FINAL TRANSCRIPT

Cascades Inc.

First Quarter 2018 Financial Results Conference Call.

Event Date/Time: May 10, 2018 — 8:30 a.m. E.T.

Length: 52 minutes

CORPORATE PARTICIPANTS

Jennifer Aitken
Cascades Inc. — Director, Investor Relations

Mario Plourde
Cascades Inc. — President and Chief Executive Officer

Allan Hogg
Cascades Inc. — Vice-President and Chief Financial Officer

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

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

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

CONFERENCE CALL PARTICIPANTS

Sean Steuart
TD Securities — Analyst

Paul Quinn
RBC Capital Markets — Analyst

Hamir Patel
CIBC Capital Markets — Analyst

Hanbo Xiao
Desjardins — Analyst

PRESENTATION

Operator

Mesdames et messieurs, bienvenue à la téléconférence des résultats financiers du premier trimestre 2018 de Cascades. Je m’appelle Sylvie 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.

Good morning. My name is Sylvie, and I will be your conference Operator today. At this time, I would like to welcome everyone to the Cascades First 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 over to Jennifer Aitken, Director of Investor Relations for Cascades. Ms. Aitken, you may begin your conference.

Jennifer Aitken — Director, Investor Relations, Cascades Inc.

Thank you, Operator. Good morning, everyone, and thank you for joining our first quarter 2018 financial results conference call. Our speakers on this morning’s call are Mario Plourde, President and CEO; Allan Hogg, CFO; Charles Malo, President and COO of our Containerboard Packaging Group; Luc Langevin, President and COO of our Specialty Products Group; and Jean Jobin, President and COO of our Tissue Papers Group.

After discussions surrounding our North American operations, Mario will then discuss results from Boxboard Europe followed by some concluding remarks, after which we will begin the question period.

Before I turn the call over to my colleagues, I would like to highlight that Reno de Medici's first quarter financial report, released on May 2nd, can be reviewed on Reno's website.

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

These statements, the investor presentation, and the press release also include data that are not measures of performance under IFRS. Please refer to our accompanying Q1 2018 investor presentation for details. This presentation, along with our first quarter press release, can be found in the Investors section of our website.

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

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

Mario Plourde — President and Chief Executive Officer, Cascades Inc.

Thank you, Jennifer, and good morning, everyone. Earlier this morning, we published first quarter 2018 results. On a consolidated basis, we improved sales levels, shipment and operating incomes, both year over year and sequentially.

Driving results was a strong performance from our European Boxboard segment that was itself driven by lower raw material costs, higher sales, and good market fundamentals. Containerboard also contributed to improved year-over-year results, reflecting the consolidation of Greenpac in Q2 of last year, higher average selling prices, and good industry dynamics.

Touching briefly on our Specialty Products segment. Quarterly results were below last year due to the lower contribution from the recovery subsegment as a result of the lower recycled material prices, most notably OCC.

Finally, our Tissue segment increased shipments year over year in spite of challenging market conditions and market-related downtime taken during the quarter, higher raw material prices, competitively driven lower average selling prices, and negative operating margins from Oregon converting facility impacted results.

Touching briefly on sequential performance. Results were again driven by a strong performance from European Boxboard division and a slight progress in Tissue. Higher selling prices and lower raw material costs translated into improved operating incomes and adjusted OIBD in Containerboard, counterbalancing the seasonality softness volume and downtime. Lastly, the sequential decrease from the Specialty Products segment reflect the impact of lower recycled paper pricing on the performance of recovery activity.

On the KPI front, first quarter shipment increased by 1 percent from Q4. This reflected higher shipment levels in Europe Boxboard, driven by good demand and a slight improvement in Tissue within a challenging market context. These were offset by lower levels in Containerboard, reflecting seasonality, and planned and unscheduled downtime.

On a year-over-year basis, Q1 shipment increased 11 percent, driven primarily by consolidation of Greenpac and slightly higher shipments in European Boxboard and Tissue. Our Q4 capacity utilization rate of 94 was 3 percent above Q4, and was largely driven by our Boxboard Europe.

