

**Cascades Canada ULC**

**Second Quarter 2018 Financial Results**

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## PRESENTATION

**Operator**

Mesdames et messieurs, bienvenue à la téléconférence des résultats financiers du deuxième trimestre 2018 de Cascades. Je m'appelle Dan et je serai votre opérateur aujourd'hui. Toutes les lignes sont présentement en mode écoute seulement. Suite aux commentaires des dirigeants, il y aura une période de questions

Good morning. My name is Dan and I will be your Conference Operator today. At this time, I would like to welcome everyone to the Cascades Second Quarter 2018 Financial Results Conference Call. All lines are currently in listen-only mode. After the speakers' remarks, there will be a question-and-answer session.

I will now pass the call to Jennifer Aitken, Director of Investor Relations for Cascades. Ms. Aitken, you may begin your conference.

**Jennifer Aitken** - Director, Investor Relations, Cascades Canada ULC

Thank you, Operator. Good morning everyone and thank you for joining our second quarter 2018 financial results conference call. Our speakers on this morning's call are Mario Plourde, our President and CEO, Allan Hogg, CFO, Charles Malo, President and COO of our Containerboard Packaging Group, Luc Langevin, President and COO of our Specialty Products Group, and Jean Jobin, President and COO of our Tissue Papers Group. After discussion surrounding our North American operations, Mario will then discuss results from Boxboard Europe, followed by some concluding remarks, after which we will begin the question period.

Before I turn the call over to my colleagues, I would like to highlight that Reno De Medici's first half financial report, released on July 31, can be viewed on Reno's website.

I would also note that certain statements made during this call will discuss historical and forward-looking matters. The accuracy of these statements is subject to risk factors that can have a material impact on actual results. These risks are listed in our public filings.

These statements, the Investor Presentation, and the press release also include data that are not measures of performance under IFRS. Please refer to our accompanying Q2 2018 Investor Presentation for details. This presentation, along with our second quarter press release, can be found in the Investors section of our website.

I would like to remind the media and Internet users that they are in listen-only mode and can therefore only listen to the call. If you have any questions, please feel free to contact us after the session.

I will now turn the call over to our CEO. Mario?

**Mario Plourde** – President and Chief Executive Officer, Cascades Canada ULC

Thank you Jennifer and good morning everyone.

Earlier this morning we released second quarter results that were in line with expectations. We are pleased with our performance on a consolidated basis, with shipments, sales and Adjusted EBITDA levels registering increase, both sequentially and year-over-year. Driving results was a strong performance from our Containerboard segment that was, itself, driven by lower raw material cost, the rollout of the price increase, and the good market fundamentals.

Boxboard Europe also contributed to the improved result year-over-year and sequentially, reflecting similar trends in lower recycled fiber cost, favourable pricing, and a sound industry dynamic.

The Specialty Product improved results sequentially as a result of higher selling prices in the packaging segment, and an improved contribution from the recovery sub-segments following the more stable recycled material prices. A significant variation in recycled prices year-over-year was the primary reason for the shortfall in this segment result compared to the second quarter of last year.

Finally, the Tissue segment increased sales, both sequentially and year-over-year, in spite of the increased level of competition in the market. Result, however, were impacted in both cases by higher raw material prices. Higher transportation costs negatively impacted results for all of our North American operations.

On the KPI front, second quarter shipments increased by 3 percent from Q1. This reflected higher shipment level in Containerboard and Tissue, driven by favourable seasonal demand and business acquisition and start up in Containerboard. These were offset by lower shipment levels in Boxboard Europe, driven by the more selective sales strategy. On a year-over-year basis, Q2 shipments increased 2 percent, driven by 9 percent increases in Containerboard and Tissue, offset by lower shipments in European Boxboard. Our second quarter capacity utilization rate of 97 percent was 3 percent above Q1 and 2 percent above the prior year's levels, and was largely driven by our Containerboard division.

On the raw material side, the average Q2 index price for OCC brown grades fell by a significant 52 percent year-over-year, and decreased by 23 percent compared to Q1. The average price of the solid office paper white recycled grade, which makes up a large part of our raw material used in our Tissue business, increased by 12 percent year-over-year and 17 percent compared to Q1.

Tissue segment performance was similarly impacted by virgin pulp pricing, which increased both sequentially and compared to the prior-year levels. Specifically, hardwood pulp was up 4 percent from Q1 and 19 percent year-over-year, while softwood pulp increased 6 percent and 20 percent respectively.

Looking more closely at OCC, prices declined by \$5 in April in the northeast U.S., and then decreased by an additional \$10 in May. Price action stabilized at an index level approximately \$68 in the northeast U.S. However, white recycled grade continued their upward trend, showing an increase of \$5 for the northeast U.S. in the most recent publication.

I will now pass the call over to Allan who will provide you the highlight of our second quarter financial performance. Allan?

