Cascades Canada ULC

Second Quarter 2016 Financial Results Conference Call

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PRESENTATION

Operator

Mesdames et messieurs, [French]. Good morning. My name is Jessa (phon), and I will be your conference Operator today. At this time, I would like to welcome everyone to the Cascades Second Quarter 2016 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 2016 second quarter conference call. During our call today, you will hear from Mario Plourde, our President and CEO; Allan Hogg, our 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. Mario will then discuss results from our Boxboard Europe Group, followed by his concluding remarks, after which we will begin the question period.

Before I turn the call over to my colleagues, please note that the quarterly results of Reno de Medici were released on July 28th and can be viewed on Reno’s website.

Also, during this call, certain statements 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.

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. We continue to improve our results for the second quarter of 2016.

All of our business segments improved their performance both on a sequential and year-over-year basis with the one exception being Europe. When we exclude specific item, we generated a consolidated EBITDA of $112 million, a 9 percent increase compared to last year.

Our second quarter earnings per share, up $0.38, which again excludes specific items, represents a 50 percent improvement over 2015 results.

Shipments were marginally lower compared to last year due to a reduction of 19,000 tonnes in Europe, the effect of which were mostly offset by the increased volume in North America operations.
On a sequential basis, EBITDA increased by 6 million to 112 million, which translates into a margin of 11.2 percent for the quarter, while the sales slightly decreased by 5 million. The year-over-year increase in EBITDA was largely driven by the strong performance of our Tissue Paper Group, which increased its EBITDA contribution by 70 percent. In addition, our Containerboard Packaging and Specialty Products Groups successfully increased our EBITDA by 9 and 14 percent respectively, while results in Europe were slightly weaker due to the lower sales.

We made important announcement regarding our strategic initiative this quarter. The first was in our Containerboard Packaging Group, which successfully acquired the corrugated packaging plant in Connecticut. The move strengthened our position in the Northeast United States by increasing our converting capacity, while also providing us with a platform to execute our longer-term strategy of upgrading our asset base and growing our presence in this area.

Our Tissue Product Group also announced plans to build a new converting plant in Oregon that will house state-of-the-art converting lines, slated to begin operating at the end of the first quarter of next year. This new facility will be integrated with our nearby tissue plants, providing secure offtake of this operation and increase our overall integration rate in tissue.

On the KPI front, our capacity utilization rate is lower than the previous quarter due to lower manufacturing shipment mainly from European operations. Our euro converting shipment offset this decrease.
Looking at raw material cost, the index for brown paper grades increased on both an annual and sequential basis, while the white-fibre price index decreased year over year.

I will now let my colleagues provide you more specific and detailed information, starting with Allan, and I will be back later on to discuss the European operations and the outlook. Allan?

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

Thank you, Mario, and good morning, everyone. I will refer to slides that can be accessed on our website.

So I’ll start with on Slide 11 and 12. So on a year-over-year basis, second quarter sales increased 5 percent to almost 1 billion, driven by a combination of a favourable exchange rate and higher average selling prices in our Containerboard Packaging segment, which were partly offset by lower volume in Europe.

Sequentially, sales remained stable on a consolidated basis. While the Tissue Group benefitted from higher volume, which were partly offset by lower average selling prices, our Boxboard Europe Group was negatively impacted by lower demand. Despite the strengthening of the Canadian dollar, which had a negative impact on all of our groups, Containerboard Packaging and Specialty Products sales also improved during the quarter.

As highlighted on Slide 13, our Q2 EBITDA of 112 million was up 9 percent compared to last year, a result of positive effects coming from higher average selling prices, lower energy costs, and favourable exchange rates. Partially offsetting these effects were higher corporate costs.
Sequentially, on Slide 14, and as Mario mentioned, our second quarter EBITDA increased by 6 million, driven by higher volume and lower energy costs. However, lower average selling prices resulting from an unfavourable sales mix in our Tissue segment and higher corporate costs negatively impacted our quarterly results compared to Q1.

