

Cascades Canada ULC
Fourth Quarter 2018 Financial Results
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PRESENTATION

Operator

Bonjour. Je m'appelle Julie et je serai votre opératrice aujourd'hui. J'aimerais vous souhaiter la bienvenue à la conférence téléphonique sur les résultats financiers du quatrième trimestre 2018 de Cascades.. Toutes les lignes sont en mode écoute seulement afin d'éviter du bruit inutile. Suite aux commentaires *des présentateurs il y aura une session de questions et réponses. À ce moment, si vous voulez poser une question, vous pouvez appuyer sur l'étoile, suivie du numéro un sur votre clavier téléphonique. Pour retirer votre question vous n'avez qu'à appuyer sur le dièse.*

Good morning. My name is Julie and I will be your Conference Operator today. At this time, I would like to welcome everyone to the Cascades Fourth 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 Fourth Quarter 2018 Financial Results Conference Call. The speakers this morning will be Mario Plourde, President and CEO, Allan Hogg, CFO, Charles Malo, President and COO of the Containerboard Packaging Group, Luc Langevin, President and COO of the Specialty Products Group, and Jean Jobin, President and COO of the Tissue Papers Group.

We will begin the call with discussions regarding 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 interim report, released on February 14, 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 could 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 Q4 2018 Investor Presentation for details. This presentation, along with our fourth quarter press release, can be found on 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 call 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. On an adjusted per-share basis, we generated breakeven earnings in the fourth quarter. This compares to earnings per share of \$0.14 for 2017 and \$0.40 in the previous quarter. Again, on an adjusted basis, EBITDA of \$113 million increased 8 percent over the last year, and decreased 18 percent from the third quarter. On a consolidated basis, the EBITDA margin reached 9.4 percent in Q4. These results were larger driven by good performance from our Containerboard and European Boxboard segments. These were offset by softer results in

Specialty Products, and disappointing results in Tissue Paper. We will provide more context about the performance of each of our business segments later in the call.

Let me briefly touch on our Tissue Paper business. As you all know, these segments face, and continue to face, significant industry-wide headwinds. That includes the elevated raw material cost, pricing pressure, higher logistics cost, and important capacity additions. Cascades has seen the fallout of these factors trend slightly into significant margin erosion. It should be said that its geographic position and quality of some of our equipment, particularly our converting assets in the U.S., is not optimal in terms of our supply chain execution. On this last point, we expect the investment we are making in new state-of-the-art equipment will position us for the long-term to better serve our customer. More broadly speaking, we are currently completing an extensive review, and have begun implementing steps to reverse this trend in our Tissue business.

On the KPI front, fourth quarter shipments increased by 2 percent from Q3. This increase was driven by Europe, where shipments were up almost 13 percent sequentially due to its recent acquisition. Shipment levels decreased in all of our North American operations, which is in line with usual seasonal change in demand. Our fourth quarter capacity utilization rate of 90 percent decreased by a margin of 1 percent sequentially, and compared to last year.

On the raw materials side, the average Q4 Index price for OCC brown paper grade was down by a significant 22 percent year-over-year, and was unchanged compared to Q3. Conversely, the average Q4 price of the solid office paper white recycled grade, which makes up for the large part of our raw material used in Tissue, increased by 25 percent year-over-year, has begun to show signs of easing as it was down 3 percent compared to Q3. The year-over-year and sequential performance of our Tissue

segment was also impacted by the virgin pulp pricing, which continued to increase both sequentially and compared to the prior-year levels.

I will now pass the call to Allan, who will discuss the main highlights of our fourth quarter result performance. Allan?

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

Yes, thank you, Mario, and good morning. I will begin with sales, as detailed on Slide 10 and Slide 11 of our Fourth Quarter Conference Call Presentation which can be found in the Investors section of our website. Please note that all reconciliation of non-IFRS measures are also available on our website.

On a year-over-year basis, fourth quarter sales increased by \$114 million or 11 percent. This reflects the improvement in pricing and sales mix in all of our segments, and favourable exchange rate impact. Acquisitions in the last 12 months in the Containerboard, Specialty Products, and Boxboard Europe segment added \$65 million to sales in Q4. Sequentially, Q4 sales increase by a marginal \$21 million or 2 percent, as volumes were lower in Boxboard Europe and Tissue. The acquisitions completed in Q4 in Europe in Specialty Products added \$46 million in sales in the last two months of the quarter.