And on the materials side, the average Q1 index price for OCC brown paper grade fell by a significant 35 percent year over year, and decreased 7 percent compared to Q4. The average price of white recycle grade decreased by 2 percent year over year, and increased 4 percent compared to Q4. Finally, virgin pulp price increased both sequentially and compared to the prior year's level. Hardwood pulp was up 2 percent from Q4 and 26 percent year over year, while softwood pulp increased 4 percent and 19 percent respectively.

Looking more specifically at OCC. Prices were unchanged in the Northeast in January and February, and then decreased by $10 in March. Price have since fallen by an additional 10 to $15 in April and May, to reach an index level of 68 in the Northeast US. However, white recycle grades are showing a 15 to $20 increase in the most recent publication.

I will now pass the call to Allan, who will provide more details regarding our financial results. Allan?

Allan Hogg — Vice-President and Chief Financial Officer, Cascades Inc.

Yes. Thank you, Mario, and good morning. I will begin with sales as detailed on Slide 10 and 11 of our first 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, first quarter sales increased by 92 million or 9 percent. This reflects the consolidation of Greenpac, improvements in pricing and sales mix in all of our segments, with the exception of Tissue. Mitigating this was lower year-over-year volumes, most notably in Containerboard, which was partially offset by the improvement in Tissue. Finally, a less favourable foreign exchange rate for our North American operations was offset by a more favourable exchange rate for our European Boxboard division.

Sequentially, Q1 sales increased by 16 million or 1 percent. Net beneficial foreign exchange rates and acquisitions in our Containerboard and European Boxboard divisions were the main positive contributor to sales. These were partially offset by lower volumes on a consolidated basis, driven by a decrease in Containerboard and a lower contribution from our recovery and recycling activities.

Moving now to operating income and adjusted EBITDA as highlighted on Slide 12. Q1 operating income was 81 million above last year and included 62 million of positive specific items.

Adjusted EBITDA of 105 million increased 30 million from prior-year levels. The president of each of our segments will provide more details regarding performances of their respective groups.

On a consolidated basis, results benefitted from the consolidation of Greenpac results as of Q2, and a positive contribution from our European Boxboard activities. These were partially offset by a lower contribution from the Tissue and Specialty Products segments, and transportation costs were also a factor impacting all of our North American activities. Depreciation expense was also higher due to the Greenpac consolidation and the capital investment start-up over the last 12 months.

Sequentially, Q1 adjusted EBITDA was unchanged. The improved performance in Boxboard Europe and Containerboard, and a slight sequential increase generated in Tissue were offset by a lower contribution from the recovery operations amid the lower recycled pricing environment. Corporate activities volumes was negative, following an FX gain recorded in Q4 that did not repeat in Q1.

Slide 14 and 15 of the presentation illustrate the year-over-year and sequential variance of our Q1 earnings per share, and the details of the specific items that affected our quarterly results. As reported, earnings per share totalled $0.65 in the first quarter compared to reported earnings per share of $1.70 last year. Both periods included specific items which I will detail in a moment. Our first quarter adjusted EPS was unchanged year over year at $0.13.

As we have noted in recent quarters, the mix of contributors to our results has changed compared to last year. This is due to the fact that Greenpac and the Boxboard Europe segment represents a higher proportion of operating income. Consequently, despite higher operating income, net earnings attributable to noncontrolling interests in Greenpac and Reno was higher compared to last year, thus reducing our share of the net results. On a sequential basis, first quarter adjusted earnings per share decreased by $0.01 to $0.13.

Slide 16 and 17 of the presentation illustrate the specific items recorded during the quarter impacting operating income and net earnings. The main item include a 66 million gain related to the sale of our New York Containerboard facility.

Cash flow from operations increased by 35 million year over year to 69 million. Adjusted free cash flow increased to 56 million, including the proceeds from the New York plant disposal. This compares to last year negative 34 million adjusted free cash flow.

Moving now to our debt reconciliation on Slide 19. Our net debt increased marginally in Q1, as the stronger cash flow from operations and the proceeds from the sale of our New York facility were offset by capital investments, higher working capital requirements, and a less favourable FX rate on our US-denominated debt.

