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Cascades Canada ULC

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CORPORATE PARTICIPANTS

Mario Plourde
Cascades Canada ULC – President & Chief Executive Officer

Allan Hogg
Cascades Canada ULC – Vice President & Chief Financial Officer

Charles Malo
Cascades Canada ULC – President & Chief Operating Officer, Cascades Containerboard Packaging

Luc Langevin
Cascades Canada ULC – President & Chief Operating Officer, Cascades Specialty Products

Jean Jobin
Cascades Canada ULC – President & Chief Operating Officer, Cascades Tissue

Jennifer Aitken
Cascades Canada ULC – Director, Investor Relations

CONFERENCE CALL PARTICIPANTS

Hamir Patel
CIBC Capital Markets – Analyst

Sean Steuart
TD Securities – Analyst

Paul Quinn
RBC Capital Markets – Analyst

Keith Howlett
Desjardins Capital Markets – Analyst

Leon Aghazarian
National Bank Financial – Analyst

PRESENTATION

Operator

Mesdames et messieurs, bienvenue à la téléconférence des résultats financiers du premier trimestre 2017 de Cascades. Je m’appelle Jacynthe (phon) et je serai votre opératrice aujourd’hui. Toutes les lignes sont présentement en mode écoute seulement. Suite aux commentaires des dirigeants, il y aura une période de questions et réponses.

Good morning. My name is Jacynthe (phon) I will be your Conference Operator today. At this time, I would like to welcome everyone to the Cascades First Quarter 2017 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 afternoon everyone, and thank you for joining our first quarter 2017 financial results conference call. Throughout today’s call, 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. After discussion surrounding our North American operations, Mario will then discuss results from our 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 quarter results released on April 28, can be reviewed on the 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 Slides 2 and 3 in our accompanying Q1 2017 Investor Presentation for details. 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 this 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 afternoon everyone. Earlier this morning, we reported adjusted net earnings per share of $0.13. This was below the comparable $0.16 in Q4 and $0.35 in the first quarter of 2016. While our packaging operation executed well during the quarter, higher raw material costs, lower results from our Tissue activities, and planned higher investment in ERP platform and other business process initiatives negatively impacted results on a consolidated basis.

Looking at our financial performance, first quarter sales totalled a $1 billion, up 3% sequentially and stable year-over-year. Our Q1 Adjusted EBITDA of $75 million declined $7 million or 9% from Q4 level, and by a more significant $21 million or 29% year-over-year. We'll discuss details of our financial performance later during the call.

On the KPI front, first quarter shipment increased by 3.5% year-over-year, driven by increase of 2.9% in Containerboard, 9% in Specialty Products, and 6.5% Boxboard Europe. This was partially offset by a 2.8% decrease in Tissue.

On a sequential basis, Q1 shipment increased 4.5%, driven by an increase in our Packaging segment that reflect good demand trends in the segment. This was partially offset by a 3.5% decrease in the Tissue shipments. Our capacity utilization rate of 96% in the quarter improved on both a year-over-year and sequential basis. Both the Containerboard and the European sector increased their utilization rate when compared to both periods.

With European activity generating a particularly strong performance that reflect recent market strength, most notably, in higher order inflow, capacity utilization in Tissue decreased primarily due to seasonality and planned downtime during the period.

On the raw material side, the average Q1 price index for OCC Brown paper grade was up 39% from Q4 and 71% year-over-year, while the average quarterly price of a basket of white grade fibre increased 2% from Q4 and 20% year-over-year. After registering a recent high of 175 in March, OCC prices decreased by $20 in April and an additional $15 in May. While we would expect to see some continued easing on pricing as the result of greater generation, our average Q2 OCC cost is expected to be stable to slightly higher than in Q1 as the lower pricing makes its way through the system.

So let me touch on our debt level, leverage level. Our total net debt increased by 6% in the first quarter. When combined with our lower EBITDA, this resulted in a leverage ratio of 4.5 times, up from 3.8 times at the end of 2016. I would note that higher Q1 leverage income is common for Cascades given the seasonal trends in our business that increased working capital requirements and the large interest payment that we make in the first and third quarter of each year. We expect a more normalized level in the near term as we enter a seasonally stronger period, focused on reducing working capital requirements and continue to allocate free cash flow towards debt repayment.

Last, but certainly not least, I would like to quickly highlight the recent positive announcement we made regarding our Greenpac Mill. Specifically, we are very pleased that we will now be consolidating the facility results beginning in the second quarter as this will provide a clearer picture of our Containerboard platform and performance. Similarly, increasing our ownership stake in the state-of-the-art mill to 62.5%, will also create additional long-term value for Cascades and our shareholders.