Moving now to operating income and Adjusted EBITDA; as highlighted on Slide 12, Q4 Adjusted EBITDA of \$113 million increased \$8 million from prior-year levels. The Presidents will provide more details regarding performances of their respective segments. On a consolidated basis, results benefited from a stronger performance from our Containerboard segment. These were partially offset by lower results from the Tissue segment, and a marginally lower contribution from Specialty Products and corporate activities.

The change in depreciation expense reflects business acquisitions and new equipment start ups in the past year. Sequentially, Q4 Adjusted EBITDA decreased by \$24 million. This was largely the result of our Tissue performance, and also from a lower contribution of our Containerboard activities.

Slide 14 and Slide 15 illustrate the year-over-year and sequential volumes of our Q4 earnings per share, and the details of the specific items that affected our quarterly results. As reported, results per share were a loss of \$0.69 in the fourth quarter compared to reported earnings per share of \$0.60 last year. Both periods included specific items which I will explain in a few minutes. On an adjusted basis, earnings per share decreased by \$0.14 per share as a result of lower operating income and higher effective tax rate.

As was the case in recent quarters, net earnings attributable to non-controlling interest in Greenpac and Reno di Medici were higher compared to last year, thus reducing our share of the net results.

Slide 16 and Slide 17 illustrate the specific items recorded during the quarter that impacted operating income and net earnings. Our fourth quarter results include an impairment charge of \$75 million or \$0.60 per share on certain of our U.S. Tissue assets, following a review of their recovery value. Last year, we recorded a \$14 million loss related to the early repurchase of U.S.-denominated long-term debt, and a \$57 million income tax gain resulting mainly from the U.S. tax reform announced at the end of 2017.

Fourth quarter cash flow from operations increased by \$12 million year-over-year to \$89 million. Adjusted free cash flow decreased by \$7 million as a result of higher CAPEX level in 2018 and dividends paid to minority shareholders and (inaudible). For the full year, our adjusted free cash flow was positive at \$54 million.

Moving now to our net debt reconciliation on Slide 19; our net debt increased 12% in Q4 as a result of business acquisitions in Europe in Specialty Products, and also a less favourable exchange rate at the end of December, which increased debt by \$78 million.

On a pro forma basis, to include our recent business acquisition, our net debt leverage ratio stood at 3.5 times at the end of the fourth quarter, compared to 3.2 times at the end of the third quarter.

On Page 20 and Page 21, we have detailed capital investments and business acquisitions for recent years, and have included some information on the important projects realized in 2018. The main CAPEX this year were related to the end of construction of the Piscataway converting plant in New Jersey, the start of the modernization plant in Tissue, and the acquisition of the White Birch, Bear Island asset in Virginia.

For 2019, as detailed on Slide 22, our expected CAPEX will be between \$330 million to \$400 million, and may vary depending on market conditions, the final approval of the Bear Island conversion project and the performance of our Tissue Paper.

On Page 23, we have provided an early assessment of the impact of the new accounting rules on lease accounting. The new rules came into effect on January 1st of 2019 and will increase our debt by approximately \$80 million and our EBITDA by an estimate of \$23 million. This has no impact on our cash flow profile. I will note that these numbers are not final, and may change upon final review.

For additional details regarding our fourth quarter performance on a segmented basis, please refer to Slides 25 to 30 of the presentation, while our near-term outlook is detailed on Slide 32.

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

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

Good morning, everyone, and thank you, Allan. On a sequential basis, the fourth quarter shipments reached 368,000 short tons in the Containerboard group, representing stable shipments compared to the previous quarter. The paper shipments to external customers decreased by 7,000 short tons, or 3.7 percent from the previous quarter. Consequently, our integrate rate increased by 2 percent to reach 58 percent in the fourth quarter. Accordingly, when including the paper sold to our associated companies, our overall Q4 integration rate remained stable at 78 percent.

On the productivity front, our Q4 operating rate of 92.3 percent increased by 1 percent compared to Q3. In the converting sector, the shipments increased by 4 percent sequentially, when expressed in millions of square feet. This outperformed both the Canadian and the U.S. markets.

With regards to pricing, our average selling price remained stable on a sequential basis. On a segmented basis, our average Containerboard selling price, denominated in Canadian dollars, increased by CAD\$4 per short ton, while the average selling price of our corrugated product sector decreased by CAD\$10 per short ton, mainly due to the seasonal Specialty Products dip in Q4. Overall, the stable pricing is mainly the consequence of favourable product sales mix, and also 1 percent depreciation of the Canadian dollar.

