



Cascades Canada ULC

Second Quarter 2017 Financial Results

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Operator

Mesdames et messieurs, bienvenue à la téléconférence des Résultats du deuxième trimestre 2017 de Cascades. Je m'appelle Steven et je serai votre Opérateur aujourd'hui. Toutes les lignes sont présentement en mode écoute seulement. Suite aux commentaires des dirigeants, il y aura une période de questions.

Good morning, my name is Steve, and I'll be your conference Operator today. At this time, I would like to welcome everyone to the Cascades Second Quarter 2017 Financial Results Conference Call. All lines are currently in a listen-only mode. After the speakers' remarks, there will be a question-and-answer session.

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

Jennifer Egan - Director, Investor Relations, Cascades Canada ULC

Thank you, Operator. Good morning, everyone, and thank you for joining our second quarter 2017 financial results conference call. On 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 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 half-year financial report, released on August 3, 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 Slide 2 in our accompanying Q2 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. Before commenting on our results, I would like to highlight several recent positive developments.

The first was the sale of our 17.3 percent equity position in Boralex, announced on July 27. The \$288 million of proceeds will strengthen our balance sheet and provide us with greater flexibility and the means to improve our position in our core markets.

We are also pleased to note our inclusion in the S&P/TSX Composite Index, effective June 19. This increases our exposure to a wider base of investors and supports our effort to deliver on our commitment to shareholders.

Earlier this morning, we reported second quarter results that were below expectations, with our Containerboard segment accounting for the largest share of the shortfall. Charles will provide you with



more details later on in the call. To this end, our second quarter results benefited year-over-year from the consolidation of Greenpac and the implementation of price increases. Offsetting these were higher raw material costs, slightly lower volumes in Tissue and higher operational costs in Containerboard and corporate activities.

Looking at our financial performance, the second quarter sales totaled \$1.1 billion, up 12 percent sequentially and 13 percent year-over-year. Our Q2 Adjusted EBITDA of \$107 million was a 33 percent improvement over Q1 levels, but fell short of the \$112 million of last year.

On the KPI front, first quarter shipments increased by 13 percent year-over-year, driven primarily by the consolidation of Greenpac. On a sequential basis, Q2 shipments increased 11 percent, for the same reason.

Our capacity utilization rate of 95 percent in the quarter increased by 4 percent year-over-year, reflecting improvement in each of our Packaging segments and a stable performance in our Tissue segment. Sequentially, capacity utilization decreased by a slight one percent. This is due to a lower utilization rate in Containerboard as a result of maintenance downtime and a slight decrease to 98 percent in our European Boxboard segment. The Tissue segment increased capacity utilization by 3 percent sequentially.

On the raw materials side, the average Q2 price index for OCC Brown paper grade was up 4 percent in Q1 and 68 percent year-over-year, while the average quarterly price of a basket of white grade fibre was essentially unchanged from Q1. It was 1.75 percent higher year-over-year. After registering a recent high of \$175 in March, OCC prices decreased by a total of \$35 per short tonne on April and May, and then increased by \$25 per short tonne over June and July. OCC pricing was unchanged in August.



Moving now to the financial position, our total net debt stood at \$1.780 billion at the end of the second quarter, which represents a 10 percent increase from the Q1 level of \$1.6 billion, and our leverage ratio remained stable, compared to the previous quarter.

I will now pass the call to Allan, who will provide more detail regarding our quarterly results.

Allan?

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

Yes, thank you, Mario, and good afternoon, everyone. So, we'll begin with the sales, as detailed in Slides 13 and 14 of our conference call presentation.

On a year-over-year basis, second quarter sales increased by \$132 million, or 13 percent. This reflects the consolidation of Greenpac, a strong contribution from our recovery and recycling activities, improvements in selling prices and mix, and favourable exchange rates. Lower volume in our Tissue business segment were offsetting factors. Sequentially, Q2 sales increased by \$124 million, or 12 percent, reflecting the same reasons, except for the stronger volumes in our (inaudible) activities.

Moving now to operating income and Adjusted EBITDA, as highlighted on Slide 14, Q2 operating income was 26 percent below last year, while Adjusted EBITDA of \$107 million was \$5 million below the comparable \$112 million of year. The Presidents of each of our segments will provide more details regarding their respective performance.

