Cascades Inc.

Second Quarter 2026 Results Conference Call

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Matthew McKellar
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PRESENTATION

Operator

[Remarks in French]

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 2026 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 Allan Hogg, CFO for Cascades.

Please go ahead, sir. You may begin.

Allan Hogg — Chief Financial Officer, Cascades Inc.

Thank you, Operator. Good morning, everyone. And thank you for joining our second quarter 2026 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 myself, Allan Hogg, CFO.

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 2026 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 Q2 performance.

Hugues?

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

Thank you, Allan, and good morning, everyone.

Our second quarter exceeded expectations, driven by stronger execution across our operations and lower-than-anticipated volume risk.

We continue to focus on the areas within our control, strengthening the resilience of our platform in an environment that remains impacted by both macroeconomic and geopolitical uncertainty.

Considering these challenges, I am pleased with our performance in the second quarter, which reflects the disciplined execution of our strategy and the commitment of our teams across the organization.

Both Packaging and Tissue delivered improved sequential performance in the second quarter, reflecting improved operational execution, stronger volumes, and the benefit of actions implemented earlier in the year.

Our Packaging segment profitability rebounded significantly, with EBITDA increasing 16 percent sequentially and margins returning above 15 percent, reflecting continued solid production and demand levels across our paper mill network, meaningful progress in onboarding new customers, and a more favourable economic environment than initially anticipated.

Volumes tracked ahead of our forecasted assumptions, contributing to stronger profitability in the quarter.

We had record production levels in the quarter at Greenpac and at Bear Island, which operated at 95 percent of its total production capacity during the quarter.

Our Tissue segment also posted higher sales, stronger shipment volumes, and improved EBITDA, despite ongoing cost inflation. Performance benefitted from improved productivity and sales volume.

At our Pryor facility, we continued to improve, achieving record production this quarter. We remain on track with our improvement plan discussed in Q3 2025.

While global market conditions remain mixed in both segments, the progress achieved during the quarter reinforces our confidence in the operational and commercial initiatives underway across the organization.

Raw material index prices for recycled fibres increased by more than 10 percent sequentially, but remain slightly below the levels seen in the same period last year.

Hardwood pulp and eucalyptus costs also increased, rising by as much as 15 percent both sequentially and year over year.

Delivered raw material costs to our mills were further impacted by recent transportation disruptions and higher fuel costs.

We provide an overview of average quarterly costs and key trends on Slides 6 and 7.

Moving now to the results of our business segments, which are highlighted on Slides 8 through 13 of the presentation.

Our Packaging segment delivered a strong improvement in the second quarter, as operational execution and market conditions improved relative to the beginning of the year.

Sales increased to $772 million, up 8 percent sequentially, while adjusted EBITDA increased 16 percent to $120 million. As a result, EBITDA margin improved to 15.5 percent compared to 14.4 percent in the first quarter.

Despite higher raw material and transportation costs, these results were driven by higher volumes in selling prices, improved manufacturing performance, and the benefit of commercial initiatives implemented across our Packaging platform.

Volume performance was encouraging. Total shipments increased 9 percent sequentially to 426,000 tons, with box shipments increasing 6 percent and external paper shipments increasing 11 percent.

Including the box plant on the West Coast that was sold in the first quarter, box shipments increased 8.4 percent versus the industry increase of 5.5 percent.

On a year-over-year basis, Packaging demonstrated resilience despite a still uncertain macroeconomic environment. Sales increased 1 percent compared to the second quarter of 2025, while adjusted EBITDA remained essentially unchanged at $120 million.

Year-over-year EBITDA margin remained stable at 15.5 percent, highlighting the strength of the business despite ongoing cost pressure and a competitive market environment.

Total shipment increased modestly with stronger external paper volumes offsetting slightly lower containerboard shipments, which include the impact of the sale of our West Coast box plant in Q1 2026.

On a comparable-asset basis, year-over-year box shipment increased 5.8 percent, surpassing the industry's 2.4 percent increase.

Results in Tissue improved sequentially during the second quarter, as volume growth, operational improvements, and a favourable business mix more than offset continued inflation in several operating cost categories.

Sales increased to $409 million, up 7.6 percent from the first quarter, while adjusted EBITDA improved 6 percent to $35 million.

EBITDA margin remained stable at 8.6 percent, reflecting higher sales volume contribution, which was offset by higher raw material and transportation costs.

Shipment performance improved meaningfully during the quarter. Total shipments increased 7 percent sequentially to 121,000 tons. Retail volume increased 2 percent, while away-from-home volume increased 16 percent, benefitting from stronger demand and ongoing commercial initiatives.

Compared with the second quarter of 2025, sales increased 4 percent, while total shipments remained stable, supported by growth in both retail and away-from-home categories, which was offset by no external paper roll sales in 2026.