**Allan Hogg** – Vice President and Chief Financial Officer, Cascades Canada ULC

Yes. Thank you Mario and good morning everyone.

I will begin with sales on Slide 10 and 11 of our second quarter conference call presentation, which can be found in our Investors section of the website, along with our reconciliation to non-IFRS measures.

On a year-over-year basis, second quarter sales increased by \$49 million or 4 percent. This reflects improvement in pricing and sales mix in all of our segments, with the exception of Tissue, recent acquisition in Containerboard and Europe in Boxboard, and also improved volumes in Containerboard and Tissue. Mitigating this was a less favourable foreign exchange rate for our North American operations and all our contributions from our recovery and recycling activities.

Sequentially, Q2 sales increased by \$81 million, or 7 percent. Better volumes and a more favourable foreign exchange rate for all of our North American operations, combined with improved selling prices and sales mix for all our packaging segments, and a slight improvement in our recovery and recycling activities all contributed to the sequential improvement. These were partially offset by lower volumes in Boxboard Europe and a less favourable Canadian dollar and euro exchange rate.

Moving now to our operating income and Adjusted EBITDA, as highlighted on Slide 12, Q2 operating income was \$25 million above last year and Adjusted EBITDA of \$134 million increased \$27 million from prior-year levels. The president of each of our segments will provide more details regarding performances of their respective groups. On a consolidated basis, results benefited from a stronger performance from our Containerboard in Europe and Boxboard divisions and lower corporate expenses. These were partially offset by lower contribution from the Tissue and Specialty Products segments.

As was the case in Q1, transportation costs continue to impact all of our North American activities in the current quarter. The change in depreciation expense reflects business acquisition and new equipment startups during the past year. Sequentially, Q2 Adjusted EBITDA increased by \$29 million. This was largely driven by Containerboard, and also from sequential improvements in Specialty Products, Boxboard Europe, and corporate activities. A sequential decrease, generated in Tissue, partially offset these benefits.

Slide 14 and 15 of the presentation illustrate the year-over-year and sequential volumes of our Q2 earnings per share and the details of the specific items that affected our quarterly results. As reported, earnings per share totaled \$0.28 in the second quarter compared to reported earnings per share of \$2.70 last year, which included, amongst other items, a fair value revaluation gain and related tax liability of reversal following the consolidation of the Greenpac results in Q2 last year. Our second quarter adjusted EPS increased by \$0.05 year-over-year to \$0.30 per share.

As we have noted in recent quarters, net earnings attributable to non-controlling interest in Greenpac and Reno di Medici was higher compared to last year, thus reducing our share of the net results. Income tax provision variance is also significant due to the use of tax assets in the second

quarter of 2017. On a sequential basis, second quarter adjusted earnings per share increased by \$0.17 during the quarter.

Slide 16 and 17 of the presentation illustrate the specific items recorded during the quarter impacting operating income and net earnings. The only specific items recorded are related to financial instruments variation. Cash flow from operations increased by \$22 million year-over-year to \$111 million. Adjusted free cash flow decreased by \$25 million as a result of higher cap ex level in 2018.

Moving now to our debt reconciliation as detailed on Slide 19, our net debt increased marginally in Q2 as a stronger cash flow from operations and slightly lower working capital requirements were offset by capital investments, capital lease acquisition related to the new containerboard Piscataway converting facility, and a less favourable FX rate on our U.S. denominated debt. The main cap ex realized in the second quarter is related to the construction of the Piscataway converting plant in New Jersey. Our net debt leverage ratio stood at 3.5 as of the end of the second quarter, a slight improvement from 3.6 at the end of the first quarter, all on a pro-forma basis to include our recent business acquisitions. Also note that we have extended the maturity of our revolving facility by one year to July, 2022.

For additional details regarding our first quarter performance on a segmented basis, please refer to Slides 21 through 26 of the presentation, while our near-term outlook is detailed on Slide 28.

Thank you for your attention. I will now pass the call to Charles, who will discuss the second quarter results from our Containerboard Packaging Group.

**Charles Malo** – President and Chief Operating Officer, Cascades Containerboard Packaging Group

Thank you Allan and good morning everyone.

On a sequential basis, the second quarter shipments reached 385,000 tons in the Containerboard Group, which represent a 9 percent increase. Paper shipments to external customers increased by 23,000 tons from the previous quarter, which reflects 11 percent increase in our operating rate during Q2. Our integration rate remains stable at 56 percent when including shipments to Greenpac partners. When including paper sold to our associated companies, our Q2 integration rate totaled 76 percent, up from 72 percent in the previous quarter. As a reminder, we experienced some mechanical issues during the first two months of the year, which resulted in a production shortfall in the first quarter.

On the converting side, shipments increased by 6 percent sequentially, which is in line with the 6 percent increase reported for both the Canadian and the U.S. markets.