The main CapEx realized in the first quarter is related to the construction of the Piscataway converting plant in New Jersey. Our net debt leverage ratio stood at 3.6 at the end of the first quarter, unchanged from the end of the fourth quarter on a pro forma basis to include our recent business acquisitions.

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

Thank you. And I will now ask Charles to discuss the first quarter results of our Containerboard Packaging Group.

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

Thank you. Good morning, everyone, and thank you, Allan.

On a sequential basis, first quarter 2018 Containerboard Group shipments reached 350,000 short tons, which represent a 5 percent decrease. Paper shipments to external customers decreased by 18,000 tons from the previous quarter, which reflects a 2 percent decrease in our operating rate during Q1, combined with 4 percent increase in our integration rate. To this end, when including paper sold to our associated companies, our Q1 integration rate totalled 73 percent, up from 64 percent in the previous quarter.

As we had indicated during our fourth quarter call, we experienced some mechanical issues during the first two months of the quarter which resulted in a production shortfall. On a global basis, planned and unplanned downtime during the quarter subtracted 15,000 tons of production compared to the previous quarter.

On the converting side, shipments decreased by 2 percent sequentially in MSF, in line with the 2 percent decrease reported for the Canadian market, and 3 percent decrease experienced in the US market.

On the pricing front, our average selling price increased by 1 percent on a sequential basis, reflecting a more favourable proportional sales mix between boxes and paper rolls product, the benefits of which were partially offset by appreciation of the Canadian dollar. On a segmented basis, our average Canadian selling price for Containerboard decreased by $2 per short ton, while our corrugated product average selling price increased by $3 per short ton compared to the previous period.

During the first quarter, the Containerboard Group generated an EBITDA of $77 million, representing a margin on sales of 18 percent. This margin compares to 17 percent on a sequential basis, and 13 percent for the same quarter of last year. Our moderately improved sequential results were mostly driven by a reduction in raw material cost, and more specifically, lower OCC prices, which added $17 million to profitability. This more than offset the impact of our lower volume during the period, which subtracted 11 million from profitability. Also, as a result of the ongoing widespread truck shortages, which in our cases was particularly impactful in the Northeast, our outbound freight cost increased by $3 million compared to the prior quarter.

Before discussing our short-term outlook, let me touch on the progress of the new corrugator plant in Piscataway, New Jersey. I am pleased to report that the construction is almost completed. The corrugator and three converter presses will be started before the end of May as planned, and we continue to expect to complete the project within the $80 million US budgeted.

Finally, our short-term outlook is positive. We expect demand level to pick up in line with historical seasonal trends, and our results should continue to benefit from the more favourable OCC pricing. In addition, our results will benefit from the $50 price increase announced for both the linerboard and the medium, which expect to be fully implemented in our manufacturing segment by the end of the May. The current spotting 8 percent gross price increase will be fully implemented by the end of Q3 in our Converting segment.

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

Mario Plourde

Thank you, Charles. The European Boxboard segment generated strong results in Q1 with sales up 17 percent, and adjusted EBITDA double prior year's level, reflecting the more favourable market conditions. This performance was driven by increases in average selling prices, lower raw material costs, and a more favourable exchange rate, and the consolidation of the recently acquired PAC Service company.

Recycled boxboard shipment increased by 2 percent, with strong demand in Italy and Europe, while shipment of virgin boxboard decreased by 5 percent during the period. The average selling price rose by 5 percent, or €25, and by 16 percent in Canadian dollar when compared to Q1 last year. This was driven by a 9 percent, or €42, increase in the average selling price of recycled boxboard, and a €14, or 2 percent, increase in the average selling price of virgin boxboard during the period.

Sequentially, the 16 percent increase in sales in Canadian dollar reflect higher volume, higher average selling price, and addition of PAC Service in a more favourable exchange rate. First quarter adjusted EBITDA increased by 9 million compared to the fourth quarter, reflecting higher sales just mentioned, lower raw material costs, and improved production efficiency, and containment of increased energy costs.

The near-term outlook for Europe remains good, with order inflow and order backlog both healthy, and the continued implementation of internal initiatives focused on optimization, production efficiency, and the strategic geographic orientation of sales mix. Furthermore, on the pricing front, second quarter result are expected to benefit from recent price increases announced for virgin FBB products.