I will now pass the call over to Allan, who will provide more details regarding the quarterly results, and I will discuss the European operations followed by the near-term outlook at the end of the call. Allan?

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

Yes. Thank you, Mario, and good afternoon everyone. I will begin with sales as detailed in Slides 13 and 14 of our first quarter conference call presentation, which can be found on the in the Investors section of our website. Please note that our reconciliation of non-IFRS measures are also available on our website.

On a year-over-year basis, first quarter sales increased by $3 million. This reflects a strong contribution from our recovering recycling activities, improved volume in our European business, and higher prices in Containerboard. Lower volume in Tissue, lower selling prices in Europe, and the appreciation of the Canadian dollar compared to both the U.S. dollar and the euro were offsetting factors. On a sequential basis, Q1 sales increase 3% for the same reasons.

Moving now to operating income and Adjusted EBITDA, as highlighted on Slide 15, Q1 operating income was 58% below last year, while Adjusted EBITDA of $75 million was $31 million or 29% below the comparable $106 million last year. Jean and Charles will provide more details regarding their respective performance of Tissue and Containerboard. Our Specialty Products Group continued to perform well as their contribution increased by $4 million compared to last year.

As we have already noted, we expect our investment levels associated with the implementation of our ERP system and other internal process optimizations to remain elevated through the end of 2017. Corporate costs were also impacted by higher share-based compensation expense compared to last year. Sequentially, Adjusted EBITDA decreased by $7 million, reflecting higher costs and the normal seasonality inherent in our Tissue segment.

Slides 17 and 18, illustrate the sequential and year-over-year volumes of our Q1 earnings per share and the details of the specific items that affected our quarterly results. As reported, earnings per share totalled $1.70 in the first quarter—which included specific items which I will detail in a moment—compared to reported earnings per share last year of $0.79. Our first quarter adjusted earnings per share decreased to $0.13 from $0.35 last year, reflecting lower operating results. On a sequential basis, first quarter adjusted earnings per share decreased $0.03 from the adjusted earnings per share of $0.16 in the fourth quarter of 2016.

On Slides 19 and 20, we illustrate the specific items that we recorded during the quarter. We recorded a net amount of $3 million of specific items in Q1 that impacted our operating income, mainly due to unrealized gains on financial instruments. In regards to net earnings, we also recorded an important gain of $160 million on the revaluation of our investment in Boralex at its fair value and also on a dilution gain resulting from the share issuance in Boralex. This change in accounting method is due to the loss of significant influence on Boralex, that is a result of the decrease in our ownership to below 20% and the recent change to the members of Boralex Board of Directors.

As illustrated on Slide 21, cash flow from operations decreased year-over-year to $34 million, which includes an interest payment of $38 million. Capital expenditures, including capital lease payments, totalled $64 million, resulting in a negative free cash flow of $34 million.

Moving now our debt reconciliation. In addition to cash flow from operations, working capital required $39 million of liquidity, which, in addition to CAPEX payments, increased our long-term debt during the quarter. Net debt stood at $1.617 billion at the end of Q1, a 6% increase from Q4 of last year. Our leverage ratio now stands at 4.3 times, up from 2.8 times at the end of last year.

Moving now to Slide 23, for your information, we detail our quarterly EBITDA margin and leverage ratio when taking into account our non-consolidated investments on a proportionate basis.

Finally, as we announced a few weeks ago, we will consolidate Greenpac's financial results beginning in the second quarter. However, we know that everyone wants to have Greenpac's numbers in order to update their financial model. As such, Slide 24 provides some key figures on the last 12-month basis. Some of these numbers are likely to change once the accounting purchase price allocation is completed over the course of Q2. Please note that this is the only information that we will provide on Greenpac.

Thank you for your attention. I will now pass the call to Charles, who will discuss the Q1 results from our Containerboard Packaging Group. Charles?

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

Thank you, Allan, and good afternoon everybody. During the first quarter of 2017 the Containerboard Group shipments reached 285,000 tonnes, which represents a 1% increase from Q4. The higher Q1 volume largely stems from increased manufacturing activity.

Our operating rate rose to 96%, representing a 5% increase compared to the previous quarter, while our integration rate remained stable at 51%. When including paper sold to our associated company, our Q1 integration rate reached 67%, which is a 2% increase compared to the previous quarter. Accordingly, our external paper shipments grew by 7%.

On the converting side, shipments decreased by 3% sequentially. This performance is in line with 3% decrease within the Canadian market and underperformed the 1% decrease seen in the U.S. market. On the pricing front, our average selling price increased by $23 or 2% on a sequential basis. Looking at our segments, our average containerboard Canadian selling price increased by $10, or 2%, while our corrugated product selling price rose by $59 or 4% in Canadian dollars.

