

Cascades Inc.

Second Quarter 2025 Financial Results Conference Call

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Sean Steuart

TD Cowen — Analyst

Matthew McKellar

RBC Capital Markets — Analyst

PRESENTATION

Operator

Mesdames et Messieurs, bienvenue à la téléconférence des résultats financés du deuxième trimestre 2025 de Cascade. Je m'appelle Sylvie et je serai votre opératrice aujourd'hui.

Notez que toutes les lignes sont présentement en mode d'écoute seulement.

Suite aux commentaires des dirigeants, il y aura une période de questions.

Good morning. My name is Sylvie, and I will be your conference Operator today. At this time, I would like to welcome everyone to the Cascades Second Quarter 2025 Financial Results Conference Call.

Note that all lines are currently in listen-only mode. After the speakers' remarks, there will be a question-and-answer session.

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

Ms. Aitken, you may begin your conference.

Jennifer Aitken — Director of Investor Relations, Cascades Inc.

Thank you, Operator.

Good morning, everyone, and thank you for joining our second quarter 2025 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.

Today's speakers will be Hugues Simon, President and CEO; and Allan Hogg, CFO. Also joining us for the question period at the end of the call are Jean-David Tardif, Executive Vice-President, Packaging; and Jérôme Parlier, Executive Vice-President, Tissue.

Before turning over the call, 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 2025 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 contact us after the session.

I will now turn the call over to our CEO, Hugues Simon, who will begin with a review of our performance.

Hugues?

Hugues Simon — President and Chief Executive Officer, Cascades Inc.

Thank you, Jennifer, and good morning, everyone.

For second quarter, performance was consistent with our projections.

We continue to see cautiousness on the demand side from some customers due to the ongoing uncertainty regarding tariffs and trade policies around the world; factors impacted our performance, both in terms of sales volume and production costs.

Notwithstanding this, sales levels increased 3 percent from Q1. It was driven by volume and selling price, the benefit of which offset the impact of a less favourable exchange rate.

Year-over-year sales increased 1 percent, with selling prices and exchange rates fully offsetting negative impacts from lower volume and sales.

Consolidated EBITDA of \$137 million increased 10 percent from Q1. It was driven by a stronger performance from our Packaging segment, which benefitted from improved pricing.

Freight and energy costs were tailwinds and partially offset higher operating costs related to lower production volume.

Year-over-year consolidated EBITDA increased 22 percent. Stronger (phon) pricing in our packaging activity offset lower volume and higher energy and production costs across our two business segments.

We provide a financial breakdown of the impact of these factors sequentially and year over year, on Slide 4.

Trends continue to be favourable for our raw material input costs. We provide an overview of raw material average quarterly costs and trends on Slide 5 and 6.

Moving now to the results of our businesses, which are highlighted on Slide 7 through 12 of the presentation.

Beginning with Packaging, our second quarter sales were stable sequentially, with improved pricing and slightly stronger volume offset by a negative exchange rate impact.

Demand levels remain softer in Q2. Customers continue to be cautious, given the ongoing broad economic and trade uncertainty. To this end, we provide raw shipments data for Cascades and the Canadian and US industry on Slide 7 and 8.

Second quarter EBITDA increased by 9 percent sequentially to \$119 million, driven by higher selling prices.

EBITDA margins improved by 1.3 percent to 15.6 percent in Q2.

While OCC pricing was favourable, this was offset by higher input costs resulting from a different mix of products sold.

As expected, production costs per ton were elevated in the quarter due to lower operating rates, but were largely offset by favourable energy, transportation, and SG&E costs.

As previously disclosed, capacity was limited at the Greenpac mill due to operational issues at the third-party steam supplier. Our team rapidly put in place remediation measures to limit the impact, and production was almost back to normal in June. The estimated impact of this event was \$4 million in the quarter. Supplier resumed normal production for Cascades as of the second week of July.

Year-over-year sales increased by 2 percent and benefit from higher selling prices and more favourable exchange rates, more than offsetting negative volume and mix impact.

EBITDA levels increased 38 percent from a year-ago period, driven by higher selling prices and lower raw material costs.

The margin improved by 4.1 percent compared to last year.

These were partially offset by a negative impact related to volume and corresponding higher production costs per ton.

We were pleased with the progress made at our Bear Island facility during the quarter. The production increased 8 percent to 82,000 tons versus the first quarter.

We saw steady improvements and more resilience when faced with operational challenges.

Progress continued in July, during which production levels averaged 1,100 tons per day, which represents approximately 91 percent of the targeted ramp-up production level.

It is our employees at Bear Island who are driving this difference, and we'd like to thank them for their focus, hard work, and incredible commitment.