I will now pass the call to Luc who will provide you with the overview performance of the Specialty Products Group. Luc?

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

Thank you, Mario. Good morning. First quarter sales totalled $159 million, slightly below the 161 million reported during the fourth quarter of 2017. The sales of our industrial packaging activities increased in North America and Europe, but this increase was not sufficient to counterbalance lower sales in the consumer products packaging subsegment, and the impact of lower fiber prices on the results of the recovery activities.

From an EBITDA perspective, the first quarter of 2018 was a difficult one for the Specialty Products Group, in large part due to the recovered paper market environment. At 7 million, our first quarter EBITDA is half of what we reported in Q4 2017, and a significant decrease compared to the 18 million reported for the same period last year. The decrease essentially comes from the lack of profitably in our recovered paper activities. The recent Chinese restrictions on imports significantly impacted the price we received for the material and our ability to move certain grades. In regions more dependent on exports, particularly, it is difficult to realize a profit. Margins should recover within the new few months as the markets stabilize.

On the packaging front, our industrial packaging subsegments EBITDA increased. This reflects higher volume and improved spreads in our URB activities on total recycled board, thanks to the implementation of price increases on finished products during Q1, as well as lower OCC prices.

Our consumer product packaging subsegment also generated sequentially higher results. EBITDA during the quarter was positively impacted by improved spreads, despite additional polyethylene and polystyrene resin price increases during the quarter. These factors were partially offset by the less favourable seasonality in our flexible plastic and molded pulp activities.

Finally, it should be noted that amongst the headwinds we faced, the freight situation in North America was challenging during the quarter and resulted in increased transportation costs for the Specialty Products Group.

Regarding the near-term outlook, the visibility for recycled fibers remains blurry and difficult to predict, even if we are seeing a general improvement in the flow of fibers following the important initial disruptions caused by the Chinese restriction on recovered material imports. For brown fibers, China has issued import licences targeting very clean material, namely DSOCC China grade. Licence amounts are not currently being met and export levels remained lower than historical levels. Generation of OCC is expected to pick up with the spring, and the material is currently abundant. Prices continue to decrease in May. A few more months will be needed to fully understand the quality level accepted by China, and its impact on the North American market over the mid and longer term.

The decision last week by the Chinese authorities to inspect all US recovered paper loads for the next 30 days has generated increased uncertainty and confusion for the short term. The situation on mixed grades continues to be challenging. Pricing varies according to quality and region. That said, our exposure to this market is limited as we sell only small volumes of this grade.

Market conditions for wet grades, with sustained demand levels on both the domestic and export markets, is more challenging. We continue to manage our inventory to meet our fiber needs, and are preparing for the typically lower-generation season in late Q2. The tight virgin pulp market has an obvious impact on these high grades.

Looking ahead to Q2, we expect the full benefit of the latest URB price increase and current reduced OCC prices to allow us to maintain our solid spread in the industrial packaging segment. Unfortunately, these improved market condition will be partly mitigated by a plant shutdown for equipment upgrade at our URB plant.

Our converting plants continue to be busy, and we expect the manpower products to remain solid.

As for our consumer product packaging subsegment, we expect to benefit from favourable seasonality in Q2, as summer is finally around the corner.

To conclude, the first quarter was a difficult start to 2018. We expect to see improved results in Q2 but we are unlikely to replicate the 24 million EBITDA we realized last year, given the current depressed market for recovered papers.

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

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

Thank you, Luc. Good morning, everyone. Current market conditions remain challenging in Tissue. A combination of market-related downtime, higher material prices, and higher freight costs impacted our overall performance. These effects and the usual seasonal softness in the first quarter resulted in an adjusted EBITDA of 13 million, which translates into a margin of 4.2 percent. This compare to an adjusted EBITDA of 22 million and a margin of 7.5 percent in Q1 of last year.

On a sequential basis, our overall performance improved slightly from the fourth quarter adjusted EBITDA of 12 million and a margin of 3.9 percent.

Looking at our comparable performance on a year-over-year basis, our total shipments increased by 7 percent. Shipments of converted product increased by 2 percent, largely due to the West Coast market inroad, while shipments of parent rolls increased by 19 percent, which reflects our successful efforts to manage inventory level and diversify our product offering to counter current overcapacity in the hand towel market.