On a consolidated basis, higher raw material and production costs, in addition to higher corporate expenses, more than offset the positive impact of selling price increases and the consolidation of Greenpac. Depreciation expense was also higher due to Greenpac.

Sequentially, Q2 Adjusted EBITDA increased by \$32 million. This reflects, again, the consolidation of Greenpac and improved pricing in Containerboard and Tissue, and favourable seasonal



trends in our Tissue segment. Higher raw material costs continued to negatively impact our results during the period.

Slides 16 and 17 of the presentation illustrate sequential and year-over-year variance of our Q2 earnings per share and the details of the specific items that affected our quarterly results. As reported, earnings per share totaled \$3.41 in the second quarter, which included specific items, which I will detail in a moment. Compared to reported earnings per share last year of \$0.38, our second quarter adjusted earnings per share decreased to \$0.25 from \$0.38 last year, reflecting lower operating results. On a sequential basis, second quarter adjusted earnings per share increased by \$0.12 from the adjusted earnings per share of \$0.13 in the first quarter.

Slides 18 and 19 illustrate the specific items recorded during the quarter. We recorded a net amount of \$3 million of specific items in Q2 that negatively impacted our operating income. These were mainly in our Containerboard segment and were related to a decrease in the value of certain assets following the consolidation of Greenpac and a gain related to the sale of real estate.

With regards to net earnings, we also recorded an important gain of \$219 million on the re-evaluation of our investment in Greenpac as a result of the acquisition of Control, from an accounting standpoint, and, also, we recorded an income tax liability reversal of \$70 million due to the Greenpac transaction.

Slide 20 is important to understand the accounting impact of the Greenpac consolidation. I will try to be as clear as possible, since it's quite complex.

As shown in Note 4 of the consolidated financial statements of the quarter, we performed a preliminary purchase price allocation on the Greenpac business acquisition. The main impacts on our



financial statements were an increase in goodwill of \$256 million and an increase in our net debt of \$219 million, as of April 2017.

In addition, there is one important consideration regarding the accounting treatment of one of the partner's equity participation in Greenpac. Since this partner has a put option on its share of Greenpac, its participation is accounted for as a liability instead of a minority interest under IFRS, and it's presented under other liabilities on the balance sheet. The impact of this accounting treatment is that, on a consolidated basis, the minority interest of the Greenpac results are calculated at the rate of 21.7 percent, compared to the expected 37.5 based on our equity participation.

The purchase price allocation also increased depreciation and interest expense, a portion of which is non-cash.

As illustrated on Slide 21, cash flow from operations decreased by \$25 million year-over-year to \$91 million. The decrease reflects the soft operating results in the quarter and lower cash tax and dividend inflows. Free cash flow was stable, compared to last year, due to lower capital investments during the period.

Moving now to our debt reconciliation, on Slide 22, in addition to cash flow from operations and the addition of the \$219 million from Greenpac debt, which is nonrecourse, working capital required \$22 million of liquidity, which, in addition to CAPEX payments, increased our long-term debt during the quarter. As Mario mentioned, the debt stood at close to \$1.8 billion, a 10 percent increase from the previous quarter.

On our leverage ratio, it now stands at 4.2 times, flat with the 4.3 times ratio at the end of the first quarter. This is on a pro forma basis to include Greenpac for its last 12 months' results. Removing



the \$288 million proceeds generated from the sale of Boralex, announced on July 27, it further decreases our leverage ratio to 3.5 times on a pro forma basis.

Slides 24 to 29 provide details of our second quarter performance on a segment-by-segment basis, and our internal outlook is detailed on Slide 31.

Thank you for your attention. I will now pass the call to Charles, who will discuss the Q2 results from our Containerboard Packaging Group. Charles?

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

Thank you, Allan, and good morning, everyone. The highlight of our second quarter was the consolidation of Greenpac. This was followed more recently with the announcement of the construction of the new state-of-the-art converting plant in Piscataway, New Jersey.

In terms of our results, as Mario mentioned in his opening, our second quarter results came in below expectations. Raw material prices had a negative impact on our quarterly performance, which was also impacted by higher production and SG&A costs, which I will discuss later.

Moving now to details about the quarter, the Containerboard Group shipments reached 375,000 short tonnes in the second quarter, which represented a 31 percent sequential increase. The higher Q2 volume is largely due to increased manufacturing activity following the Greenpac consolidation. Our external paper shipments grew by 81,000 short tonnes, or 70 percent, mainly as a result of Greenpac, which was offset by a decrease from some of other paper mills.

