Cascades Inc.

Second Quarter 2020 Financial Results Conference Call

Event Date/Time: August 6, 2020 — 9:00 a.m. E.T.

Length: 40 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 Group

Jean-David Tardif
Cascades Inc. — President and Chief Operating Officer, Cascades Tissue Group

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

CONFERENCE CALL PARTICIPANTS

Adam Josephson
KeyBanc — Analyst

Sean Steuart
TD — Analyst

Hamir Patel
CIBC Capital Markets — Analyst

Paul Quinn
RBC — Analyst

Zachary Evershed
National Bank — Analyst

PRESENTATION

Operator

[Operator Remarks in French]

Good morning. My name is Joanne, and I'll be your Conference Operator today. At this time, I would like to welcome everyone to the Cascades Second Quarter 2020 Financial Results Conference Call. All lines are currently in listen-only mode.

After the speakers' remarks, there'll be a question-and-answer-session.

I will now pass the call to Jennifer Aitken, Director of Investor Relations for Cascades.

Ms. Aitken, you can begin your Conference.

Jennifer Aitken — Director, Investor Relations, Cascades Inc.

Thank you, Operator. Good morning, everyone, and thank you for joining our second quarter 2020 conference call. We will begin with an overview of our operational and financial results, followed by some concluding remarks, after which we will begin the question period.

The speakers on today's call will be Mario Plourde, President and CEO, and Allan Hogg, CFO . Also joining us on today's call are the Presidents of Cascades business segments, namely, Charles Malo, President and COO of the Containerboard Packaging Group; Luc Langevin, President and COO of the Specialty Products Group; and Jean-David Tardif, President and COO of the Tissue Papers Group. They will all be available for the question-and-answer period at the end of the call.

Before I turn the call over to my colleagues, I would like to highlight that Reno de Medici's interim report released on July 30th can be viewed on Reno's website.

I would also note that certain statements made during this call will discuss historical and forward-looking matters. The accuracy of these statements is subject to risk factors that 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 Q2 2020 investor presentation for details.

This presentation, along with our second quarter press release, can be found in the Investors section of our website.

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. Good morning, everyone. Let me begin with a short update regarding COVID-19.

Our top priority remains the health and safety of our employees. Visits to our facility remains limited to only what is essential and work-related travel continues to be restricted. Workplace social distancing and extensive cleaning protocols remain in force at all of our operations. As a result of these measures, we have not had any significant COVID-related production interruption at our operation.

I would like to sincerely thank and applaud every one of our employees for their continued diligence, dedication, and hard work during these challenging times. Thanks to their effort, Cascades has continued to supply our customers with the essential tissue and packaging solutions they need.

We are very pleased with our second quarter execution and result. The record quarterly adjusted EBITDA generated in the period speaks to the resilience and adaptability of our business model.

Our segments executed well within an ever-changing business reality and we are encouraged by the performance of all of our sectors, particularly our Tissue segment which nearly tripled adjusted EBITDA year over year.

Net earnings were $54 million, or $0.57 per share. This compared to earnings of $0.33 per share last year and $0.24 per share in Q1.

On an adjusted basis, we generated $0.61 per share in Q2. This was a notable increase from the $0.28 per share generated in the same period last year and $0.42 per share recorded in Q1.

On an adjusted basis, EBITDA of $186 million increased 19 percent over the same period last year and 16 percent when compared to Q1.

On a consolidated basis, our adjusted EBITDA margin reached 14.5 percent in Q2. Slides 4 and 5 provide details for each of our business segments.

On the raw materials side, highlighted on Slide 6, the Q2 average index price for OCC was up significantly in both a sequential and a year-over-year basis. As we mentioned in our first quarter call, we view these elevated OCC pricing levels as not being representative of what we were seeing in the market and, therefore, temporary. As expected, prices have since decreased.

White recycled paper grade increased by 9 percent year over year in Q2 and by 67 percent compared to Q1.

On the virgin pulp side, hardwood and softwood pulp prices decreased year over year in Q2 and were up marginally on a sequential basis.

Moving now to some brief comments on the performance of each of our business segments, highlighted on Page 8 through 11 of the presentation.

The Containerboard segment generated Q2 adjusted EBITDA of $94 million, down 5 percent sequentially and 17 percent year over year. On both cases, higher raw material costs and lower shipment levels were the primary drivers of lower results.

