarter of 2021. In the third quarter of 2020, profit attributable to the Company's shareholders had totalled $25.3 million, resulting in basic and diluted earnings per share of $3.65. For the first nine months of 2021, profit attributable to the Company's shareholders totalled $55.7 million, resulting in basic and diluted earnings per share of $8.03 and, in the same nine-month period of 2020, it had totalled $74.3 million, resulting in basic and diluted earnings per share of $10.71.

Interim Results

(in thousands of dollars, unless otherwise indicated)	**Q3 2021**	**Q2 2021**	**Q1 2021**	**Q4 2020**	**Q3 2020**	**Q2 2020**	**Q1 2020**	**Q4 2019**
	$	$	$	$	$	$	$	$
Sales	**469,263**	469,292	466,794	515,065	495,207	498,207	472,446	432,127
Operating profit	**25,408**	29,932	31,382	38,907	40,018	42,658	30,348	24,964
Profit attributable to the Company's shareholders	**16,832**	18,764	20,090	23,538	25,333	25,998	22,947	28,466
Basic and diluted earnings per share *(in $)*	**2.43**	2.71	2.90	3.39	3.65	3.75	3.31	4.10

Fourth Quarter of 2019

For the fourth quarter of 2019, the Company's sales totalled $432.1 million, up $5.3 million or 1.2% from $426.8 million in the fourth quarter of 2018. Excluding a $0.5 million favourable foreign exchange impact, the Company's fourth-quarter sales were up $4.8 million (1.1%) year over year. This increase was mainly due to a favourable impact of selling price adjustments while sales volume remained stable for national brands as well as for private label products.

The Company's operating profit for the fourth quarter of 2019 totalled $25.0 million, down $0.7 million from $25.7 million in the same quarter of 2018. Excluding $1.5 million in expenses related to the acquisition of Sun-Rype Products Ltd. and of two of its affiliates ("Sun-Rype"), the Company's 2019 fourth-quarter operating profit was up $0.8 million year over year on a comparable basis. The increase came from improved contribution margins realized by the Company's U.S. operations, partly offset by a $5.3 million increase in obsolete inventory costs. It should be noted that the adoption of IFRS 16 on January 1, 2019 had a $0.1 million favourable impact on the 2019 fourth-quarter operating profit.

"Other (gains) losses" went from a $0.8 million loss in the fourth quarter of 2018 to a $20.9 million gain in the fourth quarter of 2019. This 2019 fourth-quarter gain was mainly due to a $20.8 million gain realized following the settlement of an insurance claim directly related to the OOB acquisition price. The claim involved seller representations that no longer reflected the economic reality of OOB at the transaction closing date.

Profit attributable to the Company's shareholders for the fourth quarter of 2019 was $28.5 million, resulting in basic and diluted earnings per share of $4.10. In the fourth quarter of 2018, profit attributable to the Company's shareholders had totalled $15.8 million, resulting in basic and diluted earnings per share of $2.26. Excluding the net-of-tax impact of a gain realized upon settlement of the aforementioned insurance claim and of the Sun-Rype acquisition-related costs, the 2019 fourth-quarter profit attributable to the Company's shareholders was similar to the 2018 fourth-quarter profit attributable to the Company's shareholders.

First Quarter of 2020

For the first quarter of 2020, the Company's sales totalled $472.4 million, up $68.9 million or 17.1% from $403.5 million in the same quarter of 2019. Sales from Sun-Rype added $44.1 million to the Company's first-quarter sales. Excluding Sun-Rype's sales and a $2.6 million favourable foreign exchange impact, the Company's first-quarter sales were up $22.2 million year over year. This increase was largely due to an increase in sales of private label products. The Company believes that a notable portion of this increase could be due to consumer accumulation of food reserves given the uncertainty caused by the COVID-19 pandemic.

The Company's operating profit for the first quarter of 2020 totalled $30.3 million, up $6.9 million from $23.4 million in the first quarter of 2019. As for Sun-Rype, it posted $0.7 million in operating profit. Excluding the impact of the Sun-Rype acquisition, the Company's first-quarter operating profit was up $6.2 million year over year. This increase was due to a higher gross margin from the Company's U.S. and Canadian operations resulting mainly from an increase in sales volume and a decrease in the cost of raw materials. These items were partly offset by higher performance-related salary expenses.

Profit attributable to the Company's shareholders was $22.9 million, resulting in basic and diluted earnings per share of $3.31 for the first quarter of 2020. In the first quarter of 2019, profit attributable to the Company's shareholders had totalled $12.6 million, resulting in basic and diluted earnings per share of $1.80. Excluding the impacts of the Sun-Rype acquisition, the 2020 first-quarter profit attributable to the Company's shareholders was up $10.2 million year over year.