Our operating rate decreased to 94 percent in Q2. This was a 2 percent decrease from the previous quarter and was the result of planned maintenance downtime performed in the quarter, which represented a loss of 6,500 short tonnes, compared to the previous quarter. Our Q2 integration rate remained stable at 51 percent, when including shipments to Greenpac partners. Including paper sold to



our associated companies, our Q2 integration rate totaled 64 percent. On the converted side, shipments remained stable sequentially, with a slight 1,000 short tonne increase. This performance is slightly lower than the shipment trends reported for the Canadian market, but is in line with U.S. market shipment trends for the period.

On the pricing front, our average selling price decreased by CAD\$66 per short tonne, or 5 percent, on a sequential basis. This does not reflect current business conditions, as this variance is due to a less favourable product mix, compared to the previous quarter. In fact, the consolidation of Greenpac increased the proportion of sales from our paper mills which are sold at the lower price than our converted products. Actually, our average Containerboard selling price, in Canadian dollars, increased by \$65 per short tonne, or 10 percent, and our corrugated product selling price, in Canadian dollars, increased by \$26 per short tonne, or 2 percent.

During the second quarter, the Containerboard Group generated an EBITDA of \$56 million, representing a margin of 13 percent. This was stable on a sequential basis, but was below the 18 percent realized in the same quarter last year. Our sequentially higher results were mostly driven by the consolidation of Greenpac. Following the price increase announcement in March, the improvement in average selling price, denominated in Canadian dollars, for all business units, excluding Greenpac, added \$5 million to profitability. The product mix, depreciation of the Canadian and lower energy costs each contributed \$1 million to quarterly results. Unfortunately, raw material costs continued to negatively impact our results, mainly due to higher OCC prices, which subtracted \$8 million from our results. Higher operation, logistics and business transformation deployment costs also reduced our results by \$4 million. Finally, our quarterly results were negatively impacted by \$2 million as a result of a non-recurring contract settlement.



With regards to the short-term outlook, we expect third quarter demand to improve sequentially, reflecting normal seasonal demand variation. Also, we expect to benefit from the full \$50 per short tonne announced price increase on liner board and medium. On the converting side, some price increases were implemented in the back half of the second quarter. However, a significant number of customers will see their price increase take effect over the next three months. We also benefit from the recent \$20 per short tonne price increase for medium that will be effective July. While this announcement will have minimal impact on prices in our converting segment, it will benefit our manufacturing sector, as it will be implemented on approximately 25 percent of our external paper sales.

We remain cautiously optimistic for the third quarter of 2017, in view of the favourable trends in selling prices, despite the continuing pressure on OCC prices seen in the market over the past several months, in addition to the strengthening of the Canadian dollar and higher logistics and training costs related to the deployment of our transformation initiatives.

Finally, a word on the construction of the new state-of-the-art converting plant announced last week. The \$80 million project will be located in Piscataway, New Jersey, and will have a corrugated capacity of 2.4 billion square feet a year. The start-up is planned in the second quarter of 2018. During the first year of operation, we will focus on ramping up 1.5 billion square feet a year, to accommodate business transferred from our other converting plants located in the U.S. Northeast, and additional new business development.

The optimization of our operation in the U.S. Northeast region will result in the closure of our New York City plant by the end of 2018, a decision that was necessary due to the physical limitation of the site. Steps to sell the related building have been initiated and the property is currently listed on the market for US\$72 million.



Once the business consolidation is completed and the new plant is fully ramped up, our integration rate will increase by 5 percent. This project will increase our flexibility and allow us to provide more efficient and innovative products to our customers. Also, it will solidify our presence in the Northeast region market and help us to further tap into the growing markets, including the e-commerce.

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

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

Thank you, Charles. The European Boxboard segment generated improved results, both year-over-year and sequentially, in the second quarter. This was driven by a stronger order intake and order backlog levels, and improved pricing, which reflect continued strengthening of market fundamentals. More specifically, order backlog stood at 28 days as of the end of June, essentially double the year-ago level.

Beginning with the second quarter performance on a year-over-year basis, shipments increased 6 percent, with recycled boxboard shipments up 6 percent and virgin boxboard shipments up 5 percent. These increases were largely driven by stronger demand in Western Europe.

