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FINAL TRANSCRIPT

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## PRESENTATION

**Operator:**

Mesdames et messieurs, bienvenue à la téléconférence des résultats financiers du deuxième trimestre 2021 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 Cascades Second Quarter 2021 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 pass the call to Jennifer Aitken, Director of Investor Relations for Cascades. Ms Aitken, you may begin.

**Jennifer Aitken:**

Thank you, Operator. Good morning, everyone, and thank you for joining our second quarter 2021 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 for the question and answer period at the end of the call are Charles Malo, President and COO of Containerboard Packaging; Luc Langevin, President and COO of Specialty Products; and Jean-David Tardif, President and COO of Tissue Papers.

Before I turn the call over to my colleagues, I would like to highlight 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 2021 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:**

Thank you Jennifer and good morning everyone.

Before discussing our Q2 performance, I would like to remind everyone that European boxboard results are now shown as Discontinued Operations following the monetization of our 57.6% equity interest in Reno De Medici announced on July 5. The move reflects our commitment to create long-term value for Cascades and our shareholders by focusing on strengthening the competitive positioning of our North American packaging and tissue businesses. The transaction is expected to close in Q3, improving our financial profile and flexibility, while also simplifying our investment thesis and communication with the financial community. We will not be commenting on their second quarter financial performance and invite you to contact Reno directly with any questions.

To this end, we are very pleased to be announcing a 50% increase in our annual dividend that will be effective with the September 2nd payment. This increases our yield to approximately 3% and is driven by our stronger financial profile and our confidence in the outlook of our operational performance, and our businesses and long-term free cash flow generation capacity.

Moving now to our second quarter performance, results were below expectations, with the shortfall driven by soft industry-wide demand in tissue and general inflationary pressure on raw materials and some production costs. In the case of our Packaging segment, good volumes and selling price increase partially offset these headwinds.

On a consolidated basis, second quarter sales levels decreased 6% from the year ago period but increased 1% from Q1, while Adjusted EBITDA decreased by 31% and 20%, respectively.

Slide 4 and 5 provide quarterly information for each of our business segments and I will provide additional details about the performance of each of our business segments in a few minutes.

On the raw materials side highlighted on Slide 6, the Q2 average index price for OCC decreased 7% year-over-year but was 23% higher than Q1. However, when considering the all-in blended costs of OCC, it increased 11% year-over-year and 19% sequentially, given upward pressure on transportation and premium paid to suppliers. This reflects the high domestic demand levels driven by strong containerboard production levels and response to pandemic buying patterns and export activities.

Average index prices for SOP white recycled paper grade rose notably on a sequential basis in Q2, increasing 23% but were down 26% compared to the prior year.

On the virgin pulp side, hardwood and softwood pulp prices both increased year-over-year and sequentially in Q2. Hardwood pulp index registered an increase of 45% year-over-year and 25% sequentially, while softwood pulp prices rose 38% and 23%, respectively.

Moving now to some brief comments on the results of each of our business segments highlighted on Page 7 through 9 of the presentation.

Beginning with the sequential performance, the Containerboard segment generated a slight 1% decrease in sales in Q2 as higher selling prices and volume were offset by less favorable FX and mix, capacity utilization decreased by 1% reflecting higher plant maintenance down time, while our integration rate remained stable. Converting shipment decreased by 2% in millions of square feet, underperforming the 1% increase in the Canadian market and the 2.7% increased registered in the U.S. market for the period. As planned, we modernized our Ontario converting platform and transferred volume from other facilities during the quarter, resulting in a negative impact on converting shipment during the period. The impact of this and associated transition and startup costs was approximately $5 million in the second quarter. Ramp up of the equipment is progressing well with benefit expected to begin at the end of Q3.

Q2 Adjusted EBITDA of $100 million or 20.1% on a margin basis was $8 million or 7% below Q1 levels. Results benefited from solid sales and higher average selling price, however, these were offset by higher raw materials and production costs, slightly lower volume related to plant downtime and less favorable exchange rates. Year-over-year, sales increased 9%, driven by higher selling price and volume, partially offset by the impact of higher raw material costs and a less favorable FX.

Converting shipment increased 7.4%. This was slightly below the Canadian and the U.S. market, which increased 8.6% and 8.2%, respectively. Adjusted EBITDA increased 6% year-over-year.

Our Tissue business had a difficult second quarter. Sales increased 2% sequentially as higher volume offset the impact of less favorable FX and market mix. Sales decreased 30% year-over-year as volume decreased from the elevated COVID-19 related level last year.

Adjusted Q2 EBITDA of a million dollars was well below both the prior quarter and last year for the same reason.