Year-over-year adjusted EBITDA declined by $3 million, with higher logistic costs offsetting the positive impacts of volume, pricing, and cost initiatives.

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

Allan Hogg

Thank you, Hugues.

Let's start with the specific items recorded during the quarter which impacted operating income by $5 million on Slide 14 and 15.

The main items consisted of gains from the sale of assets, restructuring costs related to cost-saving initiatives, and lastly, a loss of $6 million on financial instruments.

Slide 16 and 17 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 earnings per share were $0.21. This compared to a net loss per share of $0.03 in the same period last year and net earnings per share of $0.38 in the previous quarter.

On an adjusted basis, net earnings per share were $0.24 in the current quarter. This compared to net earnings per share of $0.19 last year and $0.07 in the first quarter of 2026.

The sequential and year-over-year increases were driven by higher adjusted EBITDA and lower financing expenses, offset by a higher depreciation expense.

As highlighted on Slide 18, second quarter adjusted cash flow from operations was $123 million, up 22 percent from $101 million for the same period last year.

Slide 19 provides detail about our capital investments which, for the first half of the year, totalled $67 million.

For 2026, our expected CapEx remains unchanged in the range of $150 million to $175 million.

Moving now to our net debt reconciliation, as detailed on Slide 20.

Sequentially, net debt decreased modestly by $22 million in the second quarter, mainly due to higher operating cash flows from operations. The exchange rate impact increased our net debt by $36 million.

Proceeds from business and asset disposal reduced debt by $5 million. Our leverage ratio was unchanged at 3.3 times, and our available liquidity under our credit facility stood at $737 million at the end of June.

As part of our asset monetization strategy, on July 28, we completed the sale of the real estate at the closed recycling plant in Lachine, Quebec for an amount of $9 million, bringing our total proceeds from business and asset disposal to $105 million in 2026.

We are also updating the expected delivery timing of our objectives from the end of the third quarter to early 2027. Although interest in the assets remains healthy, prevailing market conditions and the terms available for certain transactions have not aligned with our value expectations.

In July 2026, we extended the maturities of the Greenpac and Cascades credit facilities by one year to 2029 and 2030 respectively. We also extended the maturity of our US$260 million term loan, originally maturing in December 2027 to July 2031. These transactions were completed on the same financial terms.

Financial ratios and information regarding maturities are detailed on Slide 21. Additional information and analysis can be found on Slides 25 through 33 of the presentation.

With that, I will turn the call back to Hugues for a few closing remarks before we open the line for questions. Hugues?

Hugues Simon

Thank you, Allan.

We provide our outlook for Q3 on Slide 22.

Including the potential impact of the announced tariffs, we expect sequential improvement in our consolidated results. This is driven by seasonally higher volume and ongoing selling price increase initiatives in both Packaging and Tissue.

Supported by our ongoing profitability improvement program, we now expect annual run rate adjusted EBITDA to exceed $600 million during the second half of 2026.

The implementation of previously announced selling price increases in both Packaging and Tissue is progressing as planned.

In Packaging, demand for paper rolls remains very strong. Earlier this week, we announced additional price increases of $110 per ton on linerboard and white paper grade and $140 per ton on medium.

These new prices will become effective on September 8th. We expect to begin seeing a positive impact from these increases in the fourth quarter of 2026.

On July 20th, the US administration announced new tariffs on a number of products imported into the United States. We are conducting an assessment of the potential impact on our operations. Based on information currently available, certain tissue and packaging products exported to the United States could be subject to the announced 50 percent tariff.

While this represents a notable development, we believe the potential impact is manageable. Assuming the tariff remains in effect as announced, and considering the benefits of our current mitigation plans, the financial impact would not represent more than 5 percent of our adjusted EBITDA run rate.

In addition to the direct effect of this announcement, some customers whose products are subject to these tariffs may experience weaker demand or reduced production levels, which could affect volumes in certain segments.

Based on current assessment and the mitigation actions underway, we remain confident in our ability to successfully manage these challenges.

This confidence reflects the significant work completed over the past several quarters to make Cascades a more resilient and agile organization.

As we indicated last quarter, our focus has been on navigating near-term market pressures while advancing the initiatives that will strengthen our performance over time.

During the quarter, we continued to make progress in improving operational and commercial execution and enhancing customer service levels.

Our profitability initiatives continues to deliver results. Following the $30 million of benefits realized in 2025, we estimate that a further $25 million has been captured thus far in 2026.

Our asset monetization objective is also progressing well, with $163 million realized against our $230 million target.

Although some transactions are taking longer than anticipated, this reflects our disciplined approach to ensuring we maximize value from these asset sales.

Finally, we continue to prioritize debt reduction to reinforce financial flexibility and position Cascades for future growth.

With that, we'll now open the line for questions.

Operator?