During the fourth quarter, the Containerboard Group generated an EBITDA of \$111 million, which translates into a margin of 23 percent. This performance compares to a margin of 25 percent in the third quarter and 17 percent in the same quarter of last year. The EBITDA generated in Q4 2018 represented a record for a fourth quarter. The sequential decrease in our results was largely driven by higher maintenance costs following the 15 days of scheduled downtime, representing 14,000 tons in our mills for major maintenance, and to complete major capital products.

When combined with higher labour costs, the higher costs negatively impacted profitability by \$4 million in the fourth quarter. Also, the average selling price, including the depreciation of the Canadian dollar, reduced profitability by \$3 million.

Before discussing the short-term outlook, let me touch on our Bear Island project in Virginia, and the ramp-up of our Piscataway plant in New Jersey. As of today, all the steps in the Bear Island project are moving in the right direction. As mentioned at the time of the acquisition announcement, we will provide additional details about the project once plans have been finalized and approved by the Board of Directors.

Concerning our Piscataway corrugated plant in New Jersey, I am pleased to report that the ramp-up period is ahead of expectations as we speak, and we have achieved a positive EBITDA contribution in Q4.

Finally, we remain cautiously optimistic in terms of our near-term outlook, as we expect demand levels to be in line with historical seasonal trends during the first quarter. Our results should continue to benefit from favourable OCC prices, but on the downside, a \$20 short ton price decrease per medium was announced in January in the market. This is expected to begin impacting our results at the beginning of March. We estimate the impact to be approximately \$9 million for 2019. I would also note that we are anticipating common maintenance of downtime in our mills during the first quarter of 2019.

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

Mario Plourde — President and Chief Executive Officer, Cascades Canada ULC

Thank you, Charles. The European Boxboard operation generated good results in Q4. Sales increased 16 percent compared to prior-year's level, driven by a higher average selling price, lower raw material prices, and the contribution of PAC Services and Barcelona Cartonboard.

On a year-over-year basis, the average Q4 selling price and recycled boxboard activities increased by €30 or 6 percent, reflecting price increases and the addition of Barcelona. The average Q4 selling price in virgin boxboard activities increased by €24 or 3 percent. EBITDA increased 5 percent from prior-year levels, driven by a higher selling price and lower raw material cost, partially offset by higher energy costs. On a sequential basis, the 16 percent increase in sales in Canadian dollar largely reflects the addition of the mill in Spain. Adjusted EBITDA increased marginally by \$1 million or 5 percent from Q3 levels.

For the near term, in addition to the acquisition completed in 2018, macroeconomic and political factors supported a moderately positive near-term outlook. Specifically, lower demand is expected to be counterbalanced by expectation of slightly lower energy costs and the implementation of price increases in virgin boxboard, offset by pricing pressure in the recycled boxboard business.

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

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

Thank you, Mario, good morning. For the fourth quarter of 2018, the Specialty Products Group reported sales of \$133 million, 5 percent above Q3 levels. The higher sales is the result of the early December 2015 acquisition of two moulded pulp protective packaging manufacturing plants and the majority interest in the distribution company, specialized in egg (phon) packaging. The added sales from

the newly-acquired businesses more than offset the lower seasonal volumes recorded in Europe and in our consumer product packaging activities.

Price, product mix (inaudible) were mostly stable during the period.

Our fourth quarter EBITDA was slightly below expectations, decreasing to \$10 million from \$14 million in Q3. The combined impact of the bankruptcy of two of our customers, lower spreads in our recovery operations, and higher maintenance costs during the quarter largely explain this variance.

Looking at performance on a segmented basis, the Industrial Packaging sub-segment's EBITDA in Q4 was slightly below that of Q3. The higher spreads in our European activities were not sufficient to offset the impact of bad debt, higher maintenance costs in our two mills, lower spreads and seasonal volume in Europe. The EBITDA of our Consumer Product Packaging sub-segment was also sequentially lower. The bankruptcy of a large form customer and lower seasonal volume in the flexible market explain most of the decline. Finally, despite higher sequential volume, results from our Recovery sub-segment was impacted by lower spreads. To a lesser degree, higher maintenance and fixed costs also negatively impacted results in the last three months of the year.

Regarding the near-term outlook, our Recovery sub-segment performance will be negatively impacted in Q1 by the decline in recent recovered paper price. Both OCC and SOP have recorded price declines of US\$10 and US\$20 per ton, respectively, since last December. The first quarter of the year is also typically slower in terms of volume.