A word on our corporate costs, which are showing an important year-over-year and sequential increase. These variations include share-based compensation expenses, losses on forward exchange contracts, and costs related to the implementation and startup of different shared service activities and of our ERP platform. Also, in 2015, our results included an insurance revenue of 2 million related to prior per-year demand.

Slides 15 and 16 of the presentation illustrate the variance of our Q2 EPS and the details of the specific items that affected our quarterly results, both on a year-over-year and sequential basis. Compared to last year, our second quarter EPS, excluding specific items, increased to $0.38 compared to $0.25. This reflects improved operating results in addition to lower interest expense, increased contribution from our JVs investments and lower non-controlling interest.

Slide 17 of the presentation illustrates that we have some specific items in the quarter. We recorded unrealized gains on financial instruments and a gain on the sale of equipment and customer lists of our Auburn pulp mill facility that was closed early in July.
We also incurred restructuring and impairment charge in relation to the closure of the Auburn plant and some converting activities in Tissue. We also incurred costs related to the reorganization of our European operations.

All in all, as shown on Slide 18, specific items had an impact of 1 million on net earnings during the quarter.

On Slide 19, cash flow from operation shows a solid progression and amounted to 116 million during the second quarter of 2016. Capital expenditures, including capital lease payments, total 53 million in Q2, and our free cash flow amounted to 59 million during the quarter.

Looking at the reconciliation of our debts, as I just mentioned, cash flow from operation were stronger in the quarter and were partly used for CapEx payments and usual working capital investments required during this time of year. Also, following its refinancing, Greenpac made payments totalling $10 million to Cascades relating to a bridge loan and management fees.

Continuing to Slide 21 of the presentation, we also highlight relevant credit ratios as of June 30th. To this end, we are pleased to report that we have continued to deliver on our commitment to improve our net-debt-to-EBITDA multiple, which decreased from 3.8 to 3.6 times at the end of June.

I would also note that total available funds on our revolving credit facility currently stands at over 500 million, even after our July interest payments.
Moving on to Slide 22, we detail our quarterly EBITDA margin and leverage ratio when taking into account the consolidation of our partly owned subsidiaries and joint ventures and associates on a proportionate basis.

Last but not least, on Slide 23 we have also included, for the first time, some financial information on Greenpac. These are the full numbers of Greenpac and not only our proportionate share.

So I thank you for attention. I will now pass the call to Charles to discuss the results of our Containerboard Packaging Group.

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

Good morning, everyone, and thank you, Allan. During the second quarter of 2016, the Containerboard Packaging Group's shipments reached 284,000 short ton, which represent a 3 percent sequential increase. The higher volume for Q2 largely stems from increased converting activities, with shipments up 7 percent sequentially. This performance was in line with the 7 percent increase in the Canadian market and outperformed the 5 percent increase seen in the US market.

Our Manufacturing sector operating rate remains stable at 93 percent. Steno paper shipments decreased by 3 percent in Q2, while our integration rate with our 100 percent owned box plant increased by 1 percent to 53 percent during the second quarter. Including paper sold to our
associated companies, our second quarter integration rate increased to 69 percent from 64 percent in the previous quarter.

On the pricing front, our average selling price decreased by $11 short ton on a sequential bases. Our results benefitted from a favourable product mix during the quarter with sales of corrugated products 2 percent higher than sales of paper rolls.

Our Canadian selling price was impacted by 7 percent or $0.09 increase in the Canadian dollar compared to Q1. Accordingly, our average containerboard Canadian selling price decreased by 8 percent, while our corrugated products selling price decrease by a marginal 1 percent following the price increase announced at the end of February 2016. When excluding the impact of foreign exchange, our average selling price increased by 6 percent when including the impact of the more favourable product mix.