Q&A

Operator

[Remarks in French]

Thank you. If you wish to ask a question, simply press *, then number 1 on your telephone keypad. And if you would like to withdraw from the queue, please press *, followed by 2. And if you have a question, please—again, if you have a question, please press *, then 1 on your telephone keypad.

One moment, please, while we compile the Q&A roster.

And your first question will be from Ahmed Abdullah at National Bank of Canada. Please go ahead.

Ahmed Abdullah — National Bank of Canada

Yeah. Good morning, and thanks for taking my question.

The first thing would be the comment around the 3Q packaging EBITDA guidance of $135 million to $140 million implies another sequential improvement here. Can you help us bridge what's going to be driving that in terms of volumes and the realization of the March-April price increases, and how you're planning to offset some of the cost inflation that you're seeing?

Hugues Simon

Yes, Hamid, thank you for your question.

So basically, when you look at the third quarter for Packaging, from a seasonality standpoint—I'll give you an example—like harvesting season in some of the regions where we have operation, we have a busier season in the third quarter, we are doing the price increases previously announced. If you remember, we had 2 and we had a minus 20 earlier in the year. So, the net impact of that is going to help support some of the additional profitability. And then we have some inflation cost that, if you look at even this week, we had the OCC prices moving up $5 in all of the regions where we operate.

So when we take the global of that, we also take into account a slight volume risk from the economy. I mean, we're still in a pretty unstable environment, but we feel that the second half of the year, so and the third quarter being a very strong one, will give us like a run rate that's going to support overall the Company on over $600 million.

Ahmed Abdullah

Okay. That's helpful. And you were clear in noting your expected impact from the tariffs if they stand at no more than 5 percent of adjusted EBITDA. Can you help us parse out how you get to that level? What's the actual full gross impact? How much netting you're expecting to do for mitigation? And what are some kind of the mitigation efforts that you've kind of considered against these tariffs?

Hugues Simon

Yeah. Great question. If you recall, last year, we had a similar situation where there were tariffs on basically all of the products going from Canada to the United States. So, back then, we shared with the market that we were putting a task force together to make sure that we have a great understanding on the potential risk. Back then, it was tariffs and it was counter tariff. So this time, our teams were pretty ready with we have a good plan on these things now.

The devil is in the details on this potential tariff implementation later this month. Some of the tissue products, most of the products don't have tariffs on the 50 percent recent announcement. But they really went with tariff codes. So we really went back to all of the details and the products we ship.

I'll give you an example for clarity. In URB, the small rows have tariffs, the big rows don't. So we really went in depth to see what the potential impact was. And then we looked at how we can switch production Canada to Canada, US to US.

So the mitigation plan that we have is not something that's going to take 6 to 12 months to implement. It doesn't get implemented all the first week, but it's a rather quick implementation.

As far as the gross versus the net, we're not sharing that information yet. But we're tracking, really, the details on what the US administration wants to include, exclude, understanding that this is a couple weeks from now, and that may evolve over time.

Allan Hogg

And if I may add, Hugues, if it drags on a longer time period, there's other initiatives that we'll certainly review and take action, so.

Ahmed Abdullah

Okay. That's helpful. I'll pass the line. Thank you.

Allan Hogg

Thank you.

Operator

Next question will be from Hamir Patel at CIBC Capital Markets. Please go ahead.

Hamir Patel — CIBC Capital Markets

Hi. Good morning, and congrats on a strong quarter.

Hugues, it looked like you gained market share in containerboard in the quarter with a strong close to 6 percent shipment growth year over year. Can you comment on what you've been seeing in Q3 so far? And I know it sounded like you said you've announced 110 on liner, 140 on medium.

Is there any reason why most of the pricing uplift would not drop to your bottom line? I know we had two earlier price increases. The first one was eaten up by cost inflation, but it seemed like the second one largely will benefit you, and it's looking like the third one will fully drop down to the bottom line. But any clarity you can provide there?

Hugues Simon

Well, I mean, there's a lot of moving parts in your question.

First of all, when we look at the second quarter versus the first, if you recall in the first quarter, we had discussions on onboarding new customers. We've really put lots of focus, and the teams did a great job in making sure that contracts that we already had in hand were well executed. So that's a good uplift on our box volume. So it's something that we'll continue to see.

Then we depend on seasonality, which the third quarter is a good quarter for Cascades in the regions where we have operations and customers. So we see so far a market that continues to show what we saw in Q2.

That being said, I think we all know that the geopolitical might evolve from the cost-inflation standpoint, to your comment on inflation. We're seeing a tailwind on fuel costs right now, which we didn't see during the whole second quarter, but that may change. So we're reviewing our strategy on delivering to our customers to make sure that we have more resilience and that we minimize the impact on transportation cost as much as we can.

Then I separate rolls versus boxes. We're extremely, extremely tight in rolls. The demand on rolls exceeds what we can ship. So that drove the latest price increase that we announced earlier this week.