Sequentially, we increased our overall shipment by 1 percent, and this in spite of the usual market seasonality. Shipments in our parent roll subsegment increased by 6 percent, while our converted product shipments decreased slightly by 1 percent.

In terms of pricing, the average selling price decreased by 6 percent year over year. This was in part due to the higher proportion of parent rolls in our overall shipments, and also reflects the strengthening of the Canadian dollar. On a sequential basis, our quarterly average selling price was stable.

On an operational basis, the significant year-over-year price increases in virgin pulp price of 26 percent in hardwood and 19 percent in softwood, and a higher utilization negatively impacted our overall performance by $7 million year over year. Sequentially, the higher virgin pulp price negatively impacted our result by $2 million.

Our transportation costs have been steadily increasing over the past months, and these rising costs are negatively impacting our overall results. The increase is mainly due to the current disruption within the North American transportation network, which has made it more challenging to get preferred carrier at a lower cost. As a result, our outbound transportation costs increased 4 million year over year, and $3 million sequentially.

Moving now to our West Coast converting plant. I'm pleased to note that our market development plan is progressing steadily and we are gaining market share. These volume gains benefitted our result by $2 million on a sequential basis. More specifically, we secured more than 1.5 million cases of additional volume on an annual basis in Q1, which will gradually contribute to our results during Q2 and Q3.

The team remains focused on successfully achieving our market development plan. On the jumbo roll front, we have announced price increases of $35 per short ton for recycled grades and $50 per short ton for virgin grades starting May 1st, to counter part of the additional cost absorbed over the last year. While this will not fully offset our higher cost base, it's a positive step.

With our slowest season now behind us, we are now entering the peak season for many of our markets. Consequently, we expect to see corresponding important increase in our sales and volume in the second quarter. We are also anticipating higher volume in our CP division beginning next quarter, as we successfully secured important strategic customers.

Finally, in terms of raw material, we expect white recycle grades and virgin fiber prices to continue to increase in Q2, while ground recycled fiber prices should slightly decrease, both reflecting recent index pricing changes.

We also expect the current challenging transportation situation to continue into the next quarter. To counter these challenging market conditions, we will continue to focus on execution and efficiency.

On a good note, it is worth mentioning that our converting operation are performing very well, achieving performance records. We will also continue to manage our fixed cost base, and continue to augment our West Coast market penetration.

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

Mario Plourde

Thank you, Jean. Our near-term outlook is positive, reinforced by additional $10 decrease in OCC RISI index price published on May 4th. When combined with a rollout of the announced price increases and healthy box industry demand, these lower raw material prices provide a strong foundation for a near-term performance of our Containerboard segment. Favourable seasonality is also expected to provide a strong framework for our European Boxboard segment.

On a more global scale, we are entering strong seasonal period for our business market, which should translate into stronger sales in the second quarter of our segment.

While lower recycled fiber prices is a tailwind for our packaging operation, the reverse is true for our recovery operation. To this end, we would expect the performance of our Specialty Products group to continue to be impacted in Q2. As highlighted earlier, the packaging subsector in this segment are performing well, and will themselves benefit from lower recycled fiber costs and favourable seasonal trends in Q2.

As we have discussed throughout this call, the market conditions faced by our Tissue division continue to be challenging. We expect profitability level to remain under pressure, and as such, we will continue to be proactive in our management of these dynamic, and additional impact of rising raw material prices and future performance.

Before we open the call for questions, let me touch briefly on some of the area we are focus on going forward. At the top of this list is maximizing the efficiency and productivity of our operation. This is a daily focus for each member of our team, and it is the heart of our commitment to deliver quality innovative product to all our customers. On an equal footing with this is managing raw material costs and higher transportation costs, which we do throughout our sourcing team and optimization of our transportation strategy. We are also looking forward to the start of our new converting plant in Piscataway, New Jersey, which will position us with a state-of-the-art facility and improved geographical footprint.