With regards to profitability, the Containerboard Group generated an EBITDA of $60 million during the second quarter of 2016. This represents a 9 percent or 5 million increase on a sequential and year-over-year basis.

As a percentage of sales, the Container Group generated solid Q2 EBITDA margin of 17 percent. Our improved results were driven by higher average selling price, excluding the impact of foreign exchange, and a 7,000 ton increase in shipments, which respectively added 5 million and 2 million to Q2 results. Similarly, lower energy administration costs contributed to management of 1 million to EBITDA during the three months.
Partially offsetting these benefits were 1 million increase in raw material costs and a negative $2 million net impact on the results as a result of foreign exchange variation.

On May 31st, we announced the acquisition of the converting asset located in Newtown, Connecticut from US-based Rand-Whitney in exchange for some of our Thompson, Connecticut facility assets. This transaction will help optimize our US northeast region and is in line with the strategy we employed in recent years to our operation in Ontario and Quebec.

This acquisition had no impact on our second quarter results as the transition only began in June.

With regard to the short-term outlook, we expect demand in the third quarter to improve as a result of normal seasonal demand variation. Despite the increase in value of the Canadian dollar in recent weeks, we expect our results to continue to benefit from the overall weakness of the Canadian dollar.

Finally, a word on the performance of the Greenpac mill. During the second quarter of 2016, Greenpac produced 119,000 short ton of linerboard. Notably, Cascades' proportional share of Greenpac’s net earnings, excluding specific items, decreased to $3 million or $0.03 per share during Q2 from $4 million or $0.04 per share in the previous quarter.

This shortfall is mainly explained by lower selling price and higher raw material costs. The Greenpac XP grade now represents over 82 percent of the total production of the mill, up from 75 percent in Q1, an indication of the positive market reception for this value-added product.

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We're very pleased that we successfully refinanced the Greenpac debt in Q2. The terms of the new deal cut our interest rate by 50 percent and restructures the payment schedule with a final payment of 65 percent at the end of the five-year term. Accordingly, this gives Greenpac more financial flexibility during times of unfavourable market conditions or to pay dividends to its shareholders.

Thank you for your attention. I will now ask Mario to provide you with some overview of the boxboard activities in Europe. Mario?

Mario Plourde

Thank you, Charles. The first half of the year has seen an order inflow trend in Europe that is below last year, both in recycled and virgin board markets. In Canadian dollars, sales decreased by 5 million to 197 million in the second quarter.

This was the result of several factors. Firstly, shipments were down by 7 percent or 19,000 ton, primarily as a result of a 13-day stop at our German mills to permit the rebuilding of a portion of the bore machine and a quality issue of one of our Italian mills.

And secondly, our average price decreased by €12 due to higher volume of overseas sales and the impact of the currency in the UK markets.

Second quarter EBITDA decreased by 2 million compared to last year and totals 17 million for the three-month period, with the decrease primarily due to the lower sales.
We completed the reorganization of our European structure during the second quarter with the transfer of the La Rochette virgin board mills to Reno de Medici. This had a 2 million impact on our financial statement but no impact on our balance sheet since both were fully consolidated prior to this transaction.

Looking ahead, uncertainty is prevailing following the recent events in many parts of Europe. Order inflow level remains lower than last year. Level of recycled fibre prices are currently slightly higher due to export activity. And lastly, on a positive note, I am pleased to report that our recruitment process to find a new CEO is going well.

I thank you and now will ask Luc to provide you with the overview's performance of the Specialty Product Group. Luc?

Luc Langevin#Cascades Canada ULC#President and Chief Operating Office, Specialty Products Group

Thank you, Mario. Good morning, everyone. I'm pleased to report that the Specialty Products Group improved its year-over-year results for fourth consecutive quarter. Sales increased in all business segments during the quarter to reach 157 million, representing a 5 percent sequential increase over the 149 million generated in Q1.