Higher raw material and production costs were also contributing factors due to some production curtailment taken in the quarter, notably in June, to manage inventory. This represents us taking approximately 24% of our converting capacity offline in the quarter.

Obviously the first half of this year has been challenging for our Tissue business and external market factors have led to disappointing results for this segment. Given the essential nature of these products, however, we view the underlying demand contraction as temporary. That said, COVID-19 demand volatility remains an unpredictable factor that we will continue to manage by taking decisive steps including production and cost management initiatives in the event they are warranted.

Long term, the modernization and margin improvement initiatives that we have been implementing in our Tissue platform have equipped it to better navigate the current challenging environment, while also improving its competitive positioning in the long term.

Specialty Products segment generated solid Q2 results sequentially and year-over-year. Sequentially, Q2 sales increased 7% as higher volume offset the impact of a less favorable FX.

Adjusted EBITDA was stable at $18 million with higher sales mitigating the negative impact of higher raw material costs and FX.

When compared to the prior year, Q2 sales increased by $11 million or 9% with better volume, pricing and mix more than offsetting the less favorable exchange rate.

Adjusted EBITDA level increased by $1 million year-over-year with higher sales offsetting the negative FX impact and higher raw material and production costs.

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

**Allan Hogg:**

Thank you Mario. Good morning everyone.

Before discussing financial results, and as mentioned by Mario earlier, I would like to highlight that following the sale of our equity position in Reno de Medici, results of the European boxwood segment are now presented as Discontinued with adjustments made to results retrospectively. We provide relevant details regarding the change to financials (inaudible) results on Slide 10. Note that this transaction is expected to close in the third quarter.

Looking now at an overview of our key KPIs on Slide 11, our second quarter shipments increased by 9,000 short tons or 2% from Q1. This was driven by as 12% increase in Tissue offset by a slight decrease of 1% in Containerboard in the period.

The second quarter capacity utilization rate of 90% was stable with the prior year period and decreased 2% from the first quarter levels.

Average working capital came in a 10.3% of sales, stable with Q1 and down slightly from last year, while consolidated return on assets stood at 11.3%, down from 12% last year and 12.3% in Q1.

Moving now to sales as detailed on Slides 12 and 13, year-over-year Q2 sales decreased by $64 million or 6%. As we have already highlighted during this call, this was driven by the important volume decrease in Tissue with unfavorable exchange rates also impacting sales levels for all of our business segments.

Higher volume and better pricing and sales mix were beneficial factors for our Packaging segments. Higher raw material prices benefited external sales from our recovery and recycling operations. On a sequential basis, second quarter sales increased by $14 million or 1%, largely reflecting higher volumes in

Tissue and Specialty Products. These were partially offset by a less favorable exchange rate impact in addition to sales mix in Tissue.

Moving now to operating income and Adjusted EBITDA. As highlighted on Slide 14, Q2 Adjusted EBITDA of $98 million decreased $45 million from the prior year level. The decrease was due to the lower results from the Tissue segment.

Sequentially, Q2 Adjusted EBITDA decreased by $24 million as shown on Slide 15. This was driven by the weaker Tissue performance as we have previously discussed, and slightly softer results in Containerboard.

Our quarterly results continue to benefit from our margin improvement initiatives with our objective of improving our EBITDA margin by 1% for the second consecutive year when compared to our baseline year of 2019. On that basis, we have realized approximately $100 million in the first six months and every initiative that we have implemented contributes to mitigate current market headwinds and cost inflation, and are central in the execution of our business processes.

Slides 16 and 17 illustrate the specific items recorded during the quarter. The main items worth mentioning are a total of $6 million of impairment and restructuring charges recorded in Tissue segment related to restructuring and profitability improvement initiative; a $5 million unrealized loss on financial instruments, and a $3 million foreign exchange gain on long-term debt and financial instruments.

Slides 18 and 19 illustrate the year-over-year and sequential volumes of our Q2 adjusted earnings per share. As reported, earnings per share were $0.02 in the second quarter. This compares to earning per share of $0.57 last year. Both periods included specific items. On an adjusted basis, EPS decreased by $0.54 compared to last year's results. Lower operating results from the Tissue segment and lower earnings from Discontinued Operations of our European boxboard segment were the main driver of this variance.

On an adjusted basis, sequential second quarter EPS decreased $0.22 per share from Q1 of last year.

As highlighted on Slide 20, second quarter adjusted cash flow from operations decreased by $36 million year-over-year to $89 million, and adjusted free cash flow levels decreased by $70 million year-over-year. This reflected lower operating results and higher Capex incurred including the Bear Island project which is well underway and going as planned.