Second Quarter of 2020

For the second quarter of 2020, the Company's sales totalled $498.2 million, up $78.5 million or 18.7% from $419.7 million in the same quarter of 2019. Sales from Sun-Rype added $35.8 million to the Company's second-quarter sales. Excluding Sun-Rype's sales and an $11.1 million favourable foreign exchange impact, the Company's second-quarter sales were up $31.6 million or 7.5% year over year. This increase was largely due to an increase in sales of private label products, mainly in the United States. The Company believes that a significant portion of this increase could be due to changes in food habits related to the impacts of COVID-19, as industry sales volumes have also benefited from a notable increase.

The Company's operating profit for the second quarter of 2020 totalled $42.7 million, up $15.2 million from $27.5 million in the same quarter of 2019. As for Sun-Rype, it posted $3.3 million in operating profit. Excluding the impact of the Sun-Rype acquisition, the Company's second-quarter operating profit was up $11.9 million year over year. This increase was explained by higher gross margins from the Company's U.S. and Canadian operations, mainly due to an increase in U.S. sales volume and to a decrease in the cost of certain raw materials, partly offset by additional production costs related to the pandemic. The operating profit was also affected by higher performance-related salary expenses, partly offset by lower selling and marketing expenses.

Profit attributable to the Company's shareholders was $26.0 million, resulting in basic and diluted earnings per share of $3.75 for the second quarter of 2020. In the second quarter of 2019, profit attributable to the Company's shareholders had totalled $15.6 million, resulting in basic and diluted earnings per share of $2.25. Excluding the impacts of the Sun-Rype acquisition, the 2020 second-quarter profit attributable to the Company's shareholders was up $8.8 million year over year.

Third Quarter of 2020

For the third quarter of 2020, the Company's sales totalled $495.2 million, up $72.3 million or 17.1% from $422.9 million in the same quarter of 2019. Sales from Sun-Rype added $47.3 million to the Company's third-quarter sales. Excluding Sun-Rype's sales and a $2.6 million favourable foreign exchange impact, the Company's third-quarter sales were up $22.4 million or 5.3% year over year. This increase was largely due to an increase in sales of private label products. The Company believes that a significant portion of this increase could be due to changes in food habits related to the impacts of COVID-19, as industry sales volumes have also benefited from a notable increase.

The Company's operating profit for the third quarter of 2020 totalled $40.0 million, up $15.0 million from $25.0 million in the same quarter of 2019. As for Sun-Rype, it posted $2.5 million in operating profit. Excluding the impact of the Sun-Rype acquisition, the Company's third-quarter operating profit was up $12.5 million year over year. This increase was explained by higher gross margins from the Company's U.S. and Canadian operations, mainly due to an increase in sales volume, to a decrease in the cost of certain raw materials, and to an improvement in the production rate at one of the Company's plants, which had been slowed in 2019 by investment-related activities. The operating profit was also affected by higher performance-related salary expenses.

Profit attributable to the Company's shareholders was $25.3 million, resulting in basic and diluted earnings per share of $3.65 for the third quarter of 2020. In the third quarter of 2019, profit attributable to the Company's shareholders had totalled $15.3 million, resulting in basic and diluted earnings per share of $2.21. Excluding the impacts of the Sun-Rype acquisition, the 2020 third-quarter profit attributable to the Company's shareholders was up $8.5 million year over year.

Fourth Quarter of 2020

For the fourth quarter of 2020, the Company's sales totalled $515.1 million, up $83.0 million or 19.2% from $432.1 million in the fourth quarter of 2019. Sun-Rype's fourth-quarter sales totalled $48.1 million, leaving a $34.9 million favourable variance on a comparable basis. This increase was mainly due to an increase in sales of private label products and to the favourable impact of selling price adjustments on national brand sales.

The Company's operating profit for the fourth quarter of 2020 totalled $38.9 million, up $13.9 million from $25.0 million in the same quarter of 2019. During the fourth quarter of 2020, Sun-Rype posted $1.7 million in operating profit, whereas in 2019, the Company had incurred $1.5 million in expenses related to the Sun-Rype acquisition. Excluding these items, the Company's operating profit was up $10.7 million year over year. The increase came from a higher gross margin from the Company's Canadian operations, mainly due to selling price adjustments, partly offset by higher performance-related salary expenses and by an increase in marketing expenses in Canada.