And as far as do we see the full benefit or not the full benefit, we continue to push on our costs to go down. We saw this week OCC price going up $5. So that has an impact. But we also see fuel costs.

So the net of that that we're going to start seeing in the fourth quarter will be really a spread between what OCC price is doing. And OCC is not behaving the same way in all regions. So we don't expect like a big push on cost on fibre and on fuel. Well, that will depend on the geopolitical situation around the globe.

Hamir Patel

Okay. No, fair enough. But I mean, it seems like if this price hike goes through, it's a very significant tailwind for Cascades. So, if you are then generating significantly higher free cash flow next year, when you think about in that sort of environment, are there other larger growth CapEx projects that might then advance, just thinking about whether you need to increase your integration rate in containerboard? Or start to plan for more advanced tissue technology, just given some of the industry developments?

Hugues Simon

Yeah. So what we've been sharing is we're really building a plan for optionality. What you just mentioned are a few of the options that we have. The focus remains on getting that debt level down to the 2.5 to 3. From the uplift on the cash flow generation that you talk about, I agree with your statement where there's more tailwinds with us right now than what we saw earlier this year.

And if we go back to the first quarter, we had a pretty low cash flow generation in the first. We were confident to get back to the $600 million run rate in the second half. And now we're confident to exceed that. And obviously, that's before the implementation of the price increase that we announced this week.

Hamir Patel

Great. And you look like, I mean, Bear Island seems like it's basically running full from a volume standpoint now at 95 percent. Where is it on the profitability ramp up? If it's 95 percent of production in terms of sort of steady-state EBITDA, how far along is it?

Hugues Simon

Yeah. I mean, a few comments on Bear Island and there are probably a few employees on this call from Bear Island. First of all, great job from the Bear Island team. They went through significant changes in work and their great commitment.

We ran at 95 percent for the full quarter. And our month of July was better than the average of the second quarter—sorry, our month of July was even better.

The focus is on cost. As you know, we don’t share profitability per mill. But I can tell you that we’re very pleased with the financial results of Bear Island right now.

Hamir Patel

Okay. No, that’s helpful. And just a final question, Hugues.

On the tissue side, I know there’s sort of an announcement of some new NTT technology coming to market. I know there’s a bunch of sort of older-school TADs being built. And I think Kimberly-Clark is doing some work on some novel fibre technology.

How do you think longer term about how you position your Tissue business, especially in retail, to stay competitive?

Hugues Simon

Yeah. So I mean, the work that’s been done on tissue for the last few years is really to position ourself as a supplier of choice for the private brands. And it’s working really well. We have a good reputation, good growth. That really gives us options in the future if we want to increase our capacity.

Demand on these projects go with population growth. I mean, in North America, clearly, there’s kind of a break here on population growth, but we don’t see that as being a long-term trend. And you look at the age of assets within the industry versus the new projects, there’s room for new projects in tissue. And that’s one of the options that we have as our debt level goes down.

Hamir Patel

Okay. And just thinking about, I know when you—the, what was it, the Orchids, the—when you think about technology wise to compete with TAD, what would be your approach longer term?

Hugues Simon

Yeah. We think there's room for conventional tissue. And you look at the value proposition for the consumer, there's room for TAD for some specific products, but there's also room for conventional. So we are a conventional producer of tissue. We're good at it. So we'll continue to optimize that to remain like the supplier of choice. We don't have in our cards right now TAD machines of equivalent technology.

Hamir Patel

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

Operator

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

Sean Steuart — TD Cowen

Thanks. Good morning. A few questions.

I want to follow up on that last question that Hamir asked around CapEx optionality. And I guess between tissue expansion projects longer term or converting capacity on the packaging side, would one rank over the other in terms of priority for Cascades?

Hugues Simon

I mean, we're going to go for best value. Right now, the focus, we have a clear sight of view with getting to the 2.5, 3 times debt ratio on debt to EBITDA. We are looking at those options. It's not options that we've decided that we will publicly share, but we're not waiting to be there to start looking at our options. So we have a clear view. But it's really, at the end of the day, it's going to be on a return for our shareholders what makes the most sense.

The thing that we have going for us is, both segments are delivering good improvements. Both segments have good reputation with our customers. And both segments also have a positive growth trend in the products that we do. And our sustainability story, both in Tissue and Packaging, are well above the industry average from an offering that we have for the consumer.

So we have choice, and we'll take the time to make sure what makes the most sense for our shareholders, understanding that we don't have to say or decide today whether it's going to be one, the other, or both.

Sean Steuart

Thanks for that detail. The noncore asset sale program, you're sticking with the total dollar value. You're extending the time frame a little bit into early next year. And I'm wondering if you can square that up. I mean, it feels like there might be some friction on value, your perceived value versus what might be out there in