Moving now to our net debt reconciliation on Slide 21, our net debt increased by $53 million in Q2 reflecting lower cash flow levels, higher Capex and working capital requirements. Our leverage ratio of 2.9 times is up from 2.5 at the end of 2020 and the first quarter, reflecting lower Adjusted EBITDA levels. Net debt as shown is adjusted to reflect the Discontinued Operations figures but has not been adjusted to reflect the $461 million expected net proceeds from the monetization of our equity position in Reno de Medici. Taking this into account, leverage would be down to 2.5 times on a pro forma basis.

Financial ratios and information about maturities are detailed on Slide 22.

Slide 23 provides details about our capital plans for 2021. They remain unchanged at approximately $400 million to $425 million, considering the adjustment for Discontinued Operations. This includes $250 million of investment associated with Bear Island and conversion project. Capital expenditures net of disposals totaled $59 million in Q2 and $133 million year-to-date, including approximately $55 million for Bear Island. We remain focused on managing our cash flow and debt profile with the objective of keeping our leverage ratio within a range of 2.5 to 3 times while we execute our Bear Island project.

At the end of the second quarter, we had cash and revolver availability close to $1 billion. Additionally, as we said earlier, we will also look at optimizing our debt portfolio by reducing permanent debt outstanding once the Reno de Medici transaction closes in the third quarter.

Mario will now conclude the call with some brief comments before we begin the question period. Mario?

**Mario Plourde:**

Thank you Allan.

Details regarding our near-term outlook can be found on Slide 24 of the presentation. As a reminder, this outlook is based on what we are seeing today and may change in the coming months given the dynamic and often unpredictable nature of the ongoing circumstances.

Our near-term outlook for the Containerboard segment is positive with results expected to improve both sequentially and year-over-year. Demand remains solid in both the manufacturing and converting side, and results will benefit from the rollout of the announced price increases. Specifically, the second price increase should be largely in place by the end of Q3 while the third price increase began to be implemented in mid-July. These factors are expected to offset higher raw material prices and continued upward pressure on production costs.

Results for the Tissue segment are expected to improve sequentially. Volumes are expected to increase from Away-From-Home category with the opening of the economy. Demand for the consumer retail product is also expected to improve as we are seeing the stabilization of inventory level at retailers and positive momentum being achieved by our sales team.

While headwinds on production and raw material costs remain, internal initiatives and pricing improvement will support results going forward. As the high single-digit price increase announced for consumer and Away-From-Home Tissue product in North America will begin to take effect at the end of the third quarter.

We are expecting steady sequential results from the Specialty Products segment. This reflects stable volume and a higher average selling price, offsetting higher raw material and production costs. Year-over-year results are expected to increase, reflecting improvement in both volume and selling price.

Moving now to raw materials, domestic demand remains robust for OCC in the second quarter and export prices remain high. With limited container availability and port congestion, we maintain good inventory levels and finished the quarter well supplied. The confinement measure in Ontario led to a more muted seasonal upswing in generation levels than typically seen in the second quarter. Our inventory levels for SOP and high-grade are good and despite the recent increase demand related to the higher Away-From-Home Tissue product, there is adequate material available to meet our current needs. However, the combination of the greater Away-From-Home related to demand and high virgin pulp prices has put more pressure on the current market condition and has supported recent price adjustments.

On the virgin pulp side, market conditions for NBSK begins to relax in the second half of Q2 with a first price decrease. More recently, NBHK and eucalyptus prices have also achieved a plateau. Generally speaking, we would note that logistical challenges continue to complicate material movement and impact the market dynamics overall. That said, our mill continued to be well supported thanks to our long-term supplier relations and prudent inventory strategy.

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

**Operator:**

Merci M. Plourde. 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 l'étoile suivie du deux.

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

Your first question will be from Hamir Patel at CIBC. Please go ahead.

**Hamir Patel:**

Hi, good morning.

Mario, I wanted to start on the raw materials side. Just given the strong containerboard demand and all the capacity adds that are coming are recycled grade. Do you think the current OCC prices maybe represent a new normal for OCC going forward?

**Luc Langevin:**

Hamir, this is Luc. I will answer that one. In the month we will see an increase in the index in the month of July, but I think this situation was particular in the sense that people were—first of all, we're living with a lot of logistics issues at this moment which creates some higher level of insecurity in general. In the Northeast, where we are more present, we also had to deal with low generation in Ontario as a result of the existing confinement measures that were there, so we had to deal with a nontypical generation for a third of the year, and then willingness of everyone to increase the inventory levels of raw materials for the beginning of the month of July where we have long weekends in both Canada and the U.S.