This improvement is essentially due to higher shipments in all segments, the benefits of which were only partly offset by a less favourable exchange rate during the quarter. We completed
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our quarter with an EBITDA of 16 million, up 14 percent compared to Q1. Despite the negative exchange rate and tack on our P&L, our results improved thanks to higher volumes and, to a large extent, to the typical favourable seasonality in our business.

These improved results also represent a 14 percent increase compared to the same quarter last year.

On June 22nd, we announced the permanent shutdown of our de-inked pulp mill in Auburn, Maine. This facility had been negatively impacted by the rapid erosion of the printing and writing paper market and the overall deterioration of market conditions for de-inked pulp. Production at the mill ceased on the July 3rd. Most of the equipment has been sold and is currently being dismantled, and the building and land will be put for sale.

Looking more specifically at our sub segments, EBITDA of our Industrial Packaging segment was in line with the first quarter. Higher volumes were offset by an unfavourable exchange rate and a less favourable product mix during the quarter.

The EBITDA of our Consumer Products Packaging segment remained steady. Higher seasonal demand and better productivity helped to overcome a less favourable exchange rate and higher fixed costs during the quarter.

Finally, the EBITDA of the Recovering Recycling segment improved by 2 million over the previous quarter. We benefitted from higher recycled paper generation during the period and
improved spreads due to a slight improvement in market conditions. Our production costs also benefitted from higher activity.

Looking forward, we remain positive for the near future with stable market conditions in our Industrial and Consumer Product Packaging segments, thanks in part to higher seasonal demand. Our Recovery segment is expect to continue to benefit from recent spread widening, and we do not expect significant variation in currency or rising prices.

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

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

Thank you, Luc. Good morning, everyone. I'm pleased to report that the Tissue Group delivered good second quarter 2016 results, the fifth quarter in a row that we have successfully improved our performance on a year-over-year basis.

Q2 EBITDA was $39 million or 12.3 percent on a margin basis, which represents a significant improvement compared to the same period last year when we generated a margin of 7.8 percent on an EBITDA of $23 million. On a sequential basis, Q2 results were 17 percent above Q1 EBITDA of $34 million and corresponding margin of 10.5 percent.

The traditionally positive seasonal market variability contributed to our solid second quarter results. The summer season started strong and our consolidated shipment increased 10 percent above the first quarter of the year. More specifically, parent roll shipment increased 23
percent, and our converted product shipment increased 6 percent, reflecting typical strong customer demand seasonality.

Moreover, we generated a new record this quarter in terms of shipment in June, a very positive indication as we enter what is the highest customer demand season.

In terms of pricing, our average second quarter selling price decreased 8 percent on a sequential basis, largely due to the strength of the Canadian dollar and a combination of parent roll market price reduction and a lower proportion of converted products sold during the current quarter. These impacts were partially offset by the Canadian relo (phon) market price increase that was fully realized by the end of the quarter.

The combination of higher shipment, partially offset by the lower average selling price just discussed, translated into a 1 percent sales increase on a sequential basis.

On an operational basis, we continue to improve our productivity during the second quarter, most notably in our three most recent major investments in Candiac, Wagram, and Oregon.

Our energy costs remained low in the second quarter, while recycled fibre costs increased slightly compared to the first quarter. Our inventory levels have started to decrease, which is a normal trend for this time of the year.

Finally, we are moving forward nicely with our west coast project that we announced on June 16th, and I’m pleased to note that we broke ground at the end of the quarter.
Looking ahead, we are anticipating a good third quarter thanks to the current positive volume trends experienced in the first half of the summer season and our improved operational efficiencies.

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

Mario Plourde

Thank you, Jean. Our team continued to implement their plans to improve their efficiencies. We expect these efforts to translate into a good operational performance through the end of 2016. Even if we anticipate that our result will be impacted by the recent price increases in the cost of recycled fibre and the seasonal impact on volume in the fourth quarter.

Also, we continue to expect our Packaging Group to deliver a good performance through the third quarter, which is a seasonally strong period for these operations.