Average selling prices were flat in euro, but increased one percent in Canadian dollars, reflecting the 2 percent depreciation of the Canadian dollar versus the euro. The average selling price in recycled boxboard increased one percent in euro, driven by price increases that were implemented at the end of the quarter. This was offset by a 4 percent decrease in the average selling price of virgin boxboard during the period.

In Canadian dollars, sales rose 8 percent, reflecting the depreciation of the Canadian dollar and higher volume in both sectors.



Second quarter Adjusted EBITDA increased by \$4 million to \$21 million, reflecting lower energy costs and higher volumes, offset by higher raw material costs during the period.

Sequentially, shipments declined by 4 percent, after a strong first quarter, and reflecting the beginning of the summer holiday season in Europe. Sales, however increased by one percent due to the depreciation of the Canadian dollar.

Average selling price increased by 5 percent from first quarter levels, which is attributable to a better geographical sales mix; specifically, less sales in overseas markets and benefits from the recycled rate price increase as of June.

Adjusted EBITDA increased by a notable 50 percent to \$21 million in the second quarter, driven by higher production levels, lower energy costs and pricing increases, partially offset by higher raw material costs in the current period.

Second quarter results similarly benefited from lower maintenance costs and a reversal of accruals.

The short-term outlook remains positive in RdM's two sectors of operations, which order inflow and order backlog levels stronger in both sectors in the first half of 2017 than the prior year levels. Macro-economic forecasts are positive and market-related downtime is expected to be lower than last year. In terms of raw material, recycled fibre costs are expected to remain higher and under pressure, due to the additional capacity entering the market and exports to the Far East. On the pricing front, two increases support a more favourable pricing trend going forward; that is, the ongoing roll-out of the June €20 metric tonne price increase and the new €40 metric tonne price increase announced for delivery beginning in September.



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

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

Thank you. Mario. Good morning. The Specialty Products Group generated better results this quarter. Sales increased in all business segments to reach \$188 million, which represented a 9 percent sequential increase from \$173 million in Q1. We benefited from higher shipments in the majority of our segments. Our average selling prices increased, as well; our recovery segment being the only exception, with a slight decrease that is due to product mix. The FX variation in the quarter had a minimal impact on our top line.

Q2 EBITDA totaled \$20 million, an 11 percent improvement from Q1. Results improved thanks to higher volumes, which were due in large part to the typical favourable seasonality. In addition, we realized better spreads in our Packaging segment as a result of price increases implemented in Q1 and early Q2. We are also pleased with the Group's 11 percent EBITDA improvement over last year.

Looking more specifically at our sub-segment, EBITDA of our Industrial Packaging segment improved by \$1 million. The implemented price increases on finished products and a favourable product mix resulting from recently commercialized innovative products, generated better margins for this segment.

Benefiting from the same trend, Q2 EBITDA of our Consumer Product Packaging segment increased by more than \$1 million sequentially. Higher volumes from favourable seasonable demand, combined with improved spreads as a result of previously implemented price increases, as well as a favourable product mix in our Consumer Packaging, contributed positively to our results.



Finally, the Recovery and Recycling segment continued to generate solid results and our EBITDA was slightly above the Q1 level. Increased volumes and improved operational efficiencies more than offset the temporary spread reduction, which was the result of the fluctuation in the OCC price at the beginning of the quarter.

Regarding the near-term outlook, we remain positive for the near future, with stable market conditions in our Industrial and Consumer Products Packaging segment, thanks in part to typical strong seasonal demand. We will continue to manage resin prices, although we don't expect any significant change in the coming months.

Looking forward, our Recovery segment will obviously take advantage of the July RISI published OCC price increase. The OCC domestic market remains strong due to the solid containerboard activity levels. The exports returned to a more normalized level, after a short pause at the end of Q1. We continue to have good generation from our recovery units and are maintaining our mill inventories at good levels, as a result of our highly contracted supply. In our opinion, the market is balanced and we haven't faced any notable challenge with regards to material supply since February. Pricing levels for OCC are more importantly influenced by (inaudible) activity in regions where we pull material from. Finally, market conditions for white grade have been stable.