Finally, from a broader strategic standpoint, we are committed to successfully position Cascades for the long term. We will remain disciplined on our capital allocation while upgrading our platform when and where strategically needed, optimizing our geographical footprint, and increase our integration rates.

As mentioned on the last conference calls, and supported by our positive outlook, our CapEx plans for this year is still in the range of 335 million to 385 million. An important part of our focus will be centred on our Tissue segment, where we are planning additional investment over the next several years to optimize and modernize both retail and away-from-home platforms, and equip this division with a competitive, asset-based position for the long-term growth.

I think it is important to underline that managing our leverage ratio and reducing our debt remain a central part of our strategy, and are one that we will continue to pursue via disciplined use of our cash flow.

On that, I will now open the line for question. Operator?

Q&A

Operator

Merci. Si vous voulez poser une question, veuillez s'il vous plait composer * suivi du 1 sur votre clavier téléphonique. Si vous voulez retirer votre question, composez le #.

Thank you. If you would like to ask a question, simply press the *, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press the # key. Again, if you have a question, please press *, then 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

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

Sean Steuart — TD Securities

Thanks. Good morning. A few questions to get through. Let's start with Containerboard, and I know you guys addressed the productivity problems in the Q4 call. Just wondering if you can go into a bit more detail on what those specific issues were. And it sounds like none of that carried into Q2 and things are running well. Hoping you can confirm that as well?

Charles Malo

Thank you, Sean. Just to give you, we had three of our seven paper machines that had some issue, non-related. And you're right, and I can confirm that we're back to normal in Q2.

Sean Steuart

Okay. I only bring it up because in your recent marketing deck—I think you guys were around visiting investors in early April—the indication was that Containerboard volumes would be flat quarter over quarter which seemed counterintuitive given the guidance you've given before, but it certainly didn't end up that way, so. Anyway, that's neither here nor there. CapEx plan, you reiterated 2018 guidance. Any thoughts on what 2019 could look like early on? It sounds like Tissue spending's going to stay elevated for some time. Will it be as high as 2018? Any initial thoughts on 2019 budgets at this point?

Mario Plourde

Well, Sean, it's a little early to talk about 2019 CapEx, but what we can expect is probably a lower envelope for 2019. The one thing that I can say, though, we have committed investment in the Tissue so the envelope we give for Tissue in 2018 could replicate in 2019, but we still are evaluating what can be done in 2019. So probably later on during the year, we will be able to be more precise on where should we be with the CapEx. But we expect 2019 to be a little lower than 2018.

Sean Steuart

Okay. I'll get back in the queue. Thank you very much.

Operator

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

Paul Quinn — RBC Capital Markets

Yeah. Sorry. Thanks very much.

Mario Plourde

Hello?

Paul Quinn

Just a question on price realizations on the Containerboard increase. Just how do you expect that to flow through? It sounds like it's been implemented, and you'll have it fully implemented through the box side by the end of Q3. But just what can we expect in terms of the pickup maybe on a percentage basis in Q2 versus Q3?

Charles Malo

The price increase will be fully implemented on the roll side. And as we mentioned in the past, it takes over four to five months to pass on the price increase on the converter product. So it will be gradually increased towards Q2 and done at the end of Q3.

Paul Quinn

Okay. So in percentage terms, if I guess, 30 percent of the pickup in Q2 and the balance in Q3?

Charles Malo

I'm not going to give you a exact percentage, but the higher percentage would be in Q2.

Paul Quinn

Higher percentage up front.

Charles Malo

Yeah. In Q2. Towards the end of Q2, yes.

Paul Quinn

Okay. And then just on Specialty Products, just was surprised at the drop-off in EBITDA generated in the quarter. I thought you'd have a little bit of a lag before the contribution came down. Maybe you can just give me some more colour on that and just help me understand the drop?

Charles Malo

Yes. As we said, the drop came in large part from the recovery part of our business. We should not also forget that Q1 is typically not a very strong month for packaging because of seasonality on top of that, but the biggest impact is definitely coming from the recovery operation.