In regard to our Tissue Group, we anticipate that sales efforts and cost reduction initiatives will translate into a solid performance through the seasonally strong third quarter.

In Europe, we expect market conditions to remain soft and order intake to continue to lag last year’s level.

The recycled paper market continues to experience strong demand in North America mainly due to the export activity, and we are expecting some small residual price increases in the brown grades to take place during Q3 as a result of the Q2 index price increase. Demand for white grade remains good, and with the material generation being soft, we may also experience a small
price increase. However, we continue to be able to successfully fulfill all of our material input needs, and our team remains focused and establishing and negotiating favourable terms with all of our suppliers.

That being said, we do not expect to match the record performance achieved in the third quarter last year, but we will continue to carefully manage our financial situation in order to direct a significant portion of our free cash flow to debt reduction, which is normally the case in the second half of the year.

I will now open the line for questions. Operator?

Q&A

Operator

Merci. [French] Thank you. If you would like to ask a question, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press the # key. And again, that is *, followed by the number 1 on your telephone keypad.

Your first question comes from the line of Hamir Patel from CIBC. Please go ahead.

Hamir Patel — CIBC Capital Markets

Hi. Good morning. I have a couple questions on the containerboard side. Your realizations that you listed in US dollar terms, they look like they were flattish year over year, and that seems surprisingly strong to me just when I kind of comp that against some of the other US peers that have
reported results, and then also the REECE benchmarks. Just trying to understand what has driven that price outperformance. I realize the integration rates increased a bit over that period, but it doesn't look like it's dramatically different, and it looks like you're pointing to stable prices in Q3, so just curious if you have any thoughts on what's driven that pricing outperformance.

**Charles Malo**

Well, maybe two comments on that. This is Charles Malo speaking. The volume certainly was a contributor to our result, and also our Canadian sales performed because we were able, as we spoke in the past, that we announced a price increase on our converted product, which helped the overall average selling price for our group.

**Hamir Patel**

Right. Okay. That's helpful. And I appreciate the increased disclosure on Greenpac. I kind of—when I back into the pricing of that specific mill, it looks like it's maybe been tracking a bit lower than some of the recycled figures that get quoted in Pulp & Paper Week, but at the same time it looks like costs have been lower than I was expecting.

As XP becomes a bigger proportion of the mill, do you think there's an opportunity to actually raise the price that you've been charging for XP relative to regular recycled product?

**Charles Malo**

Okay. Yeah. I'm not going to comment on specifics on the pricing for the mill, but there's two things I can add is our intent is to keep promoting our high value, because XP is a high-value
recycle grade, and that's how it's been promoted on the market. We still have room, by the way, to increase the output of the mill, because we're not at capacity. We still have some work to do on the efficiency and, again, further improve our cost structure. But there is some room to improve the quantity and also the acceptance on the market.

Hamir Patel

Okay. No. Thanks. That's helpful. And where do you see that XP mix sort of stabilizing at?

Charles Malo

We're right now between 80 and 83 percent, so right now we achieved 82 percent for the last quarter, and we have an objective, overall, in time, to be around 85 percent of the output.

Hamir Patel

Okay. Thanks. That's helpful. I just had one final question on the Tissue business. Jean, you referenced, I guess the hike was fully in by the end of Q3, and I think on the prior conference call, it looked like it was going to come in at around 5 percent. Just curious what the scale of the hike ended up being when it got fully implemented.

Jean Jobin

The Canadian price increase? Remember it was—

Hamir Patel

Yeah.
Jean Jobin

Okay. Yeah. So we had announced, if you remember, two different price increase in Canada: one in the away from home that was 5 percent at the beginning of June. And in the consumer product market, we have also announced a price increase that was going between 5 and 6.5 percent, depending of the channel and the category we’re having. So both of them away from home, as you know, it's longer to implement, and it takes very often six to nine months. But all customers had their increase, but the contract, as soon as they renew, we renew with the price increase. And then the CP is all in place from late April to late May. So it's only a part of it is realized during this quarter, but Q3 will have full impact on the CP side.