For brown grade, while Chinese licenses have been granted, the exports to those destinations have been quieter in recent months. Other export destinations is to be (inaudible). This is beneficial for our paper mill, even during periods such as February, when generation is typically at the low end, and despite the challenging weather conditions we're going through this winter.

The supply for white grade has also been solid and stable, with lower export activity. On the virgin fibre front, the North American market remains well-balanced. Inventory has recently increased, and the material is generally readily available.

Moving to our other business areas, spreads are decent for our packaging activities, and we are entering into favourable quarters of demand for our converting activities.

We are actively working at integrating our recent acquisition in the moulded pulp segment and the ag (phon) market. We are pleased with the enthusiasm shown by our new colleagues in the Midwest, and these new entities will contribute positively to the next quarter results.

Despite the difficult market for our Recovery activities, we expect our Q1 results to be sequentially better and exceed our Q1 2018 performance.

Thank you for your attention. I will now pass the call to Jean who will present the results for our Tissue Paper Group.

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

Thank you, Luc. Good morning, everyone. The Tissue results for the fourth quarter reflect the usual sales seasonality, ongoing challenging market conditions, and historically high pricing of both recycled and virgin white fibres. Performance was also impacted by distribution disruptions following a fire at the Wagram, North Carolina facility, where operations were just beginning to recover from the impact of Hurricane Florence.

These unplanned situations required us to adjust production and logistics to minimize the impact on our service levels. This resulted in higher logistics and external subcontracting costs during the quarter. Additionally, higher energy expenses following a gas pipeline failure on the West Coast in October and operational problems impacted the performance of the St. Helens tissue mill in Oregon.

These operational difficulties negatively affected the performance of the Scappoose, Oregon converting facility, and efficiency of our Kingman Arizona plant, as both are supplied by St. Helens. An action plan is being implemented, and we are expecting to see improvements in the near to mid-term.

Moving now to our fourth quarter results; given the circumstances just discussed, the higher fibre price and the lower seasonal volumes, fourth quarter EBITDA was a loss of \$8 million, or a negative margin of 2 percent. This compares to a positive \$5 million EBITDA or 2 percent margin in Q3. Historically, the fourth quarter is one of the weakest due to the lower seasonal volume and year-end shutdown. Also, these circumstances resulted in our quarterly result decreasing significantly from last year, where we generated EBITDA of \$12 million and a margin of 4 percent.

On the volume side, total shipment increased by 1 percent year-over-year. Shipment of converted product grew by double-digits compared to last year, registering an increase of 11 percent due to higher demand in our targeted market segments. However, external shipments of parent roll decreased by 21 percent compared to last year, mainly due to the higher integration and productivity challenge at the St. Helens mill in Oregon.

The volume levels remain very positive for converted product, and this is mainly due to long-term contract agreements with key strategic customers that were signed during 2018. In order to supply this volume, some additional subcontracting was required on a short-term basis, which has impacted our profitability. Our capital investment plan is aimed at addressing this situation, amongst other things.

In terms of pricing, the average selling price increased by 11 percent year-over-year. This reflects the previously announced price increases, the higher proportion of converted product in our overall shipments, and the depreciation of the Canadian dollar. On a sequential basis, our quarterly average selling price increased by 3 percent for the same reasons.

The impact of the price increase announced in all markets during the second half of 2018 has begun to flow through our results, and were positive to overall cost stability. On an operational basis, the higher raw material costs remain a headwind, as did a less favourable mix of white fibre use during the quarter. This increase negatively impacted our result by \$18 million year-over-year. On a sequential basis, the increase in white fibre and pulp price did ease, but nonetheless, continued to negatively impact our result by \$4 million on a net basis.

As we have mentioned in the past, current challenges in the North American transportation network and higher fuel costs remain one of the driving factors behind the significant increase in our cost levels. To this end, transportation and logistics costs negatively impacted our results by \$10 million year-over-year. This impact is also the result of the fact that we had to reallocate production volumes across our network to avoid supply disruption following Hurricane Florence and the fire at our Wagram plant. Combined, the hurricane, the fire and the gas pipeline negatively impacted fourth quarter results by approximately \$5 million.

Looking briefly at our West Coast operations, I would note that we continue to make good progress in terms of market penetration by gaining volume. Operational problems continue to be an issue at our St. Helens mill. However, an action plan is now in place, and we expect to be able to achieve better results over the coming months.