We are forecasting a stronger second half of 2025 and are confident that we'll continue to close the gap before the end of the year.

I would note that this improved momentum at Bear Island contributed to our decision to cease production in Niagara Falls on August 11th, a month earlier than originally planned.

Bear Island is our priority, and as we have previously stated, we have dedicated resources focused on continuing to improve its speed, availability, while maintaining a high level of quality.

Moving now to our Tissue business.

Second quarter sales increased 8 percent sequentially.

Stronger volumes and favourable pricing and mix fully offset a negative exchange rate impact.

Converted product shipments in short tons increased 10 percent, with Away- from-Home up 15 percent and retail up 7 percent.

EBITDA of \$38 million margin increased from Q1, with benefits from volume, mix, and selling prices offset by higher operating costs.

Sales were slightly below last year, decreasing 1 percent, due to the more favourable exchange rate, offset by impacts from lower volume.

Shipments decreased 2 percent year-over-year, reflecting a 1 percent decrease in retail and a 4 percent decrease in Away-from-Home.

Year-over-year EBITDA decreased by \$16 million, reflecting lower volume, higher operating costs, and a slightly lower average selling price.

Our tissue production was lower in the quarter, largely a reflection of our planned shutdown, maintenance activity, and investments in our operational platform.

We carried out strategic realignment of our go-to-market efforts.

The recent \$9 million of announced investments in our Kingsley Falls and Grenville facilities fall within this strategy. Additional volume will be added in 2025, as this transition is complete.

Corporate activity costs of \$20 million in Q2 were largely unchanged sequentially, but decreased \$8 million year-over-year. We expect this lower cost level to continue for the remainder of the year.

I will now pass the call over to Allan, who will briefly discuss some of the financial highlights.

Allan?

Allan Hogg — Chief Financial Officer, Cascades Inc.

Hugues, and good morning, everyone.

Slides 13 and 14 illustrate the specific items recorded during the quarter, which impacted operating income by \$29 million.

The main items were \$23 million of impairment charges resulting from the closure of the Niagara Falls mill. In addition, there was also a \$4 million loss on derivative financial instruments.

Slides 15 and 16 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, Q2 net loss per share were \$0.03. This compared to net earnings per share of \$0.01 last year and \$0.07 in Q1.

On an adjusted basis, net earnings per share were \$0.19 in the current quarter. This compared to net earnings per share of \$0.08 last year and \$0.13 in the first quarter of 2025.

These increases reflect stronger EBITDA in the current quarter.

As highlighted on Slide 17, second quarter adjusted cash flow from operations was \$101 million, up from \$95 million in the year-ago period and from \$62 million in Q1.

[audio gap] improved year-over-year, largely reflecting stronger operating results and lower levels of capital investment impact. These were offset by higher dividends paid to minority interest.

Sequentially, adjusted cash flow generated increased for the same reasons.

Slide 18 provides detail about our capital investments.

New investments for the second quarter totalled \$38 million.

For 2025, we revised our forecast to \$150 million of capital expenditures.

In the second quarter, we also received cash proceeds of \$26 million from asset divestitures.

Moving now to our net debt reconciliation, as detailed on Slide 19. Sequentially, our net debt decreased by \$112 million in the second quarter, mainly due to a more favourable exchange rate on our US-denominated debt.

Our leverage ratio went down to 3.8 times from 4.2 times at the end of the first quarter.

In the quarter, we also refinanced a portion of our US-dollar senior notes, and we increased and extended the revolving facility in Greenpac.

In addition, on July 31st, we also concluded the extension of our revolving facility from 2027 to 2029. The financial conditions of these two facilities remained the same.

These refinancing activities improve our maturity and liquidity profile. Our available liquidity improved by \$400 million since the end of Q1 to \$595 million.

Financial ratios and information about maturities are detailed on Slide 20, and other information and analysis can be found on Slide 24 through 32 of the deck.

I will now pass the call back to Hugues, who will conclude for some brief comments before we begin the question period.

Hugues?

Hugues Simon

Thank you, Allan.

We're expecting stronger consolidated results in the third quarter and provide a breakdown by segment on Slide 21.

Packaging, raw material, and selling price trends are anticipated to be favourable. However, we remain cautious regarding demand levels due to the potential impact from continued macro uncertainty.

Future results are expected to strengthen sequentially, with stronger volume supported by raw material and selling price trends.

Before opening the call to questions, I'd like to provide an update on our near-term areas of focus for 2025 and 2026.

Over recent months, we've identified a variety of value-creating opportunities through our focus on excellence.