The benefits realized from the fall of 2016 $40 price increase were partially offset by unfavourable product mix that negatively impacted our average selling price.

With regards to profitability, the Containerboard Group generated EBITDA of $45 million during the first quarter of 2017, which represents a margin of 13% of sales. The margin remained stable on a sequential basis and 3% lower than the same quarter last year. Our sequentially higher results were mostly driven by a higher selling price following the gradual implementation of the $40 price increase announced November 2016 which added $9 million to our results. Unfortunately, raw material costs were significantly impacted by the higher OCC price which subtracted $7 million from our results.

With regards to the short-term outlook, we expect second quarter demand to improve from Q1 levels as a result of normal seasonal demand variation. We will see progressive benefit from the recently announced $50 price increase in Q2, with full benefit expected in Q3. We remain cautiously optimistic for the second quarter of 2017 and are encouraged by the recent OCC price trends. Despite that, we expect average OCC costs in Q2 to be similar to Q1.

Finally, our results should continue to benefit from the weakness of the Canadian dollar.

On April 4, 2017, Cascade and its partners in Greenpac agreed to modify the shareholder agreement, giving Cascade control according to accounting standards. Accordingly, starting on April 4th, the results and balance sheet of Greenpac will be fully consolidated with those of Cascade. As a result, beginning in Q2 2017 Greenpac results will be included in the Containerboard segment figures.

Lastly, a word on the performance of the Greenpac mill. During the first quarter of 2017, Greenpac produced 123,000 short tonnes of linerboard. Notably, Cascade proportional share of Greenpac's net earnings, excluding specific items, increased to $4 million or $0.04 per share during Q1 from $3 million or $0.04 per share in the previous quarter. The Greenpac XP grades now represent 89% of the total production of the mill, up from 83% in Q4.

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. Market conditions in Europe showed signs of improvement in the first quarter with order inflow up both sequentially and annually for both white lined chipboard and folding boxboard. Specifically, orders for white lined chipboard were up 9% sequentially and 12% year-over-year, while those of FBB increasing 11% sequentially and 8% year-over-year.

In Canadian dollars, sales during the first quarter rose 10% sequentially, driven primarily by a 12% increase in tonnage. When compared to the prior year, Q1 sales in Canadian dollars decreased by 9%, reflecting a 2% decrease in the average selling price in euro and the 7% appreciation of the Canadian dollar. The decrease in the 2017 average selling price in euro reflect an unfavourable geographical sales mix and competitive market condition. Partially offsetting these impacts were better volume.

First quarter Adjusted EBITDA totalled $14 million, down $2 million compared to last year, but a $3 million improvement over Q4 levels. In both cases, this reflects higher production as well as increased shipments that were partially offset by lower selling price and higher raw material costs. Demands in (inaudible) sectors of operation is showing signs of positive momentum, with both order inflow and backlog increasing. On the pricing front, €20 of the announced €60 price increase is expected to be implemented as of June, which should support a more favourable pricing trend going forward.

I'll thank you and I will now pass the call to Luc, who will provide you with overview of performance of our Specialty Products group. Luc?

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

Thank you. Mario. Good afternoon everyone. As reported today, the Specialty Products Group delivered another strong performance during the first quarter of 2017. Our sales totalled $173 million during the quarter, a sequential improvement of 11%. This increase is mostly due to higher selling prices in our recovery activities, but also to higher volumes in our industrial packaging and higher selling prices in consumer product packaging. We recorded lower volumes in both recovery and consumer product packaging, which is typical for this quarter. Consequently, our first quarter EBITDA increased to $18 million and our EBITDA margin remain relatively stable when compared to Q4. We're also pleased with the group's 29% EBITDA improvement over last year.

Looking more specifically at our subsegments, industrial packaging EBITDA increased to higher volumes following seasonal shutdown in Q4. This more than offset higher recovered paper and operating costs. We expect our spreads to revert back to more normalized levels in Q2, following the price increase on finished products that were implemented during Q1 and early Q2.

Consumer product packaging also generated sequentially higher results. EBITDA during the quarter was positively impacted by improved spreads due to price increases and escalators on our finished products. These factors partially offset slightly lower volumes and higher resin costs. This segment was able to mitigate the impact of higher resin prices during the quarter thanks to successful supply management and price increases deployed on finished products.

Finally, recovery continued to show strong results as higher spreads counterbalanced lower seasonal volumes in most of our units and an unfavourable exchange rate.

Regarding the near-term outlook, market conditions for recycled fibres continue to evolve rapidly. As demand from exports significantly declined at the end of Q1 and generation picked up with favourable seasonality, available volumes increased, mill inventory levels went up, and prices went down. Following the Q1 increase of $75 per tonne for OCC, publications show back to back decreases in April and May of $20 and $15, respectively. Market conditions are currently favourable and our supply mill is more positive. That said, we continue to cautiously monitor market conditions to ensure we meet our fibre needs with high contractual volumes and solid inventories, and even if export activity picks up, we're now in a higher generation season.