This morning, we announced the definitive closure of our Tissue Paper machine located in Whitby and Scarborough in Ontario. The lease for these two plants expired on August 27, 2019, and will not be renewed. The end date of the production remains to be determined. In total, the sites produce 44,000 tons of tissue paper annually and employ 68 workers. Their unprofitability and the current

market conditions have convinced us that it is better to source externally to supply our internal needs. Half of the production was for us, and half was sold to the open market.

Looking more globally for our market, we expect conditions will remain challenging in the near-term. However, we're expecting white fibre prices and transportation costs to be more stable to slightly down, which will certainly help the overall cost stability. With the volume gain last year, we need to optimize how we allocate our production and our ability to reduce logistical costs.

Thank you, and 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. I will keep my concluding remarks to a minimum so that we can open the call to questions.

Our outlook for the Tissue segment remains muted for the near-term. I would like to emphasize that we are resolutely focused on resolving the challenge that this segment is facing, and are currently implementing actions to realize performance on this segment with our targeted profitability levels.

Overall, our near-term outlook is cautiously optimistic. Market dynamics remain fair for Containerboard within the context of seasonal first quarter softness, and a slight decrease in the Index price for medium. That said, the slightly lower OCC pricing is positive for this segment.

European Boxboard is expected to benefit from the acquisition completed in 2018, in addition to a slight easing of the energy cost.

Near-term expectations for the Specialty Product are positive, a reflection of the recent acquisition of U.S. moulded pulp assets, and a more favourable raw material pricing trend for this segment.

Before putting the call to questions, I would like to thank all of our employee and Management team for their ongoing dedication and hard work, and their important contribution to our record annual performance in terms of Adjusted EBITDA and health and safety in 2018.

On that note, I will now be happy to answer your questions. Operator?

Q&A

Operator

Merci. En ce moment, si vous voulez poser une question, vous pouvez composer l'étoile suivie du numéro un sur votre clavier téléphonique.

Thank you. If you would like to ask a question, simply press the star, then the number one on your telephone keypad.

Your first question comes from the line of Roshni Luthra. Your line is now open.

Roshni Luthra — Analyst, CIBC Capital Markets

Yes, hi, good morning. Jean, I think have a question for you first regarding Tissue. What impact do you expect the elimination of the (inaudible) mill in New Jersey to have on SOP prices, and are you seeing signs that the Nine Dragons Fairmont mill is moving away from SOP?

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

The first part of your question, obviously, they were using a lot of SOP over there so we should have an impact down on SOP prices. We've seen some pressure down on this, of course. Maybe Luc has something to add on it?

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

Yes, with regards to Nine Dragons, obviously, what we hear is that they're trying to move away from SOP, but we're hearing that they're facing some production issues in the transition. But this is definitely their goal.

Roshni Luthra — Analyst, CIBC Capital Markets

Okay.

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

Also, obviously the consumption of SOP should be going down for them.

Roshni Luthra — Analyst, CIBC Capital Markets

Okay, great, thanks. Then just on the Containerboard side, so Pulp and Paper Week, they cut the medium benchmark price by \$20 in January. Can you quantify the EBITDA impact of that on your business, and is that only open market sales that are affected, or do you have some box contracts (phon) indexed to the medium benchmarks?

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

Based on our calculation, the overall impact should be for the year of 2019, around \$9 million for our sector. As for your question, this will have an impact over the course of the year; the direct sales to the outside will be moving faster than the impact on the contract that we have for (inaudible) product.

Roshni Luthra — Analyst, CIBC Capital Markets

Great, thanks. Good luck for the next quarter. I'll turn it over.

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

Thank you.

Operator

Your next question comes from the line of Sean Steuart. Your line is now open.

Sean Steuart — Analyst, TD Securities

Thanks, good morning. A question on Tissue to start; there were a lot of numbers thrown around referencing the quarter-over-quarter trend. If you isolate the non-recurring issues you had this quarter across a number of operations, what was the impact of the non-recurring items that were out of your control with respect to EBITDA this quarter?

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

Well, I'd say about \$5 million.

Sean Steuart — Analyst, TD Securities

Okay.

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

Five million, as you said, were linked to the non-recurring items.

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

As a non-recurring item, exactly. The rest is regular business. Fibre is great, it's subcontracting costs that are higher, and again, the inefficiency of our St. Helens plant. We had trouble there, that affected Scappoose and Arizona. We had to buy paper externally; we had to move paper around, so that was a tough quarter for us on those assets (phon).