If I look in the month of July, we have a—in Cascades we systemically increase our inventories in all our mills and we have no challenge getting supply at this moment. I cannot speak—the index will be published I think today or tomorrow, but for us the month of July is significantly different than what we're seeing in May and June.

When you look at the export business, export market, people—it's not really there what's happening. There's also the reduction of OCC consumption in China has not been fully offset by the other Asian consumption, so mainly that the metric demand is driving this maybe tighter market condition at this moment. We'll see, but for us I think we came to a more stable market at this moment.

**Mario Plourde:**

If I can just add, Hamir—it's Mario. Ecommerce has certainly changed the pattern buying of the consumer and we see a portion of this OCC now going to residential and being lost in the mix, so obviously this is creating a little bit of pressure. There's less OCC available from the retail market, and it's probably a new normal because we don't think that this ecommerce pattern will change.

**Luc Langevin:**

Another element we've seen also that might impact is that in the (inaudible) there's been some labor shortage issues, creating challenges for these (inaudible) to sort the paper and get the paper out of the quality that the market is in need, so if the PCU program is in place obviously this is not helping, so we know that some of our suppliers have challenge lately with labor in the (inaudible).

**Mario Plourde:**

It's a long answer.

**Luc Langevin:**

Yes. Sorry for that but (inaudible) simple.

**Hamir Patel:**

Great. Thanks, Luc and Mario.

Charles, I wanted to ask you about on the containerboard side, on the ecommerce component of the demand. What are you seeing there? Have you seen any slowdown at all? And if you could just remind us what percent of your overall business that you'd estimate is ecommerce?

**Charles Malo:**

Okay, so I'll start with the percentage. The direct sales to ecommerce we valuate at around 15%, 10% to 15% of our overall, but again, I just want to remind people that there's a lot of the packaging and the boxes that we don't necessarily know where they are going to end up. For instance, if we sell to different product—people are sending different product in different way of distribution and some could go to ecommerce. We feel that even though we're about 15% overall, it's probably more than that of the overall of our product that is going to supply chain to the ecommerce.

When we look at the demand right now, we are well positioned to increase, by the way, our presence on the ecommerce. With the large format, we had developed a specialty on that and we see that the growth is still there. We don't think it's going to stay the way that it was in the last few years because the growth was exponential, but there's still very good potential in growth in ecommerce in the upcoming, and the reason why we are seeing this is there's some habits, like Mario mentioned, with the OCC ordering from home is there to stay even after COVID, so we are still seeing growth faster than the average growth in the market, so higher than double digits.

**Hamir Patel:**

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

**Operator:**

Thank you. The next question will be from Sean Steuart at TD. Please go ahead.

**Sean Steuart:**

Thanks, good morning. A question for Jean-David on the Tissue segment.

Part of the issue this quarter I suspect was mix and related downtime. Can you comment on the pace that you expect mix on the retail side will start to normalize over the next few quarters? Were you still curtailing some of the converting capacity into the third quarter for that segment?

**Jean-David Tarif:**

Good morning Sean.

Right now what I can say is our inventory are back to the targeted level as of July, so I think we've been pretty hard on reducing the inventory in the second quarter. We will still have curtailment because we have open capacity versus the total capacity that we have.

We anticipate about 10%, 12% growth for Q3 versus Q2 in terms of volume, but you're right that the second quarter was really affected by the product mix. We've sold—if you look at the (inaudible) market data, on the retail side, market went down by 7% but our sales went down by 17%. But on the Away-From-Home side, market went up by 3% and we went up by 17%. So, we gained share on the Away-From-Home side as market is reopening, but we kind of lost some ground on the retail side. That's the major impact on the product mix, the average selling price.

For curtailment on third quarter, to your second question, we have to remember that we are ramping up new lines as well, so where capacity is increasing month after month as we speak because of the investment that we've made over the last 12 months. We're going to continue to monitor and adjust the curtailing versus the ramp up of those new lines. (Inaudible).

**Sean Steuart:**

Thanks for that detail. That helps. It sounds like this is going to be maybe a few quarters to normalize on mix.

Second question is on Bear Island. It seems like your budget for the project has been relatively stable and we've seen all sorts of cost inflation, steel and otherwise, in recent months. Can you comment on how locked in that budget is, your ability to secure the component pieces before inflation started to perk up? How comfortable are you with that budget?