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

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

Thank you, Luc. Good morning, everyone. The Tissue Group delivered a better performance on a sequential basis. Supported by market seasonality, we generated an Adjusted EBITDA of \$35 million, or a margin of 10.3 percent, compared to the \$23 million and a margin of 7.3 percent in Q1. Our solid



operation performance enabled us to partly offset the higher recycled and virgin fibre costs, compared to Q1. However, if we compare our Q2 results on a year-over-year basis, our overall performance is below prior year Q2 levels, which I will note was one of the strongest second quarter performances in our history.

Four main factors negatively impacted our second quarter performance versus last year: lower parent roll volume, the significant increase in recycled and fibre costs, the strategic investment made in new brand positioning in both the away-from-home and consumer product market, and the start-up of our new state-of-the-art Oregon converting facility. Let's discuss each of these key drivers more closely.

In terms of volume, second quarter shipments increased by 9 percent sequentially, due to the higher seasonal sales of converted product. Shipments also increased by 2 percent on a year-over-year basis, driven mainly by growth in Consumer Products segment. Our key challenge, in terms of volume, is related to parent roll shipments, which are 5 percent up sequentially, but are down 20 percent compared to last year. The lower parent roll shipments are mainly related to current over-capacity in the Hand Towel segment. We believe that this situation will be addressed in the mid-term with the increase of our integration rate, as the new Oregon converting volumes increase, and by future product diversification and strategic investment in additional converting capacity.

In terms of pricing, our second quarter average selling price increased by 3 percent on a sequential basis. This was mainly driven by a more favourable product mix of a higher percentage of converted products and the strengthening of the Canadian dollar. The two away-from-home price increases, announced at the end of 2016 and in the first quarter of 2017, continued to positively impact our Q2 performance. On a year-over-year basis, our average selling price increased by 9 percent in Q2, reflecting the same factors that I just outlined. Therefore, the higher average selling price, as just discussed, combined with higher shipments, result in a 10 percent sequential increase in sales and a 4



percent sales increase on a year-over-year basis. Our spread was negatively impacted by the recycled and virgin fibre price increases that we have seen since mid-2016. Recycled fibre prices have increased by approximately 20 percent for SOP since last year. We continue to focus on delivering solid operation performance in other areas to help offset the higher raw material pricing and current parent roll volume challenges. Both productivity and costs are closely monitored to ensure optimal overall performance.

The start-up of the new Oregon facility is progressing well and the official opening on July 18 was very well received. This new state-of-the-art converting facility is key to our strategic plan, as it expands our geographical footprint by developing the West Coast market, while increasing our integration rate, which will reduce our vulnerability to parent roll market fluctuation.

The brand repositioning for both away-from-home and consumer products have gone well. Both initiatives have been well received by our customers and we have begun to see a beneficial impact in our results. The marketing investment required to support the brands is still higher than last year, but will gradually decrease during the second part of the year.

Looking forward, the current competitive hand towel, jumbo roll market, and the higher raw material prices present challenges for us. However, our focus on operational performance, our stronger asset base, favourable receptions to our branding initiatives, gradual benefit from our new Scappoose plant, and the many recent awards that we have received from customers, all point to a promising future for the Tissue Group. We also expect to see benefits from the recently announced 2 percent price increase on most of our jumbo roll categories, that is effective July 1, and benefits the beginning of Q4 from a recent price increase in our Canadian Consumer Products segment of approximately 10 percent.

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

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



Thank you, Jean. With the second quarter now behind us, we are cautiously optimistic for the remainder of the year. The third quarter is seasonally favourable for volume in Containerboard and Tissue, while it is less strong in Europe due to the summer holiday season. In terms of raw materials, we expect pricing to remain under pressure due to the strong North American and export market demand. Specifically, we expect our average Q3 OCC price to be stable to slightly higher than Q2, in accordance with the published recycled fibre market prices.

While second quarter results were below expectation, we expect our performance to strengthen going forward. A key part of this will be the implementation of the announced price increases which will offset the impact that today's higher raw material prices are currently having on our margin. Similarly, the new tissue converting facility in Oregon will be positive in the medium term. Finally, as was noted in our release, we are focused on finalizing our ERP implementation and internal business processes reorganization effort by the end of 2017. This final push will require diligence in both the corporate and operational level for the remainder of the year.