We have stated in the past our key priorities are targeting production efficiency, commercial strategies, and cost reduction.

I'm pleased to share today that we expect ongoing initiatives to benefit our baseline profitability levels by \$100 million on an annual run rate basis by the end of 2026.

We continue to pursue other opportunities with a view to both offset any potential adverse market conditions and optimize our go-to-market approach.

Lastly, we are on track to achieve our \$80 million objective of the monetization of redundant assets. We now expect to reach this target before the end of June 2026, six months earlier than originally planned.

Free cash flow will be allocated to the reduction of our long-term debt.

With that, we can now open the call to questions.

Operator?

Q&A

Operator

[Remarks in French]

Thank you. If you would like to ask a question at this time, simply press *, then number 1 on your telephone keypad. And if you would like to withdraw from the question queue, please press *, then 2.

Again, if you have a question, please press *, then 1 on your telephone keypad.

And your first question will be from Hamir Patel at CIBC Capital Market. Please go ahead.

Hamir Patel — CIBC Capital Markets

Hi. Good morning.

Hugues, with respect to the \$100 million annual run rate profitability improvement by the end of 2026, how much of that has been achieved so far?

Hugues Simon

Well, when we look at the achievements today, I mean, we're ahead of what we put in our forecast.

The base here is that we always make sure with the initiative on excellence that we started earlier this year that we have a funnel of improvements coming our way.

And when we say \$100 million, everything else being equal with moving parts on the economy and so on, we've put the deadline at the end of 2026 to give us time to put something that's very resilient to anything in the economy and that the leakage is as minimum as possible.

I want to say that we're on schedule. If you put like a stable curve of 100 by the end of 2026, some of it is already achieved.

Hamir Patel

Okay. And sorry, just to clarify, so that's the starting point is the end of '24?

Hugues Simon

Yes. The starting point is the end of '24, exactly.

Hamir Patel

Okay. Great. Thanks. That's helpful.

And are you able to give us some visibility on how profitability is faring at Bear Island relative to perhaps where steady state would be?

And when do you expect to be fully ramped up there?

Hugues Simon

Oh, great question. As we stated in the call, I mean, we've seen consistent improvement in Bear Island over the last 12 weeks from a productivity standpoint.

When we discussed the Q4 and Q1 results, we also stated that it was either breakeven or making a small profit. So clearly right now, with improved pricing and better productivity, we are on the positive side on Bear Island.

We don't provide a specific mill by mill, but on just simple math, an 8 percent improvement quarter to quarter, with the month of July being very positive with additional improvement from the second quarter is even more positive.

We're at 91 percent of our ramp-up curve in July, and we expect to continue to fill that gap, as we stated before. And we're still very confident to fill it before the end of this year, which makes Bear Island a profitable asset.

Hamir Patel

Great. Thanks.

And just the last question. From a recovered paper standpoint, I know one of the benefits of Bear Island was its flexibility. Is it running a lot more mixed paper? Or is it still largely OCC?

Hugues Simon

We're mostly running on OCC. When you look at the price gap between mixed paper and OCC versus the plus and minus from a cost standpoint, it's providing also more stability on the productivity level at Bear Island.

So we'll start playing with that when we have more economic reasons to do it, given the pricing spread between OCC and mixed paper.

And the flexibility will help us to change depending on dynamics and pricing. We're seeing very steady pricing in OCC. With the recent closure announcement of Niagara Falls, I mean, it's also reducing some of our consumption. So we're able to optimize our system to get further better price for our platform.

Hamir Patel

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

Operator

Next question will be from Sean Steuart at TD Cowen. Please go ahead.

Sean Steuart — TD Cowen

Thank you. Good morning. A couple questions. I want to start with Tissue. You referenced a more positive Q3 outlook on—primarily driven by volume gains.

I'm wondering if you can speak to magnitude of the pulp price correction we've seen here in recent months and I suppose the potential for tissue price concessions on the back of that. You're guiding to flat pricing here in the near term, but how you expect weaker input costs could translate into the price environment for tissue?

Hugues Simon

Yeah. Great question. You got a few questions in your question. I'll try to take them a bit separate.

On the pulp prices, we've done a lot of work over the last few quarters to have more flexibility between hardwood, softwood, eucalyptus, or recycled fibre so that we can therefore optimize with pricing changes. And we're starting to see some of the benefits of that with more flexibility.

As for supply and demand, we're running full, full, full on our Tissue segment. Everything we produce is sold. So we're very confident with the spread that we're forecasting in the third quarter.

So we foresee that it's all about making sure to deliver the volume that's already committed and sold at a specific point.

Sean Steuart

Understood on that front.