On the pricing front, our average selling price increased by CA\$39, or 3 percent on a sequential basis. This is a result of US\$50 price increase we began implementing during the second quarter. On a segmented basis, our average Canadian selling price for containerboard increased by 7 percent, while our corrugated product average selling price in Canadian dollars increased by 3 percent—by 2 percent. The 2 percent depreciation of the Canadian dollars similarly had a positive impact on our average selling price during the quarter. The beneficial impact just discussed were partially offset by a less favourable product mix in the period.

During the second quarter, the Containerboard Group generated EBITDA of \$105 million, which represent a margin of 22 percent. This compared to margin of 18 percent in the first quarter and 13 percent in the same quarter of last year. Our improved sequential results were largely driven by higher volumes, which contributed an additional \$20 million to profitability. Lower raw material costs, more specifically OCC, and higher average selling prices also added \$9 million and \$6 million respectively to

profitability. These benefits more than offset the impact of higher operational costs, which subtracted \$6 million from profitability and were mostly the results of higher repair and maintenance cost, higher chemical cost due to seasonality, as well as product mix and higher transportation costs.

Before discussing our short-term outlook, let me touch on two elements. The first of these is the progress of our new state-of-the-art corrugated plant in Piscataway, New Jersey. I'm pleased to report that construction has been completed and the plant is running as expected. The corrugator and three converting presses began operating at the end of May, and the ramp-up is going according to plan. We continue to expect to complete the project within the US\$80 million budgeted

The second regards our acquisition of the White Birch Bear Island mill located in Asheville, Virginia announced at the end of July. I would like to take this opportunity to reiterate the advantages of this transaction. The access to an experienced workforce with expertise in papermaking is a great advantage. It will also allow us to better serve our customers and to expand our market share by increasing our capacity to provide clients with high-quality recycled lightweight linerboard, similar to what we produce at our Greenpac mill. The extensive due diligence that we have completed fully supports our belief that this asset, in particular, provide an excellent conversion opportunity. Moreover, the size provides a potential platform for continued growth through downstream converting capacity. As we mentioned at the time of the announcement, we will provide additional details about the project once plans have been finalized and approved.

Finally, our short-term outlook is positive. We expect demand levels to be in line with historical seasonal trends, and our results will continue to benefit from the favourable OCC pricing. In addition, our results will benefit from the full \$50 price increase announced for both linerboard and medium, which was fully implemented throughout our manufacturing segment as of the end of May. The

corresponding 8 percent box price increase is currently being rolled out in our converting segment and will be fully implemented by the end of Q3.

Thank you for your attention, and I will now ask Mario to provide you with an overview of our Boxboard activities in Europe. Mario?

**Mario Plourde** – President and Chief Executive Officer, Cascades Canada ULC

Thank you, Charles.

The European Boxboard segment generated strong result in Q2, with sales up 9 percent and Adjusted EBITDA up 43 percent from prior-year levels, reflecting the continued solidity of the market. Much like the first quarter, second quarter results were driven by increases in average selling prices, lower raw material costs, and more favourable exchange rates, and the consolidation of the recently-acquired Pack (phon) service company.

Compared to the prior-year levels, recycled boxboard shipment decreased by 4 percent, reflecting lower shipments to Western Europe and lower production at several facilities, while shipment of virgin boxboard decreased by 8 percent during the period. The average selling price rose by 8 percent, or 39 euros, and by 12 percent in Canadian dollar compared to Q2 last year. This was driven by a 6 percent, or 30 euro increase in the average selling price of recycled boxboard, and a 45 euro, or 7 percent increase in the average selling price of virgin boxboard during the period. Sequentially, the 6 percent decrease in sales and Canadian dollar reflect lower volume and the slight appreciation of the Canadian dollar compared to the euro, partially offset by higher average selling prices.

Second quarter Adjusted EBITDA increased by \$2 million compared to the first quarter, resulting in a 13 percent margin. This is the result of higher selling prices and lower raw material costs, the benefit

of which were partially offset by higher energy expenses and a transaction cost related to the acquisition of the Barcelona carton board.

The underlying market dynamics remain solid in Europe, with other inflow and other backlog levels both healthy. Internally, the Company continues to implement internal initiatives focused on production planning, supply chain optimization, and improve the sales mix. That said, this quarter results are expected to be lower than the second quarter, largely due to the usual lower level associated with the summer holiday. Furthermore, wide grad (phon) price in Europe are expected to increase slightly during the quarter.

I will now pass the call over to Luc, who will provide you with an overview of the performance of our Specialty Products. Luc?

**Luc Langevin** – President and Chief Operating Officer, Cascades Specialty Products Group

Thank you, Mario. Good morning.