A total of 20,700 short tonnes of manufacturing downtime were taken in the second quarter. This reflected plant maintenance and additional downtime taken for inventory management and to balance production with lower demands related to COVID-19, most notably in June. Partially offsetting these impacts were lower energy and production costs. Volumes are back to expected seasonal levels in July.

Results in Tissue Paper segment reflected favourable trends sequentially and year over year.

Q2 adjusted EBITDA of $54 million increased 20 percent from Q1 and was 3 times higher than prior-year levels. On both cases, results benefitted from cost improvement initiatives, including benefit from plant closure over the past 12 months, a higher average selling price, and lower freight costs.

Volume was positive year over year but down slightly compared to Q1 as COVID pantry stocking demand level eased. Higher raw material costs negatively impact result in both cases.

The European Boxboard operation generated strong Q2 results, with adjusted EBITDA up 43 percent on both a sequential and year-over-year basis. On a margin basis, this represents approximately 16 percent; a record for this segment. Sequentially, results benefitted from lower energy costs, energy tax credit received in the current period, and a higher average selling price, and lower fixed and SG&A costs. These were partially offset by higher raw material costs and lower volume.

Year-over-year performance reflect lower energy and raw material and SG&A costs, in addition to the energy tax credit received. These benefits were partially offset by lower average selling prices. The depreciation of the Canadian dollar compared to the euro was a net benefit in both cases.

Due to result in the Specialty Product segment, improved sequentially and year over year. When compared to the prior quarter, sales increased 6 percent in Q2. This reflects volume increase in most business segments, notably, 20 percent increase in food packaging sales. Conversely, shipment of industrial products decreased 5 percent compared to Q1 due to the economic impact of the COVID-19.

Year-over-year sales level decreased 11 percent, reflecting the divestiture of the European activity and the closure of the vinyl backing mill in the second half of 2019. These impacts were partially offset by higher volume in plastic and molded pulp and a beneficial exchange rate.

Adjusted EBITDA levels increased 42 percent sequentially and 6 percent year over year, and benefitted from higher volume and lower operational and administrative costs in both cases.

Our recovery operation reported within the Corporate Activities segment as of Q4 2019 benefitted from the higher raw material index prices in the second quarter and were a net contributor to results. While favourable for these operations, they negatively impacted the consolidated performance of our North American business activity in the second quarter.

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

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

Thank you, Mario, and good morning, everyone.

So starting with an overview of our key KPIs on Slide 13. Our second quarter shipments decreased by 53,000 short tonnes or 5.8 percent from Q1. This was driven by decreases of 7 percent in European Boxboard, 8 percent in Tissue, and 4 percent in Containerboard. This largely reflects an easing of the elevated Q1 demand levels related to COVID-19.

First quarter capacity utilization rate of 92 percent decreased 1 percent compared to the prior year and 5 percent from the first quarter levels.

Working capital came in at 9.7 percent of sales, while consolidated return on assets stood at 12.7 percent.

Moving now to sales as detailed on Slides 14 and 15. Year over year, Q2 sales increased by $10 million or 1 percent, driven largely by the volume increase in the Tissue segment and a beneficial foreign exchange rate for all of our business segments.

Less variable pricing and sales mix impacted sales levels in all segments. The exception to this was Specialty Products where the year-over-year decrease was entirely due to a mill closure and a business divestiture completed in 2019.

On a sequential basis, second quarter sales decreased by $28 million or 2 percent. This reflects lower volumes in all business segments, with the exception of Specialty Products. Offsetting this were more variable FX impact and beneficial selling price and sales mix in all business segments.

Moving now to operating and common adjusted EBITDA, as highlighted on Slide 16. Q2 adjusted EBITDA of $186 million increased $30 million from the prior-year level and attained a new record quarterly level for the Corporation. Results benefitted from stronger performances from the Tissue Paper and Boxboard Europe segments, the benefits of which were partially mitigated by lower Containerboard results as a result of higher raw material costs and lower average selling prices.

Sequentially, Q2 adjusted EBITDA increased by $25 million or 16 percent, as shown on Slide 17. This was driven by stronger performances in all business segments, with the exception of Containerboard, in which results were impacted by lower volume and higher raw material prices.