Besides the pricing decrease, we need to understand that the first impact we had was the movement of materials which, on top of price decrease, impacted the efficiencies of our plants, because the stock at the beginning was accumulating in our recovery centres. And we had to deal as well in the first quarter with, I would call it, the crisis in transportation and the availability of carriers, which make the things even more complicated in the first month of the year. Now by the end of the quarter, the movement was not an issue anymore, and now we're dealing obviously with pricing. What we have to do, when the price continue to decline month after month, it means that we are running a little bit after our tail to redefine the price agreement we have with our suppliers, and that's a challenging thing. So we are looking for stabilized price so we could rebuild our margins with our supplier.

Paul Quinn

Okay. And just on that—just on that outlook for recovered paper prices, it sounds like you expect OCC prices continuing to fall a little bit. Just curious what you think about the new inspection regulations in China and the effect on the North American market. And then also, what you're thinking about SOP prices going forward.

Charles Malo

I would say like a lot of people, we were a little bit surprised by the decision last Thursday from the Chinese authorities to request 100 percent of the loads coming from the states, and I found that we were not the only one. So what's going to be the impact of this last decision? It's probably a little bit too early to fully understand what will be the impact on the pricing. So I would rather look at the long term. Our perception of the situation is that the quality will go up, and pricing for higher-quality OCC will eventually go up, in our opinion. Especially everything that is past industrial, commercial, institutional, that is not contaminated with other containers, will be a product in more demand, and we expect that there will be more pressure on price for these specific products.

With regards to product that is past consumers, we do think that it is going to remain a more challenged market as long as the quality of that material will not improve. And the demand for higher quality is not only from export. Eventually it's going to be from domestic mill as well, and investment will be needed in order to meet the quality expectations of the consumers.

And with regards to SOP and the high grades, white grades, obviously this going to remain a challenged market. As you know, the pulp market is also—virgin pulp market is also very tight. And as long as this market will remain under pressure, we don't expect any relief on the high grades.

Paul Quinn

All right. Thanks very much. Best of luck, guys.

Operator

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

Hamir Patel — CIBC Capital Markets

Hi. Good morning. I had a couple questions. Perhaps we could start on the Specialty Products side. Luc, how should we think about annual EBITDA in that business going forward if OCC stays below 100? I look back at 2016, OCC prices that year were pretty close to Q1 and you did about 65 million of EBITDA that year. So I know you mentioned you had some other logistics issues in Q1. But at these current recovered price levels, do you think you could kind of meet or exceed that 65 million from 2016 in Specialty?

Luc Langevin

I will not speculate on the future EBITDA for our group. I think our packaging sector is doing well and it's too difficult, too volatile yet still in the recovery business to speculate. As I said earlier, as long as there will be price fluctuation on the market and uncertainty like there is now, it's going to be more—it's going to be a bigger challenge for us to rebuild the margins on the short term.

Hamir Patel

Okay. Fair enough. And Charles, I had a question on the Containerboard business. How should we think about the ramp-up of the new converting facility? And is that a drag to EBITDA in Q2 and Q3?

Charles Malo

Just thank you for the question. The ramping up in the Piscataway facility, according to our plan right now, we're on time for all the steps that we had planned. We do have the advantage in that facility that with the volume that we have developed over the last year and the volume that we currently have, the volume is—we're in a very good position on the sales side. So on the operation, we plan that things will go very well on the ramping up and the plant will be up and running, not to capacity because as we explained, that plant will be able to produce about 2.4 billion square feet of total capacity, and we are starting within the first 12 months to produce about 1.5 billion square feet. So towards the end of the year we should be at that ongoing rate.

Hamir Patel

Okay. No. That's helpful. But is it positive or a drag to EBITDA when it's starting up in Q2?

Charles Malo

We will have a—we will have, before the end of the year, a positive impact.

Hamir Patel

Before the end of the year. Okay. That's helpful. And, Mario, I had a question on Boxboard Europe. Mixed paper basically looks like it's free in most parts of Europe. How much of that a tailwind is that for Reno heading into Q2? And given the record profitability you're seeing in Europe, how does that affect how you think about the timing and ability to potentially monetize your ownership interest there?