The Specialty Products Group generated top line results of \$164 million in the second quarter, which represent a slight 3 percent sequential increase. The usual favourable seasonality for the Consumer Product Packaging segment resulted in higher shipments during the quarter. It's also worth mentioning that volumes improved sequentially in our recovery activities following the disruption caused by Chinese restriction that were implemented at the end of 2017. In general, we experienced an improved and more stable flow of recovered materials.

Price increases have also been implemented in most of our packaging segments in response to higher liner and resin costs. This positively impacted our top line in the second quarter, while the FX variation generated a minimal positive contribution.

During Q2, our EBITDA totaled \$9 million, which represented a 28 percent improvement from Q1. Our paper recovery activities generated better results during the period, improving their EBITDA contribution by more than \$2 million. A combination of more stable market price conditions, improved operational efficiencies standing for better flow of material and focused team efforts on margin improvement have already led to benefits for this segment.

Regarding the (inaudible) of our packaging operations, second quarter results remain fairly stable despite more favourable seasonality. As highlighted during the previous quarter, we completed a major equipment upgrade at our (inaudible) during the second quarter. The related downtime and subsequent startup mitigated the benefits of wider spreads in our Industrial Packaging segment. Consequently, we recorded stable results compared to Q1 in this segment. Likewise, the Consumer Product Packaging segment's EBITDA remained stable. Higher shipments of model pulp and plastic products were offset by increased training, labour costs, as well as productive (inaudible) activities related to new equipment installation and startups at our flexible and rigid packaging plants.

Regarding our near-term outlook, we definitely expect to see more stable and predictable market conditions for recovered fiber in both the near term and midterms. Hence, the recovery segment is expected to continue to improve its results during the third quarter. OCC remained relatively abundant despite solid domestic demand as China is actively pursuing its objective to control the quality of materials entering its territory, and is, therefore, restricting imports accordingly. Moreover, China announced yesterday a potential 25 percent tariff on recovered paper imports effective August 23.

As for white grade, market conditions are mainly driven by tight virgin pulp market conditions, and the limited and declining offer of office and white ledger grades. This market will remain under

pressure for the short term, even though we anticipate the price of pulp to stabilize as the year progresses.

For packaging products, demand is currently brisk as the summer season is in full swing, and we should also start seeing benefits of the newly-installed equipment.

We expect higher results from all our segments for the second half of 2018.

Thank you for your attention, and I will now ask Jean to present the results of the Tissue Paper Group.

**Jean Jobin** – President and Chief Operating Officer, Cascades Tissue Papers Group

Thank you, Luc. Good morning everyone.

The Tissue Group continues to face very difficult market conditions. While volume increased year-over-year, the cost of white recycled fiber, virgin pulp, and transportation costs continue to increase, which is significantly impacting our overall profitability. Let me touch briefly on each of these.

For the second quarter, we delivered an Adjusted EBITDA of \$7 million, which translates into a margin of 2 percent, and compared to the \$35 million, or 10.4 percent that we generated in Q2 last year. On a sequential basis, performance was also down from our first quarter Adjusted EBITDA of \$12 million and margin of 4.2 percent.

On the positive side, total shipment increased by 9 percent year-over-year. Shipments of converted product increased by 5 percent thanks to the market inroads we continue to make on the west coast, and higher demand in our targeted market segments.

In the Parent Roll segment, shipment increased by 17 percent, which reflect our successful efforts to manage inventory levels, combined with an increase in overall market demand levels. On a sequential basis, overall shipment increased by 10 percent, reflecting both market seasonality and increased demand. Shipment in our Parent Roll sub-segments increased by 4 percent, while our converted products shipment increased by 13 percent.

In terms of pricing, the average selling price decreased by 7 percent year-over-year. This was, in part, due to the higher proportion of parent rolls in our overall shipments, the strengthening of the Canadian dollar, and less favourable product mix. On a sequential basis, our quality average selling price increased by 2 percent and is largely due to a lower proportion of parent roll sales and the weaker Canadian dollar.

On an operational basis, the overall impact of the white recycled fiber and virgin pulp increases negatively impacted our results by \$13 million year-over-year. This was driven by a year-over-year increase of 19 percent in our (inaudible) pulp, 20 percent in (inaudible) pulp, while the recycled fiber—white fiber increased by 14 percent from last year's level.

In addition to the important increase in market prices, a higher amount of virgin fiber is also required in our mix to meet customer requirements. Sequentially, the higher virgin pulp price and recycled white fiber prices negatively impacted our results by \$7 million.

On the transportation side, costs have been steadily increasing over the past months, and these rising costs negatively impacted our overall result by \$8 million year-over-year. As we mentioned in the past, the combination of the current North American transportation network challenges and increase in fuel costs are the driving factor behind this significant increase in costs. On a sequential basis, the increase in these costs impacted our result by a more marginal \$1 million.