Second quarter results include a $9 million favourable R&D tax credit, while first quarter results included a $10 million credit loss provision.

Slides 18 and 19 illustrate the specific items recorded during the quarter. The main items worth mentioning are $13 million of impairment charges and $2 million of restructuring costs that were recorded in Containerboard and Tissue segment as part of optimization initiatives, and a $9 million foreign exchange gain on long-term debt and financial instruments.

Slides 20 and 21 illustrate the year-over-year and sequential variance of our Q2 adjusted earnings per share and the reconciliation with the specific items that affected our quarterly results. As reported, earning per share were $0.57 in the second quarter. This compared to earnings per share of $0.33 last year. Both periods included specific items.

On an adjusted basis, EPS increased by $0.33 compared to last year high. Higher operating results, lower financing expenses, and lower income tax were offset by higher depreciation expenses, reflecting business acquisition and operational capital projects. On an adjusted basis, sequential second quarter EPS increased $0.19 per share from Q1 levels, driven by higher operating results.

As highlighted on Slide 22, second quarter adjusted cash flow from operations increased by $37 million year over year to $162 million. This reflected higher cash flows from operations due to stronger operating results and lower net financing expenses in the second quarter of this year, following our Q4 2019 refinancing.

Adjusted free cash flow levels increased by $45 million year over year, reflecting lower net CapEx, partially offset by higher dividends paid in the current period.

Moving now to our net debt reconciliation, as detailed on Slide 23. Our net debt decreased by $135 million in the quarter. This reflects strong cash flow from operations, a positive FX impact of $59 million, partially offset by higher dividends, changes in non-cash working capital, and CapEx payments.

Our net debt leverage ratio stood at 3.1 at the end of the second quarter, down 3.5 at the end of the first quarter and 3.25 times at the end of 2019. This, along with other financial ratios and information about maturities, are detailed on Slide 24.

On Slide 25, we provide details about our capital investment plan for the full year. Continue to expect to invest between $175 million and $200 million. We remain focused on prudently managing cash flow and our debt profile. Currently, our cash availability stands at approximately $650 million. Mario will give you more details and wrap up the call with a brief conclusion before we begin the question period.

Mario?

Mario Plourde

Thank you, Allan. We have provided details regarding our near-term operational outlook on Slide 27 of the presentation.

As a reminder, this outlook is based on what we are seeing today and what we are focused on, given present-day circumstances. Demand remains good for our hygiene and packaging solution in North America, including retail tissue, some food packaging, and corrugated product used by companies operating in industries such as food and personal care.

There continues to be the potential for a mixed impact on demand, both positive and negative, depending on how the reopening of the North American economy progresses.

In light of this, volume in the away-from-home Tissue business in particular are expected to decrease. Some product categories are currently experiencing 20 percent to 40 percent decrease in volume. This, coupled with the usual Q3 seasonal softness in European Boxboard activity, is expected to translate into a sequential decrease in consolidated Q3 results.

On the positive side, lower raw material pricing is expected to be beneficial for our business segment, while a recent price increase announced in our European Boxboard business will gradually start to take effect.

In terms of raw material, the recovered paper market experienced a turnaround during the quarter, with a complete reversal of the more challenging market conditions in place at the beginning of May. The OCC market experienced the biggest change from scarcity to abundant in a few weeks, in fact reflected by the index price returning to close to pre-COVID level by July.

While increased fibre generation and mill downtime contributed to this reversal, the index price published in April and May that we believe overstated the severity of the prevailing market conditions also helped explain the amplitude and the speed of the following correction.

Our recovery group is well-positioned on the sourcing side. We maintained raw materials inventory levels at our mills within normal parameters in Q2. OCC remained readily available, despite a slight increase in export activity from which transacted price are below current domestic markets. Currently, our inventory levels are on the high side.

We will not be providing any additional specific or timeline for Bear Island project at this time. As we have stated previously, this project remains strategic for the long-term positioning of our Containerboard business. Given COVID-19, plans are being advanced at a slower price. We will update the market once detail has been determined.

Before we open the call to questions, let me finish by saying that we are very pleased with our record quarterly performance in Q2. They highlighted the resilience and the diversity of our business model, adaptability at the production level, and speak to the improvement being generated by the strategic steps and investment that we have completed in recent years.