Concerning white fibres, volumes are available and we are preparing for a typically lower generation season in Q3.

On the packaging front, the full benefit of the URB (phon) price increase in implementation in Q2 will improve our spread. Our converting plants continue to be busy, and we expect demand for our products to remain solid.

As for consumer product packaging, we should benefit from favourable seasonality and are confident that our pricing strategy will offset the Q1 increases in resin prices which, I would note, have been stable since then.

To conclude, the first quarter was a good start to 2017 and we remain optimistic about improving our solid 2016 performance.

Thank you for your attention and 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 Group

Thank you, Luc. Good afternoon everyone. As expected, our first quarter was softer on a sequential basis. We generated an Adjusted EBITDA of $21 million for a margin of 7.5% compared to the $31 million and 9.6% in Q4.

In addition to the usual market seasonality, our first quarter results were impacted by the launch and marketing campaign of our Cascades Fluff and Cascades Tuff brands, and also by the rebranding and transition of our Cascades PRO product lines. The plant start-up costs of our new West Coast converting facility and a major shutdown at our nearby Oregon facility to align the mill with the new converting lines requirements were also reasons for the slow start of year.

Looking now at our first quarter performance, overall shipments decreased by 3% sequentially due to seasonality in converting products, primarily as a result of one U.S. customer. The first quarter is typically the softest quarter of the year due to market seasonality in the Away from Home segment, and in this respect 2017 was no different with 8% sequential reduction.

The transitioning of our products to the new brand is now done and most of the costs are behind us. Customer feedback has been positive regarding the changes we made to our Cascades PRO offering.

For the Consumer Products segment, market seasonality is always less significant than the Away from Home in the first quarter but remain nevertheless. As a result, consumer product shipment were 3% lower sequentially. We are happy with the Fluff & Tuff brand launches that occurred at the end of the quarter and remain positive about the future outlook.

Finally, our parent roll segment increased shipments by 2%, sequentially, reflecting market demand and an increase in export volume.

In terms of pricing, our average first quarter selling price slightly decreased by 1% on a sequential basis. This reduction was mainly driven by a less favourable product mix and the strengthening of the Canadian dollar.

The Away from Home price increase announced at the end of the fourth quarter began to slowly positively impact our performance in Q1 2017. Therefore, the combined average selling price, as just discussed, combined with our lower shipments, resulted in a 4% sequential decrease in sales.

On an operational basis, despite good productivity, the low production volume driven by planned shutdowns for annual maintenance in many of our facilities and major shutdown at our St.

Helens, Oregon facility, as mentioned previously, negatively impacted our overall Q1 performance. The start up of this new Oregon West Coast facility has negatively impacted our Q1 results. However, the overall project is going as planned and the three state-of-the-art converting lines have been installed and are in production as of today. We're expecting to be fully commissioned by the end of the second quarter, which is in line with our planned timetable.

With our weakest season now behind us and our major West Coast project ramping up, our outlook for the remainder of the year is positive. While the strategic investment in both the consumer product and Away from Home segments will continue to impact our second quarter results as we finalize the rollout of the launches, we should start to see the positive impact of these key strategic initiatives on our sales volume going forward. I would also note that the price increase announced and the Away from Home in North America by most of the industry should begin to gradually benefit results in the second half of the year. That being said, the expected increase in pulp price will likely impact our results near term as well.

Thank you. I will now turn that all back to Mario for the conclusions. Mario?

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

Thank you, Jean. In summary, we are pleased with our packaging sector executed in the first quarter, with all three businesses generating improvement in both shipments and capacity utilization.

That said, the first quarter results from our Tissue activity were lower. While in part due to unusual seasonality, results from this sector were also muted by reasons which should taper us over the coming quarters.

Looking ahead, we expect our near term North American result to reflect stronger seasonal trends inherent to our segments of operation, recent price increases and declining raw material costs. That said, we anticipate that the average OCC costs in Q2 to be stable to slightly above Q1 levels as the recent index price decreases are rolled out.

In Containerboard, we expect the fall 2016 $40 price increase to be fully implemented in Q2, while the $50 increase announced in February 2017 will be rolled out during Q2 and fully implemented in Q2. I would also note that results from Greenpac Mill will be consolidated beginning in the second quarter. In Europe, we expect Reno De Medici results to benefit from the more favourable market dynamics and the implementation of the €20 price increase beginning in June.

Finally, the Specialty Products segment is expected to maintain its recent positive momentum with result in its recovery and recycling subsegment reflecting variances in raw material pricing.