Sean Steuart — Analyst, TD Securities

Okay. When we're thinking about a broader plan to achieve your target margins at Tissue, and we appreciate you're going to be spending a lot on CAPEX in that segment over the next two to three years, is that really a three-year turnaround, broadly speaking, in terms of optimizing productivity and costs in that segment? Is that the right way to think about it, in terms of timing?

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

I'd say it makes sense, because when you look at the time that—right now, we are more on the—away from (inaudible) modifying asset, changing asset, removing old assets. (Inaudible) basically installed basically this year until half of next year, and then around (inaudible), let's say, a year before you optimize, we also have to do some investment in the retail market after that. I'd say that your timeframe makes sense, Sean.

Sean Steuart — Analyst, TD Securities

Okay.

Mario Plourde — President and Chief Executive Officer, Cascades Canada ULC

Sean, maybe I just can add, the (inaudible) situation may help us in that regard, so accelerate, maybe, the benefit that this segment of business needs. But our plan has not changed. It's three years, our reinventing and realigning our assets, and also the fate of the mill. That's it.

Sean Steuart — Analyst, TD Securities

Okay. Last question for now; the Bear Island project, when do you anticipate taking that to the Board, and if you can provide some context on some of the milestones that need to be reached before you're comfortable taking that project to the Board?

Mario Plourde — President and Chief Executive Officer, Cascades Canada ULC

Our intent is to get the approval before the end of Q2 2019. Following that, there is normal lead times for equipment. We're still, at this point, doing some pre-work and planning, and all of this is being done during the preparation for the presentation for the quarter.

Sean Steuart — Analyst, TD Securities

Okay, that's all I have for now. Thank you.

Operator

Your next question comes from the line of Zachary Evershed. Your line is now open.

Zachary Evershed — Analyst, National Bank Financial

Good morning. You mentioned in your press release prior to the quarter that Tissue was hit by the one-time event. You quantified those as a \$5 million impact, then you mentioned that the rest was freight, fibre, and the impact of the St. Helens inefficiency. In terms of the turnaround at St. Helens, the initiatives there, what kind of giveback are we looking at, and over what kind of timeline?

Mario Plourde — President and Chief Executive Officer, Cascades Canada ULC

Well, it's a great question. First, the timeline, we're already working on that since November, very heavily. We already see a good result now, but you know, this is—there's CAPEX involved, so not—I'd say not before Q3 this year that we will feel we're going to be really at the level we need to be. We had damage there on big equipment that really hurt us on the fibre side, so it's not an easy fix. But I can assure you that I have support from Cascade right now and the resources from my colleagues, so there is a big team there fixing the situation.

But again, when there's CAPEX involved, it takes more time. I'd say during Q3, we should be in a very good position in St. Helens versus now, but we already see results in January and February.

Zachary Evershed — Analyst, National Bank Financial

Thank you very much. How do you feel about the supply and demand balance in Containerboard versus the capacity additions that have been announced by competitors and your own Bear Island addition?

Mario Plourde — President and Chief Executive Officer, Cascades Canada ULC

Okay, so I'll start with the Bear Island. For us, as we mentioned when we did the announcement for the acquisition, as the Bear Island project for us is to basically to keep improving our asset base. Well located for us, when we look at our expansion. When we look at the additional volume, and we made a long-term decision to go with this project.

In regards to the additional volume on the market, we made the same calculation as everybody else, and for us, we look at the growth of the box demand and the volume in North America, and the ramp-up of the new announcement for conversion. Some of them are going to happen, some of them are probably not going to happen, and the other thing also, that we don't make in the calculation is there's probably also going to be some of the older pieces of equipment or machinery that are going to maybe close in time.

Yes, there's going to be an impact, but we're still looking at the long-term impact. It'll probably be 2021, 2022, and there's a lot of things that can happen from now until then. We're still optimistic about the North American market in our sector.

Zachary Evershed — Analyst, National Bank Financial

Thank you. The last one from me, given your CAPEX budget for 2019, do you still see a \$100 million debt repayment over the course of the year?

Mario Plourde — President and Chief Executive Officer, Cascades Canada ULC

Yes, this is our objective.

Zachary Evershed — Analyst, National Bank Financial

All right, thank you so much.