Moving now to our West Coast converting plant, I'm pleased to note that we are making good progress in terms of sales and—in this new market. As of today, we have secured approximately 50 percent of the overall capacity. The team remains focused on successfully achieving our market development plan.

The current reality of rising raw material prices and increasing transport costs has put a lot of pressure on margin, therefore, we have announced the following price increase in Q2: up to 9 percent in the (inaudible) segment across North America effective July 1; up to 13.8 percent in the Consumer Products business in Canada effective October 21; and finally, effective July 1 we have announced an increase on jumbo rolls for all of our customers. The increase will affect virgin pulp grade by \$50 per short cut, recycle white grade by \$35 per short cut, and brown recycled jumbo rolls by \$20 per short cut. As we previously highlighted in the past, variation in contract terms means that the full implementation of these price increase can take about six months.

Looking forward, we expect that the current condition will remain a challenge for us. Unfortunately, we anticipate that raw material and transport costs will remain high. However, recently-announced price increases bring a positive momentum. That being said, we will continue to focus on our innovation and strategic initiatives in order to add value for our customers, some of which we plan to launch at upcoming industry events. We will also continue to dedicate resources to offset these rising costs by working on pulp and transportation optimization, manufacturing productivity levels, and continuing to ramp up the West Coast market development.

Thank you. I will now turn the call back to Mario for the conclusion. Mario?

**Mario Plourde** – President and Chief Executive Officer, Cascades Canada ULC

Thank you, Jean. We expect our midterm result to reflect similar trends to those of the second quarter. Performance is expected to be driven by our Containerboard business, whereas stable raw material pricing, the continued rollout of the US\$50 price increase, and healthy market fundamentals are supportive of a positive outlook. We face near-term challenge in our Tissue business. Market condition remains difficult, as the rate of new capacity continues to outpace growth and demand. Raw material pricing is similarly having an important impact on profitability levels.

However, in spite of these challenges, our midterm outlook is stable for Tissue. We anticipate volume gain and price increase expected to act as a counterbalance. We continue to be very proactive in our management of these dynamics, and are focused on optimizing our operational performance and efficiency. Importantly, we expect that challenges related to the availability of truck and driver and significant increase in transportation costs will continue to impact the performance of all of our North American operations and foreseeable—for the foreseeable future.

These issues are widespread, affecting many industries across the U.S. and Canada. We continue to evaluate and implement strategies to optimize our logistics, including working closely with our suppliers and our customers, many of whom are also dealing with today's more expensive and challenging transportation environment.

Before opening the line for questions, let me highlight some of our recent news, beginning with the progress of our new containerboard converting facility in Piscataway, New Jersey. The team did an excellent job of completing this project, and I am pleased to note that the facility began production in May on schedule and on budget. We look forward to fully realizing the operational potential of this state-of-the-art facility.

More recently, we announced the acquisition of the Bear Island, Virginia facility and our intention to convert the machine to a lightweight recycled containerboard asset. We look forward to providing the market with more details about this important project once final plans have been completed and approved.

Last, but certainly not least, let me reiterate once again that we remain committed to reducing leverage. This commitment holds true, even given our cap ex plans and potential project requiring investments. We can and will actively manage our leverage by being disciplined in our capital allocation, and being flexible with both the timing and the magnitude of our investment, and the—even there our material (inaudible) for cash flow levels and/or market dynamics. We are confident that we will succeed in this regard while carrying out our strategic plan of modernizing our platform, optimizing our geographical footprint, and increasing our integration rate, and through these efforts, long-term sustainable value will be created for our shareholder, our employee, and the Company.

On that note, I will now be happy to answer your question. Operator, open the line please.

## Q & A

### Operator

Si vous voulez poser une question, veuillez s'il vous plaît composer l'étoile suivie du un sur votre clavier téléphonique. Si vous voulez retirer votre question, composez le carré.

Thank you. If you would like to ask a question, simply press the star, then the number one on your telephone keypad. If you would like to withdraw your question, please press the pound key. Again, if you have a question, please press star, then one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from the line of Sean Steuart with TD Securities.

**Sean Steuart** – Analyst, TD Securities

Thanks. Good morning everyone. A few questions. I want to start with OCC costs. As you mentioned, they've stabilized since May, I guess, on average around \$65 a ton. Given the ongoing import restrictions from China, are you surprised there hasn't been incremental pressure since May, and to that point, can you discuss competitive demand for the product in North America?

**Luc Langevin** – President and Chief Operating Officer, Cascades Specialty Products Group

Yes. This is Luc, Sean. I can answer that. Obviously, the material currently is abundant, and our focus now is really trying to improve our logistic and reduce the (inaudible) costs of material to our mills. This is really what we—where we spend a lot of our efforts these days. When you have a price at \$65, I think we're probably approaching a floor level under which the cost structure will start impacting the recovery of material, so that's how we see it now, but obviously, the material was already abundant. These additional potential tariffs and (inaudible) in 2020 is just reinforcing our view that the material will not go up.