With that, we will now be happy to answer your questions. Operator?

Q&A

Operator

[Operator Remarks in French]

Thank you. If you would like to ask a question, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press the # key. Again, if you have a question, please press *, 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 Adam Josephson from KeyBanc. Your line is now open.

Adam Josephson — KeyBanc

Good morning, everyone. Thank you for taking my questions. I appreciate it. Mario, on Bear Island, thank you for what you just said. I appreciate that you don't have a concrete update. You mentioned it was COVID-related. Can you just talk a little bit about what that means exactly? Is it inability to get personnel there? Is it inability to find a satisfactory number of financial or offtake partners? Is it something else? I'm just trying to better understand the precise reason for the ongoing delay there.

Mario Plourde

Well, I think COVID is limiting us in the visit to eventual partner, customer, or either any related party that will be involved in this investment. So name it—machinery, supplier, subcontractor. So trying to plan a Bear Island project today in a COVID situation is a little tricky. And considering that the travelling is limited at this point, we're slowed down in the process and the progression of the project. So it's not only one item. I would say it slows down in general.

Adam Josephson

Understood. No, thank you for that. Charles, just on the Containerboard business, can you talk about what your July shipments were up and about what is informing your belief that shipments will be modestly up sequentially and up year over year?

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

Yeah. So thank you for the question. Our July, as we speak, shows strong numbers in both of our sectors, meaning the manufacturing and also on the converting side. The reopening that we saw in most of our sectors and in our customers is showing effect. The other effect also is we see that our customers played safe in the last month or so, second half of the Q2. So right now, they're reordering, revamping their inventory level. In addition, we also see the normal seasonal uptake.

So that's why we are cautiously optimistic about what's going on right now, and the demand that seems to be very good at this point.

Adam Josephson

And you're up year over year in July, I assume?

Charles Malo

Yes, we are.

Adam Josephson

Okay. And, Jean-David, on the tissue business, can you just talk about roughly by how much you expect shipments to be down sequentially, and about why? Forgive me for—I would assume that away-from-home demand was already quite low in the second quarter so I'm not sure why that would get worse sequentially. Just your thoughts about what exactly would drive total tissue shipments down sequentially, by what order of magnitude, and the at-home versus away-from-home pieces there.

Jean-David Tardif — President and Chief Operating Officer, Cascades Tissue Group, Cascades Inc.

Yeah, Adam. On the retail side, we don't foresee a decrease. It's pretty much stable June, July. It's really on the away-from-home where we don't know exactly what's going on or what's going to happen. We see decrease in some categories. Right now, we're down probably 30 percent overall on the away-from-home. Away-from-home represent right now roughly 40 percent of our shipment in cases. So that's why we anticipate slower sales in Q3 overall.

Adam Josephson

Thank you very much.

Operator

Thank you. Your next question comes from the line of Sean Steuart from TD Securities. Your line is now open.

Sean Steuart — TD

Thanks. Good morning. A couple of questions. The $9 million of R&D tax credits, was that all in the Tissue segment?

Allan Hogg

No. It was in all three business segments and it was for prior-year credit that we got confirmation of, so.

Sean Steuart

And, Allan, how should we think about that going forward? I know these things pop up from time to time in quarters. Is there any visibility on continuing tax credits through the back half of the year?

Allan Hogg

Well, normally we always provision for tax credit in Canada. Now we're going to also provision for a tax credit in US. This is a new fact for us so that's why these credit were for the year 2016, 2017, and we maybe in the coming quarters—don't know which one exactly—we will be in a position to record something for '18 and '19. And then it will just roll as the others, so it will be taken on a quarterly basis, the provision.

So because we applied for a new in the US and we were approved, so that's the reason why it's popping up in this quarter.

Sean Steuart

Okay. And a question for Jean-David on the Tissue mix this quarter. There was reference to a higher-value mix within the converted shipments. Can you give us some context on that? And views on sustainability of that mix headed forward as well?

Jean-David Tardif

It's mainly retail sales. The fact that we're also having a optimized portfolio mostly still, so we're about to maximize production on the retail side, so they help us to increase the volume. We anticipate that it's going to go back to a more normal or a little bit more difficult product mix down the road, so, but we're going to continue to work with customers on this. So that's why we had the slight increase in Q2. But in away-from-home, as I said, it's still challenging for the coming months.