Before we open the line for questions, I would like to finish by emphasizing that we remain focused on being disciplined and strategic on our capital , that we are committed to reinforcing our financial flexibility by bringing our leverage ratio to 3 to 3.5 times, and that we are targeting our efforts to improve execution and operational performance, and to create long-term value for all of our stakeholders.

We now will open the lines for questions. Operator?

Q & A

Operator

Merci. Si vous voulez poser une question, veuillez composer l'étoile suivie du numéro un sur votre clavier téléphonique. Pour retirer votre question, vous n'avez qu'à appuyer sur le carré.

Thank you. If you would like to ask a question, simply press star, followed by 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, one on your telephone keypad.

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

Hamir Patel – Analyst, CIBC Capital Markets

Hi, good afternoon. Allan, what level of corporate costs should we anticipate for 2018? Because it sounds like the ERP and restructuring would wrap up right around the end of this year? Then kind of related to that, what sort of uplift are you expecting from one Cascade in 2018?

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

Well, Hamir, as we mentioned earlier, the $7 million to $8 million quarterly costs are right there, so we were right on that path in Q1 so that should remain through the end of the year, and that should be going away starting next year. Then the benefit, we have not stated any benefit publicly but benefit will come from two: from the reduction in cost and also actual benefit and we will maybe look at disclosing something later on this year, but for now we have not disclosed any benefit.

So going forward, may be that $20 million to $25 million a quarter of negative should remain and then maybe reduce by anything from $7 million to $8 million by the end of 2018.

Hamir Patel – Analyst, CIBC Capital Markets

Only by the end of 2018, so gradually?

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

I think gradually beginning in 2018, but fully maybe during the year of 2018 so.

Hamir Patel – Analyst, CIBC Capital Markets

Okay, sounds good. That's helpful.

Then just turning to the Tissue business, Jean, I was hoping you could help us understand why performance has fallen off so much. I know you're doing the rebranding, you've got start-up costs, but it surprised me how much it has fallen off, so just curious if any of these initiatives run into certain maybe roadblocks that you didn't anticipate, and going forward what sort of EBITDA margins do you think you can get that business back to you by the end of the year?

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

Well, our plans for the rest of the year have not changed. Let's start with this with the EBITDA that we were committed in the past; we believe that we're going to accomplish that. This quarter was a quarter of investment for us in our future. There is basically three major buckets and those three major buckets explain basically the entire difference of what we have in our results. The West Coast facility, the rebranding initiative, and all the shutdown that we did in the slow season are the three main elements, and again, it covers 90% of the deviation that we have or that was expected from the market for Tissue Group. But for us, it's close to what we're expecting for Q1 as a result because those were in our results, already planned.

Hamir Patel – Analyst, CIBC Capital Markets

Okay. Jean, can you remind us what is that near term Tissue margin targets?

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

We still have the desire to be at 13%, 14% rapidly. We'll not end up the year on an average of 13%, but the rest of the year should be pretty interesting.

Hamir Patel – Analyst, CIBC Capital Markets

Great. Thanks for that. That's helpful. Just turning to the Containerboard business, Charles, I think it was that Pulp and Paper Week reported that Kruger machine started up recently. I was just curious if you've seen any impact from that on the market, and are they competing directly with your XP grade yet?

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

We haven't seen the product yet on the market, so not from what I can see or hear. But they did make some presentations throughout the ICC, (inaudible), which our association—during those presentations that they made in the association, they are promoting a lightweight paper which is comparable to our Greenpac. The good news is they're promoting it as Greenpac Plus, so that there's—our Greenpac is a very good product, very well accepted on the market, but as we speak we haven't seen any of their sheets. So, we do have a great advantage right now. We are well positioned, as I mentioned in other calls, in our customer base. The product is tested, it's being used to sell boxes, and we do have a very good relationship with our customers, which is a good news for us.

Hamir Patel – Analyst, CIBC Capital Markets

Great. Thanks, Charles. I'll it turn over.

Operator

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

Sean Steuart – Analyst, TD Securities

Thanks, good afternoon. A couple of questions. I know you don't want to go into detail on the Greenpac financials, but the questions I have are just—now I'm building in the consolidated business and what I want to know is you've given an LTM intercompany sales figure from Greenpac to Cascade of US$85 million. I'm just wondering what tonnage from Greenpac to Cascade corresponds with that dollar figures. I don't know if you can provide that.

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

The tonnage of the Greenpac mill?

Sean Steuart – Analyst, TD Securities

Well, the tonnage that is going to Cascade from the Greenpac mill?

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

Well it's about—a third of the sales of Greenpac is intercompany.