**Sean Steuart** – Analyst, TD Securities

Understood. My next question is on Europe. You've seen, the midterm anyway, more consistent, better results from that segment, and that's starting to reflect in Reno share price as well. I know the leverage there is low, but do you have any updated thoughts on potentially exiting that investment as a means of building liquidity ahead of other growth initiatives on deck?

**Mario Plourde** – President and Chief Executive Officer, Cascades Canada ULC

On the short term, no, we have not changed our strategic approach with Europe. I think there is additional value to be captured in Europe, so no, we have not changed our plans going forward with Europe. We think the Barcelona be coming online eventually will certainly be a positive for Europe. All the effort that are being done in Europe are generating good result. When you look at their EBITDA level being at 13 percent now it's really interesting, and they're moving towards being very close to their competitors, so no, we have not changed our approach with our position in Europe.

**Sean Stuart** – Analyst, TD Securities

Okay. That's all I have for now. I'll get back in the queue. Thank you.

**Operator**

Your next question comes from the line of Hamir Patel with CIBC Capital Markets. Your line is now open.

**Hamir Patel** – Analyst, CIBC Capital Markets

Hi. Good morning. Charles, on the containerboard waterfall chart, I didn't see much quarter-over-quarter uplift from pricing, and a couple of your U.S. containerboard peers seem to be getting the price hike coming through quicker than expected, so just curious, off the \$50 per ton, what percent was in Q2? Where do you think Q3 will be, and should we still expect some more flowing through in Q4?

**Charles Malo** – President and Chief Operating Officer, Cascades Containerboard Packaging Group

We still have some work to do on the converting side. As we mentioned, the full impact of our liner and medium rolls are in during the quarter, but we still have some contracts that are ups and

downs dictating the price increase that we have, and we—like we mentioned, by the end of Q3, this will be fully in place.

**Hamir Patel** – Analyst, CIBC Capital Markets

Okay, so Q4 will be the first full quarter with the pricing in.

**Charles Malo** – President and Chief Operating Officer, Cascades Containerboard Packaging Group

With the full impact, yes.

**Hamir Patel** – Analyst, CIBC Capital Markets

Yes. Okay. No, that's helpful. Allan, I just had a question on capital allocation. We saw you bought buybacks, about \$6 million worth of stock in the quarter. Stock's trading below tangible book, and for a while CASCA had been trading at almost a two-turn discount to some of its peers. How do you view buybacks when you're looking at capital allocation? You talked about debt repayments, but just given where the stock is today, where do buybacks stack up?

**Allan Hogg** – Vice President and Chief Financial Officer, Cascades Canada ULC

Yes. It's always a question of finding the right balance. We have increased our buyback program during the first quarter, so now I believe we have over one million shares that are possibly being bought back, so that's something we'll monitor, and as you say, it's trading below our certain value metrics, so we will focus on that, and I believe with the strong cash flow we have, it's something we will—we can address, and it's always on an evaluation (inaudible).

**Hamir Patel** – Analyst, CIBC Capital Markets

Great. Thanks for that, Allan, and on the—looking at the corporate line, is the \$17 million sort of the new normal now, and what would be the normal corporate number without the ERP, and how much unwind is left with that ERP?

**Allan Hogg** – Vice President and Chief Financial Officer, Cascades Canada ULC

Yes. There's some benefit from a cost reduction. There's room to improve—continue to improve, so maybe that \$17 million can be lower. However, in that, you also have the impact of stock-based compensation, so with the price of our share being lower, so that's a—that was a positive variation, and that's always something that can move up and down, depending on the share price, but I believe that that \$17 million can be slightly lower going forward in the coming quarters. Yes.

**Hamir Patel** – Analyst, CIBC Capital Markets

Great. Thanks. That's all I had for now. I'll turn it over.

**Operator**

Again, if you would like to ask a question, please press star, then the number one on your telephone keypad.

Your next question comes from the line of Keith Howlett with Desjardins Securities. Your line is now open.

**Keith Howlett** – Analyst, Desjardins Securities

Yes, thanks. I'd like to ask about the New Jersey box plant. I presume that you're taking the customer demand from the Queens plant and putting it in New Jersey. I'm just wondering whether that

plant will have sufficient volume to sort of start close to break even, or what you anticipate the drag from the plant to be?

**Charles Malo** – President and Chief Operating Officer, Cascades Containerboard Packaging Group

Thank you for the question. The plan is from now—from the date it started production through the end of the year, we will maximize the volume that we have, not only in the Queens plant, but we also have other divisions or plants in the U.S., so we want to put the volume where it brings in more value to the Company, so this is our first step, and that will be done from now until the end of the year, and starting in 2019, we will be having growth in the plant with external, or customer—new customers. We have been working on developing customers having visits in the facility for the last year, so we do have—we're very optimistic about the potential, but from now until the end of the year, we will be moving volume around in our facilities.