**Charles Malo:**

This is Charles. As we speak right now, you mentioned the places where we had the most inflation that we see, where it's steel. I just want to remind that we are not building a new building 100%. We bought a paper mill that already had some building around, so we are making improvements, but this is not the highest portion of the overall budget. Even though steel is going up, it does not have a major, major impact on overall project. As we speak today, with the contingency that we have built in the project, we are in the range of what we have announced for the project. There is increase on steel, like you mentioned, and also other materials, labor also for the project, but as we speak right now we are in line with what we had presented.

**Sean Steuart:**

Okay, thanks for that. That's all I had for now.

**Operator:**

Thank you. Once again, if you would like to ask a question, please press star, followed by one on your telephone keypad.

Your next question will be from Zachary Evershed at National Bank. Please go ahead.

**Zachary Evershed:**

Good morning everyone. I was hoping you could give us a little bit of color on your containerboard backlog in terms of the number of weeks of sales you have.

**Charles Malo:**

Okay. Just going to the way that we valuate the backlog right now, we're still busy, so I can say that we are booked up on the containerboard. We take orders four weeks in advance so we are fully ramped up, but in addition to that with the customers that we have and the integration that we have, we are booked until the end of the year, meaning that we know that our customers and the demand and where the tons are going to be. If a customer were to come to us today and say—outside customers of the current that we have and would like to have volume, we can make some exception but very difficult.

We can say that we are planned to be booked as we speak.

**Zachary Evershed:**

That's interesting. Thanks. Given that you are booked up and not really in need of new clients at the moment, are you making any changes to your sales force or compensation?

**Charles Malo:**

No. One thing that I want to say is we are still looking for customers because we are also developing business for our new paper mill that is coming on, so this is one thing that we are working on, on the development business. We are still looking at developing it and we are not changing any compensation or anything like that that would make any impact or significant impact, no.

**Zachary Evershed:**

Got you, thanks.

Then the Capex guidance was about $50 million lower than previously. Is that spending that you have eliminated from the budget or pushed into next year?

**Allan Hogg:**

Zachary, it was mainly the Reno reclassification of we eliminated the European Boxboard segment. We are still on the same pace given the big chunk that is related to Bear Island.

**Zachary Evershed:**

Of course. Makes sense. That's all I had. I'll turn it over.

**Operator:**

Thank you. The next question will be from Paul Quinn at RBC. Please go ahead.

**Paul Quinn:**

Thanks very much and congratulations on the sale of Reno.

Just had a question on Tissue. You had a U.S. competitor that reported yesterday and they're basically—their tissue shipments bottomed out in April and that was consistent with sort of consumer purchases that bottomed out in March according to the IRRI data and shipments to retailers had bottomed out in April according to RISI (phon), so just wondering why yours is kind of delayed two months, or actual shipments, did you see the lowest level of shipments earlier in the quarter?

**Jean-David Tarif:**

Good morning Paul. Our sales bottomed in May, so that the lowest month was May, which is, you're right, a month or two behind. We have an important customer that had a modular change in May which impacted the sales of that month specifically.

One thing also that we are more impacted on the retail side is, if you remember last year there was—again, if you look at the (inaudible) market RISI, it was a lot more important to the U.S. and less explored, so there's a lot of remaining brand that we can call that are on the shelf still.

And our market share, as opposed to some other competitors are more on the value segment. If you look at the private label sales are doing good, the trends are good but specifically now we see that the value segment of the private label is more affected than the ultra premium. Again, we have a few good programs with some customers on sustainable program, I would say, or an eco-friendly product, and this market segment was really affected by all the remaining brand and bamboo items from Asia and other stuff. I think that's why we are slightly behind but we believe that this will get back in balance in the coming months as those products are getting out of the system and we are really I believe in a good position because of the investment that we've done, the cost structure that has improved, but also the fact that we haven't lost any customers. It's just a supply chain imbalance I will say that is giving the situation that we have now.

**Paul Quinn:**

Okay, that's helpful. Just on the Bear Island, you've made some progress on the offtake agreements. Any more work to be done there?

**Charles Malo:**

Yes. We have right now secured about 50% of the overall, but we are still working because there's going to be a ramp up on the paper mill, so our team is still working to develop some new customers. Also on the future years, following the ramp up of the paper mill, so we still have—we're going to start in December 2022, so our goal is by that time to be able to secure more than what we have today, so I would say that things are progressing well. The type of product that we have is well in demand so our timing is good and so we are seeing good progress on that front.

**Paul Quinn:**

All right. That's all I had. Best of luck.

**Operator:**

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

**Mario Plourde:**

Thank you everyone for being on the line. Looking forward to talk to you in Q3, and in the meantime for those who go on vacation, I hope you have a very nice vacation. Thank you very much.

**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 your lines.