Sean Steuart – Analyst, TD Securities

Okay, but I thought the annual contract called for 340,000 tonnes. Am I misinterpreting that?

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

We have some customer contracts that are using also that papers to the total with what you mentioned is pretty much in line, yes.

Sean Steuart – Analyst, TD Securities

Okay, and then I guess what I'm just trying to gather is that the EBITDA, Greenpac over the last 12 months was about CA$76 million total for the mill. On consolidation, does all of that get factored into Cascade, or with some of that intercompany sales is some of that already being picked up in the Cascade EBITDA, as it stands right now?

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

No, there will be no eliminations on EBITDA level, only on sales.

Sean Steuart – Analyst, TD Securities

Only on sales. Okay.

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

Technically, EBITDA is a pure addition, yes.

Sean Steuart – Analyst, TD Securities

Got it. Second question I have is on OCC markets. You noted the pullback we've seen in places in North America the last couple of months. According to RISI, prices in Asia are ticking up a little bit again as they get back into the market. How do you think about that competition for the fibre and how that plays into price trends through the summer for OCC in North America?

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

Good afternoon, Sean, this is Luc talking. We see export activity on the ocean ports, however, inland port prices are still $15 below domestic price. So if there's a pickup in export activity, we don't see it currently in our market where we typically our material. I would say that what we see also, obviously, we're getting in the higher generation season, as I said. Inventory levels at all mills, not just Cascades, are much higher than we were at the beginning of the year. So export activity has been there, will always be there. Then the question is if this export activity exceeds the higher generation and the other conditions in the market like the domestic demand.

For the time being, what we see is that we're still in a very positive situation and we don't necessarily see—another thing, also, that we don't necessarily understand the full impact is the Chinese ban that is taking place on the mixed paper, and all this will be impacting the rest of the businesses, the rest of the grades as well.

Sean Steuart – Analyst, TD Securities

Thanks for that detail, Luc. The rest of my questions have been answered. Thanks.

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

Thanks.

Operator

Your next question comes from the line of Paul Quinn from RBC Capital. Please go ahead.

Paul Quinn – Analyst, RBC Capital Markets

Thanks very much, and I guess this is good afternoon. Just couple of questions. One on just the containerboard price increase; how that has gone especially on the boxboard side? Maybe you could give us some details of customer conversations. I'm sure they're happy with the increased price.

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

The customers are never happy with the price increase. Just to give you maybe a bit of a back history on the increase, the November $40 price increase is now implemented in our group, both on the rolls and on the boxes. We were able to work with the customers. It's always the same approach. It takes about four months from the time that there's an announcement on the pulp and paper to following our contracts and the agreement that we have with our customers, so this one is in place. When there's a price increase like this, we always work with the customer to try to minimize the impact for them. But it is a price increase so when I say try to minimize the impact, we work with them to redesign or to find solutions to reduce inventory or things like that to help them. This one just being announced, the $50, will follow the same pattern, so we are working on implementing the price increase as we speak. Will be in part in Q2 but most of the impact will be seen in Q3.

Paul Quinn – Analyst, RBC Capital Markets

Okay, and just sticking with containerboard, if you look at it over a two, three-year period, demand within North America looks pretty flat, but I guess the last four, especially six months have been up, tracking very strong. What do you guys attribute that strength to? Is it a change in buyer behaviour? What is really driving the strength in boxes right now?

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

The demand is good in North America, both in Canada and in the U.S. What we see now is there's more activity in our customers. What is very hard to put our finger on is all the Internet buying that is creating a lot of new packaging on the market, so we do attribute also some of the improvement on the Internet. The growth in that sector is anywhere between 10% and 15% for the last year. So this is a big impact that we can see creating more and more demand on the boxes.

But the activity, the manufacturing, it seems to be growing in North America, which is good.

Paul Quinn – Analyst, RBC Capital Markets

Okay. Let me just switch over to Tissue for a second. I was, again, surprised like others on the weakness in Q1. Just wondering what that Q2 bounce back is? When I look at your near-term outlook, it looks for slight increases across the board so it doesn't seem like you're going to totally recover what happened in Q4. Do you expect to get back there in Q3? What's the timing of that?

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

We don't expect to go back to Q4, Paul. We expect to go back to our regular Q2. The only part that is still unsure for us is the waste part, based on the questions that were asked previously. But based on what we know at this point, we are targeting the same type of Q2 we had last year.

Paul Quinn – Analyst, RBC Capital Markets

Okay, that's helpful. Then, just lastly, I guess now that you've consolidated Greenpac without having to buy out the minority interest, the question is do you want to buy the rest of it out? Then, at the same time, what I always thought is you'd sell Boralex to be able to pay for the purchase. I look at those Boralex shares are $22; they seem to be doing pretty well. Is that something that you'd want to monetize over the next year?