Profit attributable to the Company's shareholders was $23.5 million, resulting in basic and diluted earnings per share of $3.39 for the fourth quarter of 2020. In the fourth quarter of 2019, profit attributable to the Company's shareholders had totalled $28.5 million, resulting in basic and diluted earnings per share of $4.10. Excluding the impacts of the Sun-Rype acquisition and of the gain realized in 2019 following the settlement of an insurance claim, the 2020 fourth-quarter profit attributable to the Company's shareholders was up $6.8 million year over year.

First Quarter of 2021

For the first quarter of 2021, the Company's sales totalled $466.8 million, down $5.6 million or 1.2% from $472.4 million in the same quarter of 2020. Excluding a $16.0 million unfavourable foreign exchange impact, the Company's 2021 first-quarter sales were up $10.4 million or 2.2% year over year. This increase was largely due to an increase in sales of private label products and a favourable change in the sales mix of national brands, partly offset by a decrease in Canada in the sales volume of national brands. It is important to remember that sales for March 2020 benefited from an unusual increase in volume resulting from the accumulation of food reserves related to the pandemic.

The Company's operating profit for the first quarter of 2021 totalled $31.4 million, up $1.1 million from $30.3 million in the same quarter of 2020. This increase came from an increased profitability from the Canadian operations, mainly due to (i) a higher gross margin, explained by a favourable change in the sales mix and an improvement in the production rate at one of the Company's plants, which had been slowed in 2020 by investment-related activities, and to (ii) lower selling and marketing expenses, partly offset by higher warehousing costs. As for the U.S. operations, the profitability is down essentially due to higher transportation and warehousing costs, partly offset by a higher gross margin attributable to a favourable change in the sales mix.

Profit attributable to the Company's shareholders was $20.1 million, resulting in basic and diluted earnings per share of $2.90 for the first quarter of 2021. In the first quarter of 2020, profit attributable to the Company's shareholders had totalled $22.9 million, resulting in basic and diluted earnings per share of $3.31.

Second Quarter of 2021

For the second quarter of 2021, the Company's sales totalled $469.3 million, down $28.9 million or 5.8% from $498.2 million in the same quarter of 2020. It is important to remember that, in April and May 2020, sales had benefited from an unusual volume increase resulting from an accumulation of food reserves triggered by the pandemic. Excluding a $32.8 million unfavourable foreign exchange impact, the Company's 2021 second-quarter sales were up $3.9 million or 0.8% year over year. This increase was largely due to a higher sales volume of national brands and to an increase in sales of private label products in Canada, partly offset by lower sales of private label products in the United States.

The Company's operating profit for the second quarter of 2021 totalled $29.9 million, down $12.8 million from $42.7 million in the same quarter of 2020. This decrease came mainly from a lower gross margin realized by U.S. operations. This lower gross margin is explained by (i) a decrease in sales of private label products due to a slower production rate in certain plants related, among other factors, to labour scarcity, which had an unfavourable impact on the allocation of the manufacturing overhead to product costs and by (ii) an increase in the cost of certain inputs. As for the Canadian operations, the gross margin was higher, mainly reflecting an increase in sales volume, partly offset by an increase in the cost of certain raw materials. Operating profit was also affected by higher transportation and warehousing costs, an unfavourable foreign exchange impact, and an increase in marketing expenses in Canada.

Profit attributable to the Company's shareholders was $18.8 million, resulting in basic and diluted earnings per share of $2.71 for the second quarter of 2021. In the second quarter of 2020, profit attributable to the Company's shareholders had totalled $26.0 million, resulting in basic and diluted earnings per share of $3.75.

Cash and Financial Position

When comparing Condensed Consolidated Statement of Financial Position items, readers must consider the conversion rate applicable to closing balances denominated in U.S. dollars, which went from $1.2732 CAD per USD as at December 31, 2020 to $1.2654 CAD per USD as at October 2, 2021. The following table presents the Condensed Consolidated Statement of Financial Position items that are significantly affected by the movement in exchange rates.

			Increase (decrease)	
(in millions of dollars)	**As at Oct. 2, 2021**	**As at Dec. 31, 2020**	**Foreign exchange impact**	**Variance, excluding foreign exchange impact**
	$	$	$	$
Accounts receivable	**164.2**	147.9	(0.5)	16.8
Inventories	**284.8**	260.6	(0.8)	25.0
Property, plant and equipment	**383.6**	390.5	(1.0)	(5.9)
Intangible assets	**208.0**	223.0	(1.4)	(13.6)
Goodwill	**307.8**	309.6	(1.8)	-
Accounts payable and accrued liabilities	**276.2**	260.2	(0.3)	16.3
Long-term debt, including the current portion	**176.6**	215.5	(1.8)	(37.1)
Deferred tax liabilities	**96.5**	84.3	(0.2)	12.4

As at October 2, 2021, the Company had total assets of $1,415.5 million versus $1,381.6 million as at December 31, 2020, a 2.4% increase arising mainly from increases in inventories, accounts receivable, and the net defined benefit asset, partly offset by decreases in intangible assets and in property, plant and equipment as well as by a lower conversion rate as at October 2, 2021.