Hamir Patel

Okay. And was that CP hike in Canada generally followed by most of the major producers?

Jean Jobin

Well, honestly, we are mostly in private label. So it's tough to know what they're doing. So I don't really know what they did on their side.

Hamir Patel

Okay. Fair enough. That's all I had. I'll turn it over. Thanks.

Operator

Your next question comes from the line of Leon Aghazarian from National Bank Financial.

Please go ahead.
Leon Aghazarian — National Bank Financial

Hi. Good morning, everyone. My first question is regarding the corporate expense. I appreciate the colour you provided, Allan, the breakdown there. Could you just walk us through a little bit what you see as a normalized run rate going forward, because it seems to me that some of the components there mean that the share-based comp and some of the other factors there I mean can be there on a recurring basis. I'm just trying to get your sense on what you see as a run rate going forward?

Allan Hogg

Well, share-based comp, a portion of it, all of it, is based on the share price. So if share prices continued to fluctuate, it will be up and down. But as we mentioned maybe a few calls ago, we continue to have some cost related to our internal transformation and debt is approximately 3 million to $5 million a quarter of expense depending on the pace of our activities. So Q2 and Q3 are normally very busy activities for this transformation. And so maybe I would say if you want to run a model, maybe use a $15 million a quarter of negative contribution. So that's what I can say, but also in there, we have some corporate activities, engineering, transportation that we do some activities outside of the Company, so that also may bring some additional profitability, but that depends.

Leon Aghazarian

That's very helpful. Thank you. My second question is regarding the price of the recycled fibre. I mean, as you mentioned, there was quite a pretty important increase in OCC prices in the...
quarter. I’m just trying to get your view on what you believe is the main cause of that and what you feel is the outlook and ultimately the timing of the impact on that for Cascades’ business.

Allan Hogg

Well, as you noticed, Q2, it was a little of a surprise for us the height of the increase. What drove the increase is mainly, in our opinion, export market, because when we're looking at the activity levels in the market, we’re fulfilling all our orders right now. We have no problem whatsoever to find materials. So it's basically export driving the increase.

The impact will probably be split between Q2 and Q3 for OCC, and what's our view till the end of the year? Honestly, right now, we can fulfill, as I said, all our orders. So unless export picks up, we should not see a major change in Q3 and Q4. And Q4 normally for OCC, it’s a high-generation period, so sometimes we see a decrease in pricing.

Leon Aghazarian

Okay. Fair enough. And the final one for me would be you mentioned in your outlook portion that your Q3 '16 performance isn't expected to match your record Q3 '15. Can you just give us a quick kind of view as to what you think the main culprit will be there? Is it from the price of the OCC? Is that the major factor there? Or would it be related to other issues? Thank you.

Mario Plourde

There's mainly two things that will drive that is the European situation right now where we are, as I mentioned, affected by the economic environment. It’s not really positive at the moment.
So we're going to be affected by that as we also will incur all the price reduction that we saw in the containerboard.

In my view, those are the two main reasons that we'll not be meeting the 2015 results. So other than that, orders are remaining strong. The business is going well. So those two reasons, in my view, will be the main reason.

Leon Aghazarian

Thank you very much.

Operator

Your next question comes from the line of Bill Hoffmann from RBC Capital Markets. Please go ahead.

Bill Hoffmann — RBC Capital Markets

Yeah. Thanks. Just a quick question on the Tissue side. With the project you’ve got going out west, can you just tell us what your integration rate you think is going to be on the Tissue side? And what might be your ultimate target there?

Jean Jobin

Well, when we'll produce at the rhythm that we expect to produce by the end of next year, if we are able to sell all of that, this will increase our overall integration rate for Tissue by 8 to 8.5 percent.