Before opening the call for questions, I would like to finish by noting that we are pleased with the significant progress we have made towards delivering on our strategic objectives. In addition to the consolidation of Greenpac, the recently announced sales of our equity position in Boralex, and plans for the new state-of-the-art containerboard converting facility in New Jersey highlight not only our commitment but our ability to follow through, are successfully delivered. We are committed to continue to improve our operational, financial and Group profile in the future, and to this end, we will remain strategic in our capital allocation and execution of our strategy, to create long-term value and future growth for the Company and our shareholders.

We will now open the line for questions. Operator?

Operator

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

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

Your first question comes from Hamir Patel with CIBC Capital Markets. Please go ahead.

Hamir Patel – Analyst, CIBC Capital Markets

Hi, good morning. Charles, in the Containerboard segment, could you quantify how much the unusual expenses and the higher products costs impacted the second quarter, what those costs were exactly, and how much of that would you expect to recover in Q3?

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

Yes, there's about \$3 million of the overall, I'd say, about \$13 million in costs that are going to—I can call them, like, kind of a one-timer. There is also a \$3.5 million—so, the \$3 million will not be there for the future quarters. There's also \$3.5 million that is due to mix. So, during this time of the year, we use—or we produce in our converting facility, produce, and we use wax and other materials that increase our costs. This will, in Q4, not be there. We also have maintenance that we did during the quarter, so some of it will also not be there, but there's still some costs that will be there for the next few quarters to support our initiatives in our transformation.



Hamir Patel – Analyst, CIBC Capital Markets

Thanks, that's helpful, and, Charles, I wanted to get your thoughts on what do you think is going to happen with mixed paper and OCC prices if China actually follows through with their plans to ban mixed. How much do you think you can push your mills further to use fibres other than OCC, and maybe, did you make any progress on that front in Q2?

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

I will let Luc respond for the first part about what we feel is going to happen. Maybe, Luc, you can answer that and then I'll answer about the (inaudible).

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

Yes, good morning, Hamir. Obviously, we all—like the rest of the industry, there's some level of uncertainty about the Chinese future specification and standards about the contaminant on the mixed paper, and until we have a better understanding of this, it's very difficult to speculate what's going to be the impact.

I guess one thing that is sure is that there will be tighter specification for contaminant, so that's going to push for a cleaner mixed material. Is it going to happen one time or is it going to be a more evolved situation with the Chinese government, we don't know yet, so it's very difficult for us. It does bring a certain level of uncertainty, but we all understand, also, that China is pulling year after year more than 2 million tonnes of mixed paper, and it's an important supply for them, so it cannot be removed. But, again, the specification on the contaminant could have an impact on the—either on the OCC or on the newsprint market, but it's too early to call for the time being.

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



In regards of the increase on the overall, it's probably 2 to 3 percent that we could increase in our mix, but there's two things that we are doing. First, we're evaluating which mill can increase the mix. We know about which one. I'm not going to give you the details, but we know which one, so we're ready for that. We've done the tests to make sure that we keep providing good quality paper, using more mix in our system. The other thing that we're doing also—some of paper mills are able to use a higher percentage of a virgin fibre, and we are doing that, as we speak, to get to as much as we can.

Hamir Patel – Analyst, CIBC Capital Markets

Great. Thanks. That's all I had for now, I'll get back in the queue.

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

Thank you.

Operator

Again, to ask a question, please press star, then the number one on your telephone keypad. Your next question comes from Kasia Kopytek with TD Securities. Please go ahead. We'll now open the line from Kasia Kopytek. Please go ahead.

Kasia Kopytek – Analyst, TD Securities

Hi, can everyone hear me now?

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

Yes, hello.

Kasia Kopytek – Analyst, TD Securities



Just a few questions. Sorry, I guess I was on mute before. Just following up on Hamir's question on the non-recurring costs in Containerboard, did I hear correct, was it \$13 million, and that's all in Containerboard?

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

Yes. It's not all unusual, but \$13 million—Charles was explaining the \$13 million of other costs variations.

Kasia Kopytek – Analyst, TD Securities

I see. So, when I look on Slide 25, on the waterfall for Containerboard, and you've highlighted the \$10 million in other costs, some of which are the unusual expenses, how much of that \$10 million of sequential variation would be tied to the unusual expenses?

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

The \$3 million that I mentioned earlier.

Kasia Kopytek – Analyst, TD Securities

The \$3 million, okay, great. I just wanted to confirm, thank you. Just sticking with Containerboard, are you able to quantify how much Greenpac contributed to EBITDA this quarter?