Operator

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

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

Keith Howlett — Analyst, Desjardins Securities

Yes, I had some questions on the Tissue business. Firstly on the \$75 million non-cash write-down, what assets does that relate to?

Mario Plourde — President and Chief Executive Officer, Cascades Canada ULC

We don't disclose the detail of this, but you can see that the majority of it is on the St. Helens mill.

Keith Howlett — Analyst, Desjardins Securities

Sorry, on the which mill?

Mario Plourde — President and Chief Executive Officer, Cascades Canada ULC

On the St. Helens.

Keith Howlett — Analyst, Desjardins Securities

Oh, St. Helens mill, I see.

Mario Plourde — President and Chief Executive Officer, Cascades Canada ULC

Yes.

Keith Howlett — Analyst, Desjardins Securities

In terms of the plant closures in the Toronto area, it looks like they had 54,000 of capacity. Was the problem that they didn't have demand, or they are not efficient plants?

Mario Plourde — President and Chief Executive Officer, Cascades Canada ULC

Well, for both it's a different answer, but I can tell you that what you said apply to each of—one machine each. There's a brown machine in Whitby that had not enough demand, and the white one in Scarborough has enough demand, but the profitability was simply not there and the size of the machine was simply not there to justify to continue to operate that.

Keith Howlett — Analyst, Desjardins Securities

Just in terms of location of mills, is it quite different whether it's a recycle mill or—I would presume it is, or a virgin mill, and does it—how does your current plant capacity deal with—mill capacity deal with that, on the freight side? That's what I'm thinking about.

Mario Plourde — President and Chief Executive Officer, Cascades Canada ULC

Well, I'm not sure I understand right the question, Keith.

Keith Howlett — Analyst, Desjardins Securities

Oh, sorry. I was basically thinking that the—if you're using recycled material, that a plant in Toronto where there is a lot of recycled material, would be a good place to have a plant, but one's also producing virgin products that isn't where you'd want the mill. I was just trying to figure out how, as you adjust the end product mix between recycled and virgin product, how that affects where your mills are located?

Mario Plourde — President and Chief Executive Officer, Cascades Canada ULC

Yes, sure. You want to have a recycled mill closer to a big city, but our Scarborough plant, the one producing white grade, was producing virgin paper for our U.S. division that was not an advantage for us over there. The other one in Whitby, it was producing brown paper only, so recycled, on this it was an advantage but there was not enough market for this focused plant. We're not benefiting of

being close of a big city, and we have no converting plant in Tissue in Ontario as well, so we're shipping product far away on top of it.

Keith Howlett — Analyst, Desjardins Securities

Then, can you speak to how the retail products are doing in the Tissue business?

Mario Plourde — President and Chief Executive Officer, Cascades Canada ULC

Volume is very good on the retail side. Canada, we have not—we cannot complain about Canada, retail or away from home. It's really the U.S. profitability that didn't suffer because of the supply there, but as you heard earlier, with some view situation, it would help that environment for sure. But the U.S., it's where it's tough right now.

Keith Howlett — Analyst, Desjardins Securities

Okay, thank you.

Mario Plourde — President and Chief Executive Officer, Cascades Canada ULC

On the retail side, yes.

Operator

Your next question comes from the line of Paul Quinn. Your line is now open.

Paul Quinn — Analyst, RBC Capital Markets

Yes, thanks very much. Good morning, guys. I guess maybe to start with Containerboard; just, we've seen some weakness in medium. How much more weakness do you expect that, and do you think that is spread to liner (phon 45:15)?

Mario Plourde — President and Chief Executive Officer, Cascades Canada ULC

I'm not going to comment on the prices, because you saw the announcement, the publication. There is, on the market, there's a seasonality of the Q4 into Q1, so we saw that on the market, on the

medium. There's also a few new players on that, but we expect—we expect the Q2 to be better, and already in the month of March, we're seeing the seasonal pickup. At this point, we don't see any additional pressure on our side. The thing also is we have integration; we have some long-term contracts also with long-term customers. At this point, we're not seeing anything further than what was announced on the market.

Paul Quinn — Analyst, RBC Capital Markets

Okay, so then the—I guess your near-term factors, that Slide 32 where you've got selling prices coming down quarter-over-quarter, is that more of a muted coming down and you don't expect a significant price drop?

Mario Plourde — President and Chief Executive Officer, Cascades Canada ULC

Yes, exactly. We're trying to—and as you say, the arrow is—it's just a bit lower to reflect, first of all, the mix of product that we do in the Q1 also, less seasonality on our corrugated product. There's also some impact of the \$20. When we did our—placed our little arrows, we put it a bit lower, but nothing drastic.