As at October 2, 2021, current assets totalled $481.2 million versus $440.6 million as at December 31, 2020. Cash and cash equivalents stood at $3.2 million as at October 2, 2021 compared to $6.8 million as at December 31, 2020.

Accounts receivable totalled $164.2 million as at October 2, 2021 compared to $147.9 million as at December 31, 2020. Excluding the foreign exchange impact, accounts receivable were up $16.8 million, due to a $15.9 million increase in trade accounts receivable, resulting mainly from a longer collection period in Canada and higher sales in September 2021 when compared to December 2020, and to a $3.2 million increase in discounts receivable from suppliers, partly offset by a $2.3 million decrease in other receivables.

Inventories went from $260.6 million as at December 31, 2020 to $284.8 million as at October 2, 2021. Excluding the foreign exchange impact, inventories increased by $25.0 million. This increase came from an $18.8 million increase in raw materials and supplies inventories, owing essentially to advanced purchases of certain raw materials to secure supply or prices, and from a $6.2 million increase in finished goods inventories in preparation for the autumn season.

Other current assets went from $16.5 million as at December 31, 2020 to $18.7 million as at October 2, 2021. This $2.2 million increase was due to a $3.8 million increase in sales tax receivable and to a $0.2 million increase in tax credits receivable, partly offset by a $1.8 million decrease in prepaid expenses.

The investment in an associate went from $7.3 million as at December 31, 2020 to $6.7 million as at October 2, 2021. The change is explained by the share attributable to the Company in the profit or loss of the associate.

Property, plant and equipment went from $390.5 million as at December 31, 2020 to $383.6 million as at October 2, 2021. Excluding the foreign exchange impact, property, plant and equipment decreased by $5.9 million. This decrease was mainly due to the fact that depreciation expense stood at $27.1 million while the Company purchased $20.9 million in property, plant and equipment.

Intangible assets went from $223.0 million as at December 31, 2020 to $208.0 million as at October 2, 2021. Excluding the foreign exchange impact, intangible assets decreased by $13.6 million, due to an amortization expense of $18.2 million, whereas intangible asset purchases were $4.6 million.

The net defined benefit asset went from $9.4 million as at December 31, 2020 to $25.9 million as at October 2, 2021, a $16.5 million increase due to a $13.4 million actuarial gain resulting mainly from the pension fund return in 2021 and $6.6 million in funding to the defined benefit pension plans, partly offset by $3.5 million in plan-related expenses.

Current liabilities stood at $373.7 million as at October 2, 2021 compared to $290.2 million at the end of 2020. Bank overdraft was $5.9 million as at October 2, 2021, whereas the Company reported no bank overdraft as at December 31, 2020.

Accounts payable and accrued liabilities went from $260.2 million as at December 31, 2020 to $276.2 million as at October 2, 2021. Excluding the foreign exchange impact, accounts payable and accrued liabilities increased by $16.3 million. This increase was mainly due to: (i) an $18.2 million increase in trade payables and accrued expenses largely explained by variations in supplier payment terms; (ii) an $11.8 million decrease in the “Salaries and accrued vacation payable” item, essentially due to the payment in the first quarter of 2021 of the 2020 performance-related salary expenses and to the reversal of certain expenses in the third quarter of 2021, and (iii) a $9.5 million increase in trade marketing costs payable.

As at October 2, 2021, the fair value of derivative instruments recorded as current liabilities was $1.7 million compared to $7.2 million as at December 31, 2020. This Statement of Financial Position item essentially reflects the unfavourable variances between the rates on the foreign exchange forward contracts held by the Company to cover its foreign currency requirements for up to ten months following its reporting date and the exchange rates on that date. It also reflects the unfavourable variances between the rates of certain interest rate swaps held by the Company to cover interest rate fluctuations and the interest rate in effect on that date and the unfavourable variances of the fair value as at October 2, 2021 of the derivative instruments held by the Company to cover frozen concentrated orange juice price fluctuations.