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

No, that's information that we are disclosing.

Kasia Kopytek – Analyst, TD Securities

Okay, fair enough. I guess, similarly, then, would you be willing to give the organic shipment trends for Containerboard in Q2, again, normalizing for Greenpac?



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

No.

Kasia Kopytek – Analyst, TD Securities

No, okay. Was any of the February Containerboard price hike reflected in the Q2 results?

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

Yes, some of it was part of the results in Q2, but we still have on the converted side the price increases to happen during Q3.

Kasia Kopytek – Analyst, TD Securities

Oh, I see. So, the paper side, it's been implemented, but the corrugated side just has to follow through.

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

Yes, but just to clarify, though, the increases did go through during the quarter, so it was spread during the quarter, but the full impact will be in Q3. In addition to that, on the converting, that will happen during Q3, most of the increase.

Kasia Kopytek – Analyst, TD Securities

Great, okay, that makes sense. In the European Boxboard segment for Q2, was the reversal the provision for electricity material this quarter?

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



Yes, it was a prior period provision for a specific program that was announced by the government, but it did not material, so we just reversed the provision this quarter.

Kasia Kopytek – Analyst, TD Securities

Just in order of magnitude, we're talking about \$1 million, \$2, million, something like that?

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

CAD\$2 million.

Kasia Kopytek – Analyst, TD Securities

Okay, and just the last one. For the New York packaging plant, is there a timeline for divesting that asset?

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

The building is on the market. We put it on the market about a year ago, so we do have a lot of interest, but at this point I can't give you a formal date for closure.

Kasia Kopytek – Analyst, TD Securities

Okay, but you're hoping within maybe the next year or so?

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

Yes, probably, if I want to play it safe, 18 months, within 18 months would be fair to say.

Kasia Kopytek – Analyst, TD Securities

Got it. Okay, thanks very much for all the help, I appreciate it.

Operator



Your next question comes from Keith Howlett with Desjardins Securities. Please go ahead.

Keith Howlett – Analyst, Desjardins Securities

Yes, I just want to ask, on the Oregon converting plant, whether that's a positive contributor as of now or is still in the commissioning phase?

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

Still in the commissioning phase, yes.

Keith Howlett – Analyst, Desjardins Securities

Would you anticipate that to be positive by Q4?

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

No, I would say that my guess would be somewhere—like, you know, Q1, for away-from-home, it's already a bad quarter, so I'd say that probably Q2 next year would be the timing for us to cross the line.

Keith Howlett – Analyst, Desjardins Securities

Then, just on the parent roll price increase, I presume it's an industry price increase, but in the context of an oversupplied market, do you think that price increase will take?

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

Oh, yes, it's already there, it's from July 1, and it has passed in all categories, but hand towel, and we pushed that, and customers realize that, with the waste paper price that we pay, and the virgin costs that we pay, that we need that increase, so it passed everywhere, yes.



Keith Howlett – Analyst, Desjardins Securities

Great, thank you, and then just a question on the Containerboard waterfall chart on the year-over-year performance. On the \$14 million from business acquisitions and other variances, I'm just wondering what the components of that would be, other than Greenpac.

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

Well, as we mentioned, it's other variation outside of production costs.

Keith Howlett – Analyst, Desjardins Securities

Other variations outside production costs, okay. Is there any other acquisitions in there?

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

Well, if compared to last year, the small portion of the Newtown facility, but it's not material, so.

Keith Howlett – Analyst, Desjardins Securities

Great, thank you. Then, just on the sensitivity to the U.S. dollar, on Page 33, the \$3 million for every US\$0.01 variation, does that include Greenpac?

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

No, not yet, but we will refine the calculation, but it might go up by \$1 million a year on sensitivity, just due to the translation of profitability from the Greenpac mill, but there's no other transactional impact on the purchase and sales, it's only translation of results. Going forward, we might be at \$4 million.

Keith Howlett – Analyst, Desjardins Securities



Great. Thank you.

Operator

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

Hamir Patel – Analyst, CIBC Capital Markets

Thanks. I just had a few more follow-ups. Mario, with Reno's share price, it looks like it's at its highest level in almost a decade, how do you think about when you may you look to monetize that business, because it doesn't seem like there's really any synergies with the North American platform?