Bill Hoffmann
To what total?

Jean Jobin

To approximately—normally at this time of the year, we are at 70 percent or so. That will increase let's say to 78, 79 percent, to that level.

Bill Hoffmann

Okay. And is that kind of about the balance you want to keep in that business?

Jean Jobin

No. We want to go higher than that. My short-term goals is to go at 85 percent. We’re working strong on that, and that's why we want to develop our Tissue converting asset.

Bill Hoffmann

And would you get there potentially by making acquisitions? Or are there any assets available to do that?

Jean Jobin

I don't know. We always look at any opportunity, but that would be just giving an answer for an answer. So I don't know at this point. We know we want to build something else in the near future, but in a couple of years from now. We'll see in the mean time.
Great. Thanks. And then just a sort of broader question; as you approach this net leverage of 3 to 3.5 times, what's sort of the next strategic step? You focused on moving into a dividend? Or being more aggressive for acquisitions? Or what might be the thought?

Allan Hogg

Allan speaking. I think we'll continue to remain disciplined. However, I believe we'll continue to invest in our portfolio of assets to increase either integration or reduce costs. So that will be the focus, even if we get to our targeted level. But again, it will give us more flexibility, but we need to continue to improve our asset base.

Bill Hoffmann

Great. Thank you.

Operator

Again, if there are any additional questions at this time, please press *, followed by the number 1 on your telephone keypad.

Your next question comes from the line of Sean Steuart from TD Securities. Please go ahead.

Sean Steuart — TD Securities

Thanks. Good morning, everyone. Just one question; the balance sheet's improving pretty quickly here as your earnings base and free cash flow base improves. How do you guys think about the Boralex investment now? I'm thinking not so much from a deleveraging standpoint, but from a
valuation or arbitrage standpoint. The stock’s had a very good run. Any thoughts you can give us on that investment?

**Mario Plourde**

I will not give us specific, but what I can say is our patience and our view was working well. And as we always do, we will look at all of our assets and investments and try to monitor the situation and make the best call to maximize the value for the Corporation. But so far, we feel that our patience as worthwhile to hang onto the title.

**Sean Steuart**

Yeah. Can't argue that. The rest of my questions have been answered. Thanks, guys.

**Operator**

Your next question comes from the line of Hamir Patel from CIBC. Please go ahead.

**Hamir Patel**

Thanks. Allan, I just had a few follow-ups. Could you update us on your CapEx expectations for 2016? And any thoughts on how that might change in 2017?

**Allan Hogg**

The CapEx level, as we mentioned before, is $185 million. We're in line with this target. We're tracking it regularly. There's no other amount or CapEx that we would added or subtracted from that amount. So we're in line.
Okay. And for next year, sort of arrow up or arrow down on that?

Allan Hogg

We’re not there yet, but this session will be starting sometimes at the end of August, September. So we’re not there yet. So can’t comment on that for 2017.

Hamir Patel

Okay. Fair enough. And then just, I guess, your partners in Greenpac clearly more comfortable now with having more of that financial metrics out there. Do you think there’s a potential maybe in the next 12 months or so to actually change the structure of that agreement so from an accounting perspective, you could actually consolidate Greenpac?

Mario Plourde

No. At this point, we’re happy with the information that we’re providing to the market, and we’re not seeing any changes in that. And we’re also happy with the partnership that we have with the Greenpac people.

Allan Hogg

So on accounting side, there’s no expected change to be able to consolidate. No.

Hamir Patel

Okay. Fair enough. That’s all I had. Thank you.

Operator

There are no further questions at this time. I turn the call back over to Mr. Plourde.
Mario Plourde

Thank you very much, everyone, for being with us this morning, and I wish you a very nice summer. Thank you.

Operator

Merci, mesdames et messieurs. [French] Thank you, ladies and gentlemen. This concludes today’s conference call. You may now disconnect.

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