Long-term debt, including the current portion, was $176.6 million as at October 2, 2021 compared to $215.5 million as at December 31, 2020. Excluding the foreign exchange impact, long-term debt decreased by $37.1 million. This decrease was mainly due to a repayment of $24.7 million on LPC’s term loan and of $4.5 million on Canadian debts. Moreover, the Company repaid $5.0 million on the Canadian revolving credit, while it drew $0.2 million on the U.S. revolving operating credit. Regarding the Company’s lease liabilities, they decreased by $3.9 million, essentially explained by $4.2 million in repayments. It should also be noted that the Company amortized $0.9 million in financial expenses.

Deferred tax liabilities went from $84.3 million as at December 31, 2020 to $96.5 million as at October 2, 2021. Excluding the foreign exchange impact, deferred tax liabilities increased by $12.4 million. This increase stems mainly from the tax amortization of goodwill and from the tax impact of recognizing, in comprehensive income, an actuarial gain and gains on financial instruments designated as cash flow hedges.

Equity attributable to the Company’s shareholders was $792.7 million as at October 2, 2021, up $53.1 million from $739.6 million as at December 31, 2020. Accumulated other reserves increased by $2.9 million given a $5.8 million increase in the hedging reserve, going from a $5.4 million debit balance to a $0.4 million credit balance, partly offset by a $2.9 million decrease in the foreign currency translation reserve resulting mainly from a lower October 2, 2021 conversion rate applicable to closing balances denominated in U.S. dollars compared to that of December 31, 2020. Retained earnings rose $50.1 million to total $688.9 million at the end of the third quarter of

2021. This increase essentially reflects $55.7 million in profit attributable to the Company's shareholders for the first nine months of 2021 and the recognition of an $11.1 million actuarial gain, net of tax, in other comprehensive income, less $16.7 million in dividends paid.

Non-controlling interest went from $56.1 million as at December 31, 2020 to $57.0 million as at October 2, 2021. The non-controlling interest represents a minority interest's share in the equity of the Company's U.S. entities.

Analysis of the Consolidated Cash Flows

	Third quarters ended		**First nine months ended**	
(in thousands of dollars)	**Oct. 2, 2021**	**Sept. 26, 2020**	**Oct. 2, 2021**	**Sept. 26, 2020**
	$	$	**$**	$
Operating activities	**23,860**	65,913	**75,156**	168,895
Financing activities	**(15,245)**	(53,876)	**(55,150)**	(42,307)
Investing activities	**(8,917)**	(11,067)	**(29,634)**	(109,972)
Increase (decrease) in cash and cash equivalents	**(302)**	970	**(9,628)**	16,616
Cash and cash equivalents at beginning	**(2,389)**	5,303	**6,803**	(10,590)
Impact of exchange rate changes on cash and cash equivalents	**7**	69	**141**	316
Cash and cash equivalents at end	**(2,684)**	6,342	**(2,684)**	6,342

For the third quarter of 2021, cash flows generated by operating activities totalled $23.9 million, down $42.0 million from the same period in 2020. This downward change is mainly explained by a change in non-cash operating working capital items that used $12.8 million in cash during the third quarter of 2021 compared to $17.8 million in cash generated in the same period last year, for a $30.6 million increase in cash outflows. This fluctuation in the change in working capital was due to the combined impact of the following items:

a) an increase in inventories that used $10.9 million during the third quarter of 2021 compared to $27.7 million generated in the same quarter of 2020;

b) an increase in accounts payable and accrued liabilities that generated $7.1 million during the third quarter of 2021 compared to $6.4 million used during the third quarter of 2020;

c) a change in other current assets and liabilities that used $3.9 million during the third quarter of 2021 compared to $0.5 million used in the same quarter of 2020; and

d) an increase in accounts receivable that used $5.0 million during the third quarter of 2021 compared to $3.0 million in cash used during the third quarter of 2020.

The following items also contributed to the downward change in operating cash flows:

(i) a $14.2 million decrease in earnings before interest, taxes, depreciation and amortization (including a $1.2 million favourable change in other (gains) losses); and

(ii) a $3.9 million decrease in income tax received.

The downward change in operating cash flows was limited by the following items:

(i) a $3.0 million decrease in income tax paid; and

(ii) $1.0 million in unrealized foreign exchange losses during the third quarter of 2021 compared to $1.3 million in unrealized foreign exchange gains during the same quarter of 2020.