Sean Steuart

Okay. Understood. Last question for me. Allan, you referenced the progress on bringing working capital as a percentage of sales down consistently the last several quarters. How do you think about further room for declines on that front? I mean, it sounds like your recycled inventories are full right now. Any guidance you can give on ultimate targets for that ratio?

Allan Hogg

Well, the target we set ourselves a few years ago was to be in and around 10 percent; we are there. And with the mix of business we have, I think to go down to 9 percent is possible, but lower than that, I believe it would be difficult. So we're right—I think we are at a good level but there's certainly a few things we can do to further improve. But pretty happy for where we are right now, so.

Sean Steuart

Okay. Thanks very much for that detail. That's all I have.

Operator

Thank you. Your next question comes from the line of Hamir Patel from CIBC Capital Markets. Your line is now open.

Hamir Patel — CIBC Capital Markets

Hi. Good morning. Jean-David, on the Tissue side we've heard some producers talk about price hikes for September. Could you speak to what initiatives you might have underway or planned? And how does that reconcile with the I think you said 20 percent to 40 percent volume declines that you've been seeing in that category?

Jean-David Tardif

We publicly announced a price increase in away-from-home in June, effective in September, up to 8 percent. On the away-from-home business, we're working on it as we speak. Don't have anything planned for retail at this moment.

Hamir Patel

And then, Jean-David, related to that, are you seeing any signs of customers wanting to transition from air dryers to paper towels? And if so, should we expect maybe just a higher initial investment associated with the dispensers there?

Jean-David Tardif

It's definitely a focus for us right now. We believe when the economy will reopen, there will be an opportunity for us, so we're working hard with marketing and sales towards this moment. I believe it's too early to say what will be the impact. But there is definitely some requests from customers. I think, yeah, this will change, definitely. But we don't anticipate more expenses on the dispenser side at this moment.

Hamir Patel

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

Mario Plourde

Thank you.

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 Paul Quinn from RBC. Your line is now open.

Paul Quinn — RBC

Good morning. Thanks very much. I just thought I'd start with—I got on the call a little bit late—but machine market-related downtime in Containerboard, can you sort of quantify how much you took?

Charles Malo

Yes. So this is—

Mario Plourde

Charles, you'll go with that?

Charles Malo

Yeah. So this is Charles. The equivalent of about 16, close to 17 days. As you know, we have different machines, different sizes, different volumes. So the overall volume is about 20,000 tonnes total for the quarter.

Paul Quinn

Charles, do you anticipate taking any market-related downtime in Q3 here?

Charles Malo

No. So what we've done to manage during the Q2, based on our forecasting and our S&OP process, we wanted to manage the capacity looking at our inventory and also our demand. So what we decided to do is to take most of the downtime during the period, during the Q2. And this happened, by the way, mainly in the second half of Q2.

So what we're seeing right now with the level of demand and the reopening, we don't foresee any downtime, additional downtime, for the Q3. In fact, some of the downtime that we took would probably also help us in Q3 and Q4 to take less downtime than we have predicted at the beginning, so.

But we'll review that as we go, depending on the reopening and the demand. But we're spending a lot of time right now on adjusting and well-managing our inventory levels, demand, and output also.

Paul Quinn

Okay. And the results are very strong, even taking out the $9 million tax credit. One of the areas that we missed was Tissue. And I think your guidance at the Q1 call was for Tissue to be down sequentially, and it was up and up big. What happened in that segment that caused that outperformance?

Jean-David Tardif

Well, we've done a lot of cost-improvement initiatives. We've been more efficient than expected on many plants. A lot of work, as we said, as Mario said, were positively impacted also by the transportation cost, which include lower penalties (phon) from our customers. And also, as you know, we restructured, so we've closed some plants in first quarter, so we were able to move faster than expected on this, with more fixed cost savings.

Mario Plourde

And maybe volume was a bit higher than expected when we did the forecast.

Jean-David Tardif

Also right there.

Paul Quinn

Okay. And then just sticking with Tissue, I think last quarter we talked about your ability to move from away-from-home volumes into consumer retail. I think you said on the call here, 40 percent. What additional room have you got to move for the balance of the year?