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

Paul, we have not changed our position on Boralex. As time goes by and the price goes up, I think history tells that we do the right thing. We have no intention at this point to buy the other minority shareholder in Greenpac, unless the minority shareholder comes to us and they want to sell their share. We will obviously be looking at it as we did with the recent acquisition.

Paul Quinn – Analyst, RBC Capital Markets

All right. Fair enough. Best of luck in Q2. Thanks.

Operator

Your next question comes from the line of Keith Howlett from Desjardins Securities. Please go ahead.

Keith Howlett – Analyst, Desjardins Securities

Yes. I had a question on the Greenpac tax rate. In the slide you provided it said income tax on share of results and a consolidation adjustment, so I just had a couple questions. What is the effective tax rate? The one that we could compute there, firstly, and then secondly, is there any cash tax payable?

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

Well, the Greenpac is an LLC structure, as we disclose in our MD&A. So we take the share of its results within our Cascades U.S. business and it's about 38% of tax rate. Yes, in that U.S. we are cash taxed. Maybe in the past few years we were not, because we had accelerated depreciation, but as a model, you can consider to be a portion of cash tax in the U.S. and Greenpac is, like the others, at around 38%.

Keith Howlett – Analyst, Desjardins Securities

So the consolidation adjustment is what it takes it down to about 28%?

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

Well, because there are some mill inventory, inter/co-inventory adjustment we need to do on accounting and stuff like that, so sometimes consolidation adjustment might adjust the tax rate, but overall, normally it's 38% across the board.

Keith Howlett – Analyst, Desjardins Securities

Great. Thank you. Then just in terms of maintenance capital spending at Greenpac, is that a significant number?

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

It's about $4 million per year.

Keith Howlett – Analyst, Desjardins Securities

Great. Thank you. Then I just had a question on the expansion of the joint venture with Cascades Sonoco and the new investment. What's sort of the scale of sales or returns that you anticipate from that expansion?

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

Well, we made the announcement earlier last year. We said it was in the range of a $60 million investment, and the global capacity of that machine will be around 45,000 to 50,000 tonnes per year. For the rest, I would prefer not to provide more details as it's becoming too confidential.

Keith Howlett – Analyst, Desjardins Securities

Thank you. I just had one question on the Tissue business; whether you see any increased level of competition from new or expanding entrants in the market.

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

Of course, as you know, there's a capacity addition. What we're doing right now—I want to say that we are not in trouble at this point, and with our view of increasing our integration rate, it's favourable for us in the future to expand that. Of course, we see more tonnage in the market. There is a reason why during slow season like now, we decided to take a bit more planned shutdown than normally. So, yes, we start to see that, but it's more on the high end that you see that, more on the private label high-end U.S. that you this capacity addition than in the markets that we serve.

Keith Howlett – Analyst, Desjardins Securities

Thank you.

Operator

Your next question comes from the line of Leon Aghazarian from National Bank. Please go head.

Leon Aghazarian – Analyst, National Bank Financial

Hi, good afternoon. Just a couple of questions on cash flow. First of all, on the CAPEX side is, what's the targeted number for 2017 still?

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

We had $200 million, we said.

Leon Aghazarian – Analyst, National Bank Financial

Okay. That's unchanged still?

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

(Inaudible).

Leon Aghazarian – Analyst, National Bank Financial

Okay. Then is the goal still to take all the excess cash and then put it towards debt repayment, or are there other kind of projects that you are looking forward to, for example, in 2018 and beyond? I guess my question is with the excess cash flow, will it go and help de-lever the firm, or would there be other uses of capital as well?

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

Well, the target is still to have at least $100 million towards debt reduction, but at a certain level when we'll be more comfortable, maybe that could be used at other purposes. But for now, the target is still a minimum of $100 million towards debt reduction.

Leon Aghazarian – Analyst, National Bank Financial

Right, which would then take you much closer to your 3 to 3.5 range. So I guess my view is that if you do get to 3 to 3.5 range, what would be the target after that? In terms of a cash usage.

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

Well, as we have our strat plan and we may other opportunities to continue to increase our integration level, or modernize the assets, so we'll choose according to our capital allocation strategy.

We might increase a bit the capital allocation towards new projects, but again, it's a matter of balancing out the use of our cash flow.

Leon Aghazarian – Analyst, National Bank Financial

Okay. Then one final one for me on the Tissue. Not to beat the dead horse or anything but, I mean, regarding the couple of buckets that you discussed in terms of what some of the issues were for the Tissue margins, just on the rebranding, are there any more expenses specific to Q2, or is that going to continue on for the balance of the year? Then, I guess, finally, it would be on the marketing expenses side. I'm just trying to get a gauge of when those kind of additional, not one-time, but additional expenses would run off during the course of the year?