Paul Quinn — Analyst, RBC Capital Markets

Okay, and then what have you seen in terms of your order file in European Boxboard?

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

We've seen a slowdown at the end of '18 and beginning of '19. They are still healthy, but I can say that we've come down probably, in the three months period, about 5 percent in these. But, we still have probably within 13 to 15 days of backlog, which is fairly good.

Paul Quinn — Analyst, RBC Capital Markets

Okay, and then just, maybe you could describe some of the operational challenges you've had at St. Helens?

Mario Plourde — President and Chief Executive Officer, Cascades Canada ULC

Sure. We had problems with a clarifier with (inaudible) with the new equipment that we installed last year, as well as in terms of communication between the IT system and a new FIS (phon) system we've put in place. We had a lot of operational problems around that; we had to stop machine work, extremely hard on quality. We had way too much glue on the machine at one point. It's like everywhere else; there's a lot of people, turnover in the U.S. right now, and we had bad behaviour, I'll put it this way, from some of the operators that created problems as well. This has affected quality of the two other plants. We saw what we call overall efficiency of our two converting plants using their paper going down in an important manner, which forced us to do more logistics, to send more product to the West Coast again to support them.

That's part of what we had to go through in December. We had to change management over there. It was quite of a turnaround for us, and management change to do in the last quarter.

Paul Quinn — Analyst, RBC Capital Markets

It sounds like a lot of work. Thanks for the additional colour, and best of luck.

Mario Plourde — President and Chief Executive Officer, Cascades Canada ULC

Thank you.

Operator

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

Sean Steuart — Analyst, TD Securities

Thanks, one quick follow-up for Allan. The depreciation at the Containerboard segment spiked this quarter, and I assume that was some accelerated depreciation item. Can you give us some context there, and should we expect that to normalize back to previous levels going forward?

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

You mean in the Containerboard sector?

Sean Steuart — Analyst, TD Securities

Correct.

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

Yes, well, the impact was—this year, was a schedule we planned that came onboard. I think there was maybe a little accelerated depreciation by the end of the year. When we know that we're going to replace some equipment in the future by new CAPEX, we start to depreciate more. But yes, I would say that unless there's a bigger CAPEX coming in, it should be more stable in the future.

Sean Steuart — Analyst, TD Securities

Maybe not all the way back to—I think it would have been \$20 million, \$21 million quarterly beforehand, maybe not all the way back there with Piscataway included, but most of the way back? Is that the way I should think about it?

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

Well, I wouldn't be surprised that it would come down to the prior-year levels, due to recent CAPEX of the recent year.

Sean Steuart — Analyst, TD Securities

Got it. Okay, thank you very much.

Operator

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

Keith Howlett — Analyst, Desjardins Securities

Yes. In 2018, you had the sale of land, the plant here in New York City. Do you have any asset sales this year that will be a set-off against the capital budget of \$330 million to \$400 million?

Mario Plourde — President and Chief Executive Officer, Cascades Canada ULC

We might have some, Keith, but nothing as significant as the New York ones.

Keith Howlett — Analyst, Desjardins Securities

Then just in terms of the \$330 million to \$400 million, can you sort of directionally give us how that will be spent?

Mario Plourde — President and Chief Executive Officer, Cascades Canada ULC

You have a slide in the deck, Slide 22, if I believe. You have the breakdown, and we have highlighted that it will be a portion in Tissue, a portion in Bear Island depending on the approval of the project, and we have put on that slide that this year, we have some warehouses and some rolling equipment replacements, mainly in the Recovery business that we need to do. That's what we have highlighted so far in terms of the major categories of projects.

Keith Howlett — Analyst, Desjardins Securities

Just in terms of that, tissue converting assets, are they mostly in existing facilities, or?

Mario Plourde — President and Chief Executive Officer, Cascades Canada ULC

Yes.

Keith Howlett — Analyst, Desjardins Securities

Yes. Thank you.

Operator

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

Mario Plourde — President and Chief Executive Officer, Cascades Canada ULC

Thank you very much, Operator. Thank you everyone for being on the call today, and we're looking forward to have you on our next call. Thank you and have a great weekend.

Operator

Ceci met fin à notre appel conférence aujourd'hui. Vous pouvez maintenant raccrocher.

This concludes today's conference call. You may now disconnect.