For the first nine months of 2021, cash flows generated by operating activities totalled $75.2 million, down $93.7 million from the same period in 2020. This downward change was due, among other factors, to a change in non-cash operating working capital items that used $26.0 million in cash during the first nine months of 2021 compared to $22.9 million in cash generated in the same period last year, for a $46.4 million increase in cash outflows. This fluctuation in the change in working capital was due to the combined impact of the following items:

a) a change in inventories that used $25.1 million during the first nine months of 2021 compared to $8.2 million generated during the same period last year;

b) a change in accounts payable and accrued liabilities that generated $18.4 million during the first nine months of 2021 compared to $28.3 million in cash generated during the first nine months of 2020;

c) a change in other current assets and liabilities that used $2.6 million during the first nine months of 2021 compared to $4.5 million in cash generated in the same nine-month period last year; and

d) a change in accounts receivable that used $16.7 million during the first nine months of 2021 compared to $18.1 million in cash used in the first nine months of 2020.

The following items also contributed to the downward change in operating cash flows:

(i) a $31.1 million decrease in earnings before interest, taxes, depreciation and amortization (including a $3.0 million unfavourable change in other (gains) losses);

(ii) a $15.1 million increase in income tax paid; and

(iii) a $6.5 million decrease in income tax received.

The downward change in operating cash flows was limited by the following items:

(i) a $4.3 million decrease in interest paid;

(ii) a $2.5 million decrease in the funding of the defined benefit pension plans; and

(iii) $0.1 million in unrealized foreign exchange gains during the first nine months of 2021 compared to $2.5 million in unrealized foreign exchange gains during the same period of 2020.

For the third quarter of 2021, financing activities used $15.2 million in cash, whereas these activities had used $53.9 million in the same quarter last year. This decrease in cash outflows was due to a $1.1 million repayment on the revolving operating credit in the third quarter of 2021 compared to a $30.9 million repayment on the revolving operating credit in the third quarter of 2020 and to a $10.5 million decrease in long-term debt repayments, partly offset by a $1.6 million increase in dividends paid on Class A and B shares.

For the first nine months of 2021, financing activities used $55.2 million in cash, whereas these activities had used $42.3 million in the first nine months of 2020. During 2020, the Sun-Rype acquisition generated $89.3 million in cash, leaving a difference of $76.4 million on a comparable basis. This decrease in cash outflows was mainly due to a $4.8 million repayment on the revolving operating credit during the first nine months of 2021 compared to a $73.9 million repayment on the revolving operating credit in the first nine months of 2020 and to a $10.8 million decrease in long-term debt repayments, partly offset by a $3.6 million increase in dividends paid on Class A and B shares.

For the third quarter of 2021, investing activities used $8.9 million in cash compared to $11.1 million used in the same quarter of 2020. This downward change came essentially from a $2.8 million decrease in cash outflows to acquire property, plant and equipment.

For the first nine months of 2021, investing activities used $29.6 million in cash compared to $110.0 million used in the same period of 2020. During the first nine months of 2020, cash flows used for the Sun-Rype acquisition, net of acquired cash on hand, amounted to $80.6 million, leaving a difference of $0.2 million on a comparable basis. This upward change came mainly from a $1.8 million increase in cash outflows to acquire intangible assets and from a $1.0 million payment related to a loan to an associate, partly offset by a $2.9 million decrease in cash outflows to acquire property, plant and equipment.

Financial Measures Not in Accordance With IFRS

The working capital and working capital ratio, the shareholders' equity to total assets financial measure, and the adjusted earnings before interest, taxes, depreciation and amortization financial measure described below do not constitute standardized financial measures or ratios in accordance with the financial reporting framework used to prepare the Company's financial statements. Comparing them to similar financial measures or ratios presented by other issuers may not be possible.

Working Capital and Working Capital Ratio

The Company uses working capital as a financial measure to assess whether it has sufficient current assets to cover current liabilities. Working capital is equal to current assets minus current liabilities, whereas the working capital ratio is obtained by dividing current assets by current liabilities.

(in thousands of dollars, except the working capital ratio)	**As at Oct. 2, 2021**	**As at Dec. 31, 2020**
	$	$
Current assets	**481,173**	440,649
Current liabilities	**373,709**	290,229
Working capital	**107,464**	150,420
Working capital ratio	**1.29:1**	1.52:1

It should be noted that the current portion of long-term debt has increased following a reclassification of the balance on the LPC term loan maturing in May 2022, thereby increasing current liabilities by $75.9 million in 2021. The Company intends to use its U.S. revolving operating credit, revised upward during the second quarter of 2021, to repay any outstanding balance when due. Excluding this item, the Company's working capital would have totalled $183.4 million at the end of the third quarter of 2021, translating into a ratio of 1.62:1.

Shareholders' Equity to Total Assets

The Company uses the shareholders' equity to total assets financial measure to determine the shareholders' investment as a proportion of the Company's total assets. To calculate the shareholders' equity to total assets ratio, the shareholders' equity presented on the Condensed Consolidated Statement of Financial Position is divided by total assets.