Mario Plourde

Well, we have not changed our position with our equity position in Reno. We think there's still benefit to gain in Europe right now. And all the positive movement we see in terms of harder demands, raw material prices, we think will continue in Q2. The only questions we have now, if the market still tighten in North America for waste paper, will China go to Europe and source more from Europe and maybe have an impact. So today, we have difficulty to view that. But let's say it doesn't change, we think that Q2 will be positive. It remains very solid in terms of order intake and backlog, and the pricing we saw in Q1 will be reflected also in Q2. So we feel that we should also have a good Q2 in Europe.

Hamir Patel

Okay. But Mario, doesn't European business use predominantly mixed paper? So the Chinese, even if they come back, probably wouldn't—at least on the mixed paper side, that shouldn't be a headwind, right?

Mario Plourde

Well, we use a different mixed bag in Europe. We have more boxboard, we have a little bit of mixed paper, and OCC as well, so not that much mix. So yes, you're right, but we'll see. It's too early to predict what China will do at this point.

Hamir Patel

Okay. Fair enough. And maybe just a final question for Jean on the Tissue side. Some of your US peers had indicated there's been some pricing movement, either under the roll from desheeting or from price hikes from some of the private label producers. What are you seeing in the retail market in the US?

Jean Jobin

Well, that's a great question. I mean on our side at this point, we're monitoring what's going on. I want to say that we have great volume for the future, but on the pricing side, we have not taken a decision on this part at this point. So but we see—we have the same vision on what the other are doing; we just need to make sure of everything at this point.

Hamir Patel

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

Operator

Again, if you would like to ask a question, please press *, then the number 1 on your telephone keypad.

Your next question comes from the line of Hanbo Xiao of Desjardins. Your line is open.

Hanbo Xiao — Desjardins

Hi, good morning. It's Hanbo on for Keith. Thanks for taking my questions. Just on your recovery business, would you say that the recycled fiber inventory levels are higher now than they have been, under I guess relatively normal market conditions previously? And how much higher? Thanks.

Mario Plourde

The high grades?

Charles Malo

No, no. In general.

Hanbo Xiao

In general.

Charles Malo

Price of material are not higher than—

Mario Plourde

Inventory level.

Charles Malo

Inventory, yes, they are. Definitely.

Mario Plourde

In all grades.

Charles Malo

In all grades. Yeah. And they are at the mills locations and as well as in the recovery facilities. There's abundant material now.

Hanbo Xiao

And could you give us any sense of the magnitude? How much higher they are?

Charles Malo

You're talking for us? About I would say 20 percent. Yeah. We're trying obviously to manage and refuse loads that we don't need, so but that's more the impact we see now, is that we're refusing loads much more than we used to. Everything that is not contracted, we will be refusing extra loads, and so it's ending up at somewhere else in the market. And we're getting now into obviously a higher generation period, so it's going to be even more challenging for the movement of material.

Hanbo Xiao

Thanks. And—

Charles Malo

And it's hard to predict also what will be the impact, as I said earlier, of last week's decision from the Chinese government for full inspection of all loads coming from the US. We need a few more days to really understand how the market will react to this.

Hanbo Xiao

Great. Thanks. And just on the comments in the presentation in the specialty packaging, could you give us more colour on the favourable sales mix leading to higher average selling prices for recovery and recycling activities sequentially in the quarter?

Charles Malo

The higher selling price on the URB, an increase, it was published, a $50 increase on URB in the first quarter, and we have implemented our price increases already. So we will have the full impact of that in Q2.

Hanbo Xiao

I see. And I guess just on—

Charles Malo

Sorry. And on the higher price, we also had increased material price and chemical prices in the first quarter in the consumer product, and price increases will also be implemented. We typically need a quarter to fully recover the raw material price on our finished products.

Hanbo Xiao

I see. And just on the pricing dynamics in that recovery business, is it accurate to look at it more as a fixed EBITDA per short ton? That's the target? Or is it more of a percentage?

Charles Malo

No. It's unfortunately not the case. Some of the business is—part of our business is a fixed EBITDA or fixed spread, but a lot of the small players doesn't have a fixed EBITDA. So if prices go up, it's going down. We have to rebuild the margins.

Hanbo Xiao

Okay. Thank you.

Operator

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

Mario Plourde

Thank you very much, everyone, to be with us this morning, and we look forward to see you on the next call. Have a good day.

Operator

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

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

*****