Jean-David Tardif

It was 45 percent, 46 percent for first quarter. It's down now to 40 percent. We don't have much room because the segment of product that are, I will say, changeable between the two markets are good. So for single-roll bath tissue, kitchen roll towels in the away-from-home side, those are categories that are doing good. So the issues are more around larger roll or long towels, folded napkins, et cetera, and this is not interchangeable.

So we're pretty much done. So there's still some innovation working on some product development to try to move capacity from one market to the other, but there is not much room left.

Paul Quinn

Okay. And then maybe one for Allan. Foreign exchange was the benefit in Q2; it looks like a headwind in Q3. Can you remind us of your sensitivity to that?

Allan Hogg

Well, sensitivity is now mainly only on the translation of our US results. So it's about, we're still in the 2 million percent about on this. And on the cash flow side, it's really minimal right now. We are almost at neutral in terms of cash flow in our Canadian operations from the US. So it's about 2 million percent right now on EBITDA. Two, three million percent there.

Paul Quinn

Okay. That's great. And then just lastly, Bear Island was purchased over two years ago. And I understand the difficulties around COVID, but is this a decision that you intend to make in 2020 here?

Mario Plourde

We hope so, Paul. It is something we work on still. We have people on the site and we're trying to advance the project as we can. But as I mentioned earlier, we are limited in what we can do and the people we can have on the site. But yes, this is our mission.

Paul Quinn

All right. Thanks a alot. Great quarter, guys. Thanks.

Mario Plourde

Thanks. Thank you.

Operator

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

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

Zachary Evershed — National Bank

Thank you. Good morning, everyone. Congrats on the quarter. The improvement that we saw in SG&A and expense containment in the quarter, is all of this likely to continue in your coming quarters? Or was some of it made up of more temporary measures during the peak of the pandemic?

Allan Hogg

Well, globally on SG&A for sure that the past few months had an impact. Some of these costs will certainly revert back when things, when people start to come back and we start to maybe travel a bit more. But we expect that at the end of the day, some costs will be permanently down in the future because of the way we're now working.

And also, as Mario mentioned, there's cost initiative measures ongoing everywhere. So on the net position, I believe it will be down going forward compared to historical.

Zachary Evershed

And any kind of colour on the magnitude of how much it'll be down compared to historical?

Allan Hogg

Nope. Nothing to provide.

Zachary Evershed

Fair enough. We've seen some rationalization on the Containerboard side in terms of closures. What's in store for Tissue in terms of plant closures moving forward?

Jean-David Tardif

There is not much we can say at this moment. But what can I say is that we're working really hard on it right now to make sure we control the costs according to the demand. So we will do what we have to do to make sure we minimize the impact at this moment, for sure.

Zachary Evershed

All right. And on that point, you mentioned a shift to more virgin products in Tissue, given the scarcity of SOP on the Q1 call. And obviously, this (unintelligible) around fairly quickly. But what are you seeing in terms of SOP generation and collection currently?

Mario Plourde

Luc, can you take this one?

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

Yes. Yeah. Well, SOP is fairly complex to understand. There's a lot of things that are impacting the market. Obviously, at this moment, the material is abundant. Yesterday, RISI announced a $40 decrease in SOP pricing, which reflects, actually, this abundance of material.

There's a few things impacting the SOP market. There's obviously a slight improvement in the generation. There's obviously, with the reduction in away-from-home Tissue business, which is significant consumers of these fibres, has an impact on the demand.

And on top of that, you have to understand also that there is always some kind of substitution between the virgin pulp and the recycled fibres. And the virgin pulp currently is also on the downside.

So all these factors together makes the market now to be what it is. So it’s difficult to have a long-term visibility, but as long as these variables will stay in place, we’re likely going to go through these low pricing, high availability of material on the SOP side.

Zachary Evershed

That’s great colour. Thanks very much. I’ll turn it over.

Operator

Thank you. There are no further questions at this time.

Mr. Plourde, please continue.

Mario Plourde

Thank you. Thank you, everyone, for being on the call. We wish you a good rest of the summer and looking forward to talk to you in Q3. Have a good summer. Thank you.

Allan Hogg

Take care, everyone. Thank you.

Operator

[Operator Remarks in French]

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