(in thousands of dollars, unless otherwise indicated)	**As at Oct. 2, 2021**	**As at Dec. 31, 2020**
	$	$
Shareholders' equity	**849,643**	795,733
Total assets	**1,415,456**	1,381,634
Shareholders' equity / total assets ratio *(in %)*	**60.0**	57.6

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization

Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") is a financial measure used by the Company and investors to assess its capacity to generate future cash flows from operating activities and pay financial expenses. Adjusted EBITDA consists of operating profit, the "Depreciation of property, plant and equipment and amortization of intangible assets" shown in the Condensed Consolidated Statements of Cash Flows, and "(Gains) losses on capital assets," if applicable.

	Third quarters ended		**First nine months ended**	
(in thousands of dollars)	**Oct. 2, 2021**	**Sept. 26, 2020**	**Oct. 2, 2021**	**Sept. 26, 2020**
	$	$	**$**	$
Operating profit	**25,408**	40,018	**86,722**	113,024
Depreciation of property, plant and equipment and amortization of intangible assets	**15,115**	15,935	**45,291**	47,208
(Gains) losses on capital assets	**-**	13	**(37)**	57
Adjusted EBITDA	**40,523**	55,966	**131,976**	160,289

Depreciation and amortization expense went from $15.9 million in the third quarter of 2020 to $15.1 million in the same quarter of 2021. Excluding a $0.5 million favourable foreign exchange impact, the depreciation and amortization expense decreased by $0.3 million explained by the fully realized amortization of certain intangible assets during the third quarter of 2021. For the nine-month periods, depreciation and amortization expense went from $47.2 million in 2020 to $45.3 million in 2021.

(in thousands of dollars)	**Q3 2021**	**Q2 2021**	**Q1 2021**	**Q4 2020**	**Q3 2020**	**Q2 2020**	**Q1 2020**	**Q4 2019**
	$	$	$	$	$	$	$	$
Adjusted EBITDA	**40,523**	44,844	46,609	56,837	55,966	58,521	45,802	39,250

Adoption of IFRS Standards

Interest Rate Benchmark Reform

On January 1, 2021, as part of the interest rate benchmark reform project, the Company adopted amended versions of the following standards: IFRS 9 "Financial Instruments," IAS 39 "Financial Instruments: Recognition and Measurement," IFRS 7 "Financial Instruments: Disclosures," IFRS 4 "Insurance Contracts" and IFRS 16 "Leases." All of these standards apply to fiscal years beginning on or after January 1, 2021.

The impacts of this reform on the Company's consolidated financial statements will depend on the facts and circumstances of all future changes in financial instruments and all future changes in interest rate benchmarks, referenced by such financial instruments. As at October 2, 2021, no financial instruments have been amended as part of the interest rate benchmark reform project.

Accounting Policies and Future Accounting Changes

The interim consolidated financial statements were prepared using the same accounting policies as those described in Note 2 to the consolidated financial statements for the year ended December 31, 2020. The future accounting changes are presented in Note 5 to the consolidated financial statements for the year ended December 31, 2020, whereas those added after the publication of the annual financial statements are presented in Note 17 to the interim consolidated financial statements for the third quarter of 2021. The interim consolidated financial statements do not include all of the notes required in the annual consolidated financial statements.

Disclosure Controls and Procedures ("DC&P")

The Company's Chief Executive Officer and the Chief Financial Officer are responsible for setting and maintaining disclosure controls and procedures, as set out in National Instrument 52-109 issued by the Canadian Securities Administrators. Assisting them in this responsibility is the Disclosure Committee, which consists of key management personnel. The Disclosure Committee must be kept fully informed of any significant information relating to the Company so that it can evaluate said information, determine its importance, and decide on timely disclosure of a press release, where applicable. Management regularly reviews disclosure controls and procedures; however, they cannot provide an absolute level of assurance because of the inherent limitations in control systems to prevent or detect all misstatements due to error or fraud.

The Company's Chief Executive Officer and the Chief Financial Officer have concluded that the design of the disclosure controls and procedures as at October 2, 2021 provides reasonable assurance that significant information relevant to the Company, including that of its consolidated subsidiaries, is reported to them during the preparation of disclosure documents.

Internal Control Over Financial Reporting ("ICFR")

Management is responsible for establishing and maintaining adequate internal control over financial reporting in order to provide reasonable assurance as to the reliability of the financial information and reasonable assurance that the financial statements were prepared, for financial reporting purposes, in accordance with IFRS. All internal control systems have inherent limitations and therefore internal controls over financial reporting can only provide reasonable assurance and may not prevent or detect misstatements due to error or fraud.