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

We have not changed our position at the moment; we're on the status quo. Obviously, we are evaluating all the different options as we speak, and we are really cautious of the value of the share, but we have not changed our position at the moment, Hamir.

Hamir Patel – Analyst, CIBC Capital Markets

Fair enough. Charles, I just had a couple more questions on the Containerboard business. We've seen Domtar and Verso both talk about potentially converting capacity into containerboard over the next couple of years, and both seem to think they could sell into the open market. I was just curious, you know, how big do you think that open market actually is and do you think a new entrant could actually fill a machine selling purely to the open market?

Charles Malo – President and Chief Executive Officer, Cascades Canada ULC

There's a lot of discussion about additional capacity or conversion. I mean, this one, we read a lot about in the last few weeks. Well, just look at the growth, the 2 or 3 percent growth on the market.



So, if there is one or two additional capacity like this over—every second year, or something like this, the market should be able to absorb, and including some export. But, to sell on the local market to independents, there is going to be a challenge, because, as you see, there's a lot more consolidation in the market, so it will be a challenge for new capacity. Especially, if there's no integration, it would be a big challenge to find output for the mill.

Hamir Patel – Analyst, CIBC Capital Markets

Okay. Charles, there's been a lot of discussion about e-commerce and how much of the growth we're seeing in box shipments being driven by that. I'm curious, you know, within your business, if you're able to measure how much of your volumes are actually going into e-commerce and how do you think that compares to the industry, and how much of a driver do you think e-commerce has been to the box shipments this year.

Charles Malo – President and Chief Executive Officer, Cascades Canada ULC

Okay. So, I'm going to try to give you—e-commerce is the buzz right now, so the statistics are just coming out. There's different sources. But, we evaluate that the growth of e-commerce is around 15 percent in that segment, and some people say it's higher. So, we're following this, we're gathering information. Even for us, there's a lot of our customers that are using their product that goes on e-commerce. So, it's difficult to give a percentage, but the thing that we can say and we know are that the growth on e-commerce is about three times what the standard packaging is, so there is a big potential on that.

Hamir Patel – Analyst, CIBC World Markets

Great. Thanks, Charles. That's all I had.

Operator



You next question comes from Keith Howlett with Desjardins Securities. Please go ahead.

Keith Howlett – Analyst, Desjardins Securities

Yes, I just had a question on the ERP implementation and the other costs categories, I guess, in the waterfall charts. How does the ERP spending get split between corporate and the divisional numbers?

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

Well, as we mentioned in previous quarters, the corporate—the program costs are all in corporate expenses. What Charles was referring to is when we go into a business and implement the ERP or business process, there are some costs related to that, in terms of the training costs, or if there's any other related costs, it's at the BU level, but the program costs we are mentioning, at \$7 million and \$8 million a quarter, are all in corporate expenses. We did not quantify the amount in the business units. But, as we mentioned, as Mario mentioned, we want to finish by 2017, so it's quite intense this year. We want to finish by the end of the year.

Keith Howlett – Analyst, Desjardins Securities

Then, just a question on the lightweight containerboard segment. When new capacity comes on of lightweight containerboard, does it sort of compete more directly with your product, or does it really compete in the overall market for containerboard?

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

It's both, but we did niche our product, and a lot of our output of our new paper mill is lightweight. So, of course, when there is new mills coming out that are producing lightweight, it competes on two sides. First, it replaces some of the volume that mills are not able to produce on



lightweight, but it also competes with our product. But, the advantage that we have is we've been doing it for more than two years, we have a solid product, it's well accepted with our customers, and then it takes also some time for a customer to adapt to the lightweighting. So, you develop a good relationship with your customers and then you work with them to teach them how to use it, also, so it makes it kind of niche product.

Keith Howlett – Analyst, Desjardins Securities

Do you get more uptake from e-commerce players on the lightweight or does that matter?

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

It's an advantage, lightweighting is an advantage on e-commerce, because the e-commerce, as you know, goes—transportation cost is a big portion of the costs, and so, for sure, the lightweighting is an advantage.

Keith Howlett- Analyst, Desjardins Securities

Thanks very much.

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

You're welcome.

Operator

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

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

Thank you, everyone, and we'll see you soon. Enjoy the rest of your summer and we'll see you in the next quarter. Thank you very much.



Operator

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

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