**Keith Howlett** – Analyst, Desjardins Securities

It'll be a positive contributor based on the greater margin?

**Charles Malo** – President and Chief Operating Officer, Cascades Containerboard Packaging Group

Starting in 2019.

**Keith Howlett** – Analyst, Desjardins Securities

Great. Thank you, and what is its capacity, sort of relative—I should know this, but relative to Queens?

**Charles Malo** – President and Chief Operating Officer, Cascades Containerboard Packaging Group

The installed capacity of the corrugator is 2.4 billion square feet, and Queens, the installation that we had is one billion square feet, but that's for the corrugator. We also have installed converting facility, so in the box plant you have the combination of sheet and boxes, so on the 2.4 billion square feet, up until now with the installed equipment, we have 1.8 billion square feet that we can produce of converted product.

**Keith Howlett** – Analyst, Desjardins Securities

Great. Thank you, and then I wanted to ask about the outlook on the Tissue business. With your price increases announced in Procter & Gamble, KP Tissue, I'm just wondering whether you feel that the industry is getting ahead of the cost increases, or at least equal with them, or if there's still more to go there?

**Jean Jobin** – President and Chief Operating Officer, Cascades Tissue Papers Group

Well, it's very difficult to answer that. Everybody has their own thoughts, their own mix, so that's—and I don't want to go forward to talk about what others can do, so I don't have an answer to this, Keith. Sorry.

**Keith Howlett** – Analyst, Desjardins Securities

Just in terms of your own outlook going into, say, 2019, do you feel we're sort of troughing here in Q2 and Q3?

**Jean Jobin** – President and Chief Operating Officer, Cascades Tissue Papers Group

Well, you know what, at this point it's all price. It's just tightening prices. It's freight (phon) situation that drives it up, and how much will we be able to compensate with price increase, so it's very, very difficult to evaluate, but we certainly hope so.

**Keith Howlett** – Analyst, Desjardins Securities

Then, if I could just ask on the Oregon converting plant, would that—what would your outlook be as to when that plant would achieve break-even?

**Jean Jobin** – President and Chief Operating Officer, Cascades Tissue Papers Group

Well, we said at the last conference call that it won't be before next summer because this is a plant that is on the Away-from-Home, and in Q4, Q1, volume goes down in the Away-from-Home, so it's not before mid-year next year for sure.

**Keith Howlett** – Analyst, Desjardins Securities

Just in terms of the capital budget of the Company going forward, can you just update us on the Tissue operations and the plans on the capital spending there?

**Allan Hogg** – Vice President and Chief Financial Officer, Cascades Canada ULC

Well, as we say at—when we had the call on Bear Island, we expect this year to be within the range we have provided, including the purchase of the asset, and for next year we expect a similar level, given the project we have in Tissue, and also some of the investment on Bear Island, so we'll be in a position to give more detail once the final scope of the project will be complete.

**Keith Howlett** – Analyst, Desjardins Securities

Thank you.

**Operator**

Your next question comes from the line of Sean Steuart with TD Securities. Your line is open.

**Sean Steuart** – Analyst, TD Securities

Thanks. Just one quick follow-up. On Slide 22, the sequential EBITDA progression for each of the segments, for Tissue you're showing an \$8 million sequential headwind that's in other segments, I suppose, and I guess some of that's freight and some of it is price, which isn't (inaudible) anywhere else. Can you give us an idea of what's included in that, and just from your previous comments, it sounds like freight pressure's been more pronounced for Tissue than some of your other segments, and maybe I'm misreading that, but can you give us some context on that difference as well?

**Jean Jobin** – President and Chief Operating Officer, Cascades Tissue Papers Group

Sure. In that bucket of \$8 million that you're referencing, there's \$1 million for freight. There's \$2 million for fixed, so it's—and on the mix side, because we have reduced our inventory of jumbo roll (inaudible) grade and sell more brown fibers, there's also another \$3 million there, so basically that's a big bucket, and we are impacted a lot on freight because we ship a lot in the U.S., further away than the rest of the group of Cascade, so further away and more trucks going to the U.S., so we are impacted more than the other groups.

**Sean Steuart** – Analyst, TD Securities

Okay. Thanks for that detail. That's all I have.

**Operator**

Your next question comes from the line of Paul Quinn with RBC Capital Markets. Your line is open.

**Paul Quinn** – Analyst, RBC Capital Markets

Yes. Thanks very much. I guess it's still morning. Good morning. Maybe just start in Tissue, I'm just wondering—just trying to figure out the price increase, and I know—specifically for you and your mix, is the price increases that you've outlined across your product spectrum, is that going to offset the kind of 20 percent year-over-year increase you've seen in pulp and freight costs?