Under the supervision of the Chief Executive Officer and the Chief Financial Officer, the Company has conducted an evaluation of the design of the Company's internal control over financial reporting as at October 2, 2021, based on the framework issued by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission.

During the third quarter of 2021, there have been no changes to the internal control over financial reporting that would have significantly affected or been likely to have significantly affected the Company's internal control over financial reporting.

Off-Consolidated-Statement-of-Financial-Position Arrangements

As at October 2, 2021, the Company had letters of credit outstanding totalling $0.4 million.

Commitments are presented in Note 29 to the audited consolidated financial statements for the year ended December 31, 2020.

Event After the Reporting Period

The Company's Canadian credit facilities include a revolving operating credit ("CA revolving credit") that gives the Company an option, subject to the participation of each lender, to extend, on each annual anniversary date, the expiry date of this facility by one year. In October 2021, the Company and syndicate of financial institutions agreed to extend the expiry date of the CA revolving credit facility by one year to April 2026.

Outlook

The Company noted a decrease in industry sales volumes in the U.S. and Canadian fruit juice and drink markets for the three-month period ended October 2, 2021 when compared to the same period in 2020, which reflected, however, a significant increase compared to the equivalent period in 2019. Excluding foreign exchange impacts, the Company's sales were up 0.2% in the first nine months of 2021 compared to the same period last year. Barring any significant external shocks, and disregarding foreign exchange impacts, the Company expects that, for fiscal 2021, it will be able to maintain a sales level that is relatively similar to that of fiscal 2020. However, the uncertainty surrounding such a forecast is higher than it is under normal circumstances because of the following factors: (i) the availability of labour affecting the production rates, mainly for its U.S. activities and (ii) the impact of the current global supply chain crisis on the availability of certain inputs, including the main concentrates and types of packaging used by the Company.

The Company observed a significant reduction in the profitability of its U.S. operations during the first nine months of 2021 due to inflationary pressures affecting, among other costs, transportation costs affected by the global supply chain crisis, warehousing costs, and the cost of certain raw materials. Moreover, the combined impact of the current COVID-19 pandemic and the beginning of an economic recovery is affecting the availability and cost of labour, thereby adding significant additional pressure on volumes produced as well as the production rate and costs. The Company believes that this situation is likely to continue over the coming months. To offset the overall impact of these inflationary pressures, the Company has adjusted its selling prices during the second and third quarters. However, these price increases are not sufficient, as inflationary pressures are intensifying. In addition, the availability and delivered price of apple concentrates and certain types of packaging are still being affected by a limited availability of containers. Finally, higher oil costs are having an unfavourable impact on several of the Company's cost components, including PET resin. Therefore, the Company will make additional selling price adjustments over the coming months, while remaining attentive to the impact of these adjustments on the demand for its products.

The Company is seeing the price of orange concentrate return to comparable levels of 2020 and that its main supplier has been able to maintain good control of its supply chain despite the crisis. It has also secured, subject to *force majeure* related to transport, a significant portion of its apple concentrate supplies at higher prices than last year. The price of PET resin continues to increase from average levels in the first nine months of 2021. Finally, the conversion rate applicable to purchases made by Canadian subsidiaries in U.S. dollars should have a favourable impact on the pre-tax profit of the last three months of 2021 compared to the same period in 2020. Foreign exchange forward contracts, the hedging period of which generally does not exceed 12 months, are used to partly stabilize the effects of currency fluctuations on the Company's results during this period. From a tax perspective, if the U.S. tax reform had been adopted during the fourth quarter of 2021, and according to the principles discussed on the date of this report, the Company's income tax expense would be affected by an unfavourable non-cash adjustment during this quarter. This adjustment is related to an upward revision of deferred tax liabilities resulting from a potential increase in the federal corporate tax rate.

Additional Information

As at October 2, 2021, the Company's issued and outstanding capital stock consisted of 3,180,900 Class A subordinate voting shares and 3,752,620 Class B multiple voting shares.

This Management's Discussion and Analysis was prepared as of November 12, 2021 and is available on the Lassonde Industries Inc. website. Readers will also find this MD&A, the Annual Information Form, additional documents, press releases, and more information about the Company on the SEDAR website at www.sedar.com.

Dividend

The Company's Board of Directors today declared a quarterly dividend of $0.88 per share on Class A subordinate voting shares and Class B multiple voting shares, payable on December 15, 2021 to all registered holders on November 24, 2021. In accordance with its dividend policy, this dividend represents, on an annualized basis, approximately 25% of the 2020 profit attributable to the Company's shareholders. This dividend is an eligible dividend.

November 12, 2021