And containerboard markets, more generally, we've seemingly got opposing forces, demand headwinds near term, mainly tied to trade issues. It does seem like there's capacity closures coming through the back half of the year.

How do you view tension in that market evolving here as presumably we could be in a situation with rising operating rates later in the year?

Hugues Simon

Yeah. So I mean, we announced that next week, well, April—August 11th, sorry, we're closing our Niagara Falls facility. When you look at the assets that we have in the kind of pure linerboard and medium, we have first-quartile assets.

You look at the market, I mean, we remain very, very cautious. We're seeing more resilience in the food and beverage. We're trying to focus our long-term partnerships where we can have a bit more resilience and more stability.

We use the additional production at Bear Island to—it's a steady flow of improvement. We've seen more stability in the increase, so it's giving us the ability to plan better and to build on those sales.

But we remain cautious with, I mean, I don't need to explain in much details all the unknown in the economy.

We are seeing, we talked about flat demand for the second quarter, and that's basically what we saw versus the first quarter. When you look at our guidance for the third quarter, it's pretty flat.

What we're seeing today, I mean, we have some seasonal positive trends with the farming industry in Quebec and Ontario. That's very seasonal, but that's looking pretty decent.

We're pleased with what we're seeing right now. But again, I mean, we're—as you well mentioned, the instability with the trade policies can flip that.

So we'll be ready for any upswing in demand with planning as long as we can, but also like looking at the type of business where we want to put our sales to have more resilience in our system.

Sean Steuart

That's great detail. That's all I have for now. Thanks very much.

Operator

Ladies and gentlemen, again, a reminder to please press *, 1 on your telephone keypad should you have any questions.

Your next question will be from Matthew McKellar at RBC Capital Markets. Please go ahead.

Matthew McKellar — RBC Capital Markets

Good morning. Thanks for taking my questions.

I was wondering if you could give us just a bit more detail on some of the most significant initiatives to drive the \$100 million in targeted profitability improvements and how that might split between Packaging and Tissue?

And then how should we think about the closure of Niagara Falls in the context of that \$100 million target?

Thanks.

Hugues Simon

Yeah. Thank you for your question.

The \$100 million initiative, when you look at as a good practice, we always have a funnel that adds up to more than the \$100 million of initiatives, understanding that there's leakage, there's good ideas that won't convert to EBITDA improvement.

So I like to say that to achieve \$100 million, you got to work on probably twice as much to make sure that you net a significant amount. So to provide a breakdown by business is not something that we're going to do.

But what I can share is that to achieve \$100 million, you got to work on more than \$100 million. And they're basically split in efficiency initiatives, cost reduction, and sales strategy on all of our product lines.

We have 10 key priorities internally that we focus on right now. And the approach that we've taken is that lots of focus, not too many priorities, but making sure that we convert those initiatives into real dollars for the bottom line.

And as for Niagara Falls, I mean, the closure would bring some cost reduction overall, too. When you look at equal volume across our system, I mean, that brings a significant cost reduction on our platform.

Matthew McKellar

Thanks for that colour.

And then last for me, we've seen a lot of consolidation in the containerboard space over the past couple of years. Do you see any strategic value in getting bigger in containerboard?

And to just zoom out a bit, could you remind us how you view the strategic value of Cascades being a producer of both packaging products and tissue products? Thanks.

Hugues Simon

Yeah. So if you look at the size that we have, where we see the big strategic value is to do more with the existing assets. And I mean, the \$100 million that we discussed is part of that strategy.

You look at the efficiency of some of our operations versus where they can be to be like second quartile, not even top of the first quartile, we can increase our ability to go to market with that. So that's where we're going to focus.

And as far as the value to customers with Cascades, I mean, we're really focusing on being the best in service, being on time all the time, good quality, reliable supplier. And I mean, we're seeing every day some good examples of that.

We're small in North America, but we have a significant presence in Canada. So that part of the market we are a significant player.

And we're seeing similar trends too, where the operating rate of Cascades and even the industry is very full. It's a very resilient business in uncertain economic times, like today, where we see a lot more stability and predictability in sales volume.

So the plan right now is to optimize what we have to make it either in the first or second quartile so that we're more resilient when the economy turns down.

Matthew McKellar

Thanks for the detail. I'll pass it back.

Operator

Thank you.

And at this time, there are no further questions registered.

Please proceed.

Hugues Simon

Well, thank you for all the great questions. Thanks for taking the time. And looking forward to have some of the one-on-one discussion.

Operator

[Remarks in French]

Thank you, ladies and gentlemen. This does conclude your conference call for today. You may now disconnect.