**Jean Jobin** – President and Chief Operating Officer, Cascades Tissue Papers Group

No. (Inaudible). Paul, we don't want to give guidance and signaling around that, but no.

**Allan Hogg** – Vice President and Chief Financial Officer, Cascades Canada ULC

As we mentioned, Paul, it's positive momentum, along with the great volume we're having, so it's positive momentum for the business.

**Paul Quinn** – Analyst, RBC Capital Markets

Yes, just trying to forecast it out though, so if I put in price increases, have I got—does that deal with half of the inflation you've seen over the last year?

**Allan Hogg** – Vice President and Chief Financial Officer, Cascades Canada ULC

We won't go into that detail, Paul.

**Paul Quinn** – Analyst, RBC Capital Markets

Okay. Maybe just switching over to the West Coast, converting, you mentioned you're at 50 percent of capacity now. When do you expect to get to the full ramp? Is that a mid '19 timeframe?

**Jean Jobin** – President and Chief Operating Officer, Cascades Tissue Papers Group

Well, honestly, it will depend on how successful we'll be with the inroad, but this year we are doing very good, and it's always tougher at beginning, so we're really looking for having a better 2019, and so far we're increasing every month.

**Mario Plourde** – President and Chief Executive Officer, Cascades Canada ULC

But we have the team in place over there, so everything looks good, right?

**Jean Jobin** – President and Chief Operating Officer, Cascades Tissue Papers Group

Oh, yes. That's what we said the last time. That's what I said in my comments.

**Paul Quinn** – Analyst, RBC Capital Markets

Okay, so maybe switching over to something that's doing really well. Mario, Boxboard Europe is delivering some pretty strong results. It looks pretty good. Is this business segment now more strategic and core to CASCA than it's been in the past?

**Mario Plourde** – President and Chief Executive Officer, Cascades Canada ULC

We have not changed our position, basically, Paul. We're pleased with the result, and this is what we communicate to the industry, that there was value to be added, and now you're seeing this

evaluation coming up, and I think there is more to come, so no, we have not changed in terms of the positioning of this group within the rest of the Company.

**Paul Quinn** – Analyst, RBC Capital Markets

Okay, and then just lastly, just on, I guess, recovered paper, and specifically, OCC prices going forward, and now we've got some tariffs in place. Expectation for the balance of the year, in 2019 on OCC pricing?

**Allan Hogg** – Vice President and Chief Financial Officer, Cascades Canada ULC

We don't expect to see any up movement, increasing of any type with OCC for the rest of the year.

**Paul Quinn** – Analyst, RBC Capital Markets

How much down do you expect then?

**Allan Hogg** – Vice President and Chief Financial Officer, Cascades Canada ULC

It will be a small number, because as I said earlier, we're approaching the floor level for the cost structure, and we won't—if we don't want to impact the recovery of the fibers. It cannot go much lower than what it is now. At least this is our opinion, so it's maybe \$5, \$10 that could go down. Lower than that, that would be impacting the supply (inaudible).

**Paul Quinn** – Analyst, RBC Capital Markets

I got it. Great. Hey, thanks guys. Best of luck.

**Mario Plourde** – President and Chief Executive Officer, Cascades Canada ULC

Thank you.

**Operator**

If you would like to ask a question, please dial star, one on your telephone keypad. The next question comes from the line of Keith Howlett with Desjardins Securities. Your line is open.

**Keith Howlett** – Analyst, Desjardins Securities

Yes. I just wanted to ask, on the waterfall chart for the Tissue Papers, I'm wondering where the Oregon converting plant fits in. Is it under other variances, or...

**Jean Jobin** – President and Chief Operating Officer, Cascades Tissue Papers Group

No, it's everywhere. It's in all buckets.

**Mario Plourde** – President and Chief Executive Officer, Cascades Canada ULC

Well, yes. The volume is in volume, but all the costs related to the sales force initiative, it's in other volumes.

**Keith Howlett** – Analyst, Desjardins Securities

On a year-over-year basis, would it be better than last year, or do we cycle getting improve— does improvement begin in Q3, or are we already—is it already better year-over-year in Q2?

**Jean Jobin** – President and Chief Operating Officer, Cascades Tissue Papers Group

We're better year-over-year.

**Keith Howlett** – Analyst, Desjardins Securities

Thank you.

**Operator**

Thank you. There are no further questions at this time. Monsieur Plourde, please continue.

**Mario Plourde** – President and Chief Executive Officer, Cascades Canada ULC

All right. Thank you everyone for being part of this call this morning, and we're looking forward for the Q3 call, and hope to see you all there. Thank you and have a great weekend.

**Operator**

Merci, mesdames et messieurs. Cela met fin à la conférence d'aujourd'hui. Vous pouvez maintenant raccrocher votre ligne.

Thank you ladies and gentlemen. This concludes today's conference call. You may now disconnect.