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

Well, Leon, if I may split the two major divisions here, so on the Away from Home side, so the Cascades PRO division, this one is pretty much all done. This is minimal what we still have to do. On the consumer products side, on the Cascades Fluff and Cascades Tuff brand, the launch is one thing but you have a TV commercials that are following up after, so you will continue to see, not at the same level that we had in Q1, but you will continue to see expenses in Q2 and Q3 mainly, and then after that it goes back to regular budget like we used to have for our brands in the past. It's just not—it's the launch and it's a bit more intensive.

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

But sales also start to come in in Q2 and Q3.

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

Yes, we already have good response of that, but—it's too early to say, but we're happy so far.

Leon Aghazarian

Thank you. That's helpful.

Operator

If there are any additional questions at this time, please press star, followed by the number one on your telephone keypad.

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

Hamir Patel – Analyst, CIBC Capital Markets

Thanks. I just had a few follow-ups. Jean, you made a comment about in Tissue you want to get back to Q2 of 2016, which when I looked at your deck it was up $39 million of EBITDA. Just to sort of clarify, when was the expectation you would get back to that level?

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

If I put aside what I just said about the rebranding and what I said earlier about the waste, if there's an unexpected impact there, we don't see why we should not be into that ballpark in Q2. Volumes are positive, efficiency is positive, so there's no market—there's no also planned downtime; only small ones, there and there one day, one day there, but this is minimal. I think that now the machine will go at full speed so there's no reason why we shouldn't be at the 12% we were last year.

If there's only one little thing there, it would be what I said earlier about couple of dollars here and there that we have left to spend on the rebranding part. But for the rest, it's going to be pretty much in line.

Hamir Patel – Analyst, CIBC Capital Markets

Thanks. That's helpful. Just turning to the containerboard business, one of your competitors mentioned that they thought they could actually get more than 50 bucks a tonne because we had the $15 reduction, I guess, at the beginning of 2016; some customers then didn't get the full $40 in November. So, just given the way some contract triggers worked, they figured they could actually realize an outsize price increase from the spring initiative now. For your business, do you have some contracts that are similar to that, or should we just really just assume it's going to be just 50 bucks?

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

No, we should stick with what we have announced both on the $40 and $50 at this point.

Hamir Patel – Analyst, CIBC Capital Markets

Okay, thanks. That's helpful. Then, I know historically when the Canadian dollar is weak and you raised containerboard prices separately to offset that FX, obviously the CAD has weakened since this spring hike was announced. Has that maybe changed the level of box price hikes that you're going for in the market right now?

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

We have formulas that with some of our customers that are taking into account the FX rate. When there is a trigger, with the pulp and paper, for instance, like we just announced, the $50, there is the contracts that we have for Canadian customers do have an adjustment that goes with the FX. Also, we have some customers that we sell, Canadian customers that we sell in U.S. dollars and that would dramatically move the price up or down based on the FX.

Hamir Patel – Analyst, CIBC Capital Markets

Okay, great. Then, Charles, since the commentary in Pulp and Paper Week about China cracking down on mixed paper quality, that might suggest we're in for a period of lower mixed paper prices relative to OCC in North America. How much room do you have to maybe push Greenpac to use more mixed paper, or does your sort of XP product really require OCC?

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

We have some of our mills that can increase the percentage of mix, which we are working right now to do as much as we can to limit the impact of the OCC. So Greenpac is one of them. Greenpac can use north of 10% of mix at this point. We want to be careful, also the same time, to keep providing the high-quality paper to our customers. But yes, we can increase to a level, let's say, around 10% at this point. We could do more but that's what we're aiming at this point.

Hamir Patel – Analyst, CIBC Capital Markets

Thank you. I know, there's some discussion in the industry about RISI is trying some new or trialling some new performance-based containerboard benchmarks. I was just curious if that were to take hold, do you think that would have a positive or negative impacts on your business?

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

We've been working on higher performance. If you're talking about the measures, there's a measure—there's two different measures on performance that are being used in this industry. By the way, right now, when we go lighter weight, like we are with some of our product that we offer to our customers, we are already providing our customers with the two measures, and that's how we can help them reduce or better use the lightweight paper. So, we already are using those metrics.

Hamir Patel – Analyst, CIBC Capital Markets

Thanks, Charles. That's all I had.

Operator

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

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

Well, I just want to thank everyone to be on the line today and looking forward to talking to you in Q2. Have a good day. Bye.

Operator

Merci, mesdames et messieurs. Ceci met fin à notre appel conférence d'aujourd'hui. Vous pouvez maintenant raccrocher.

Ladies and gentlemen, thank you. This concludes today's conference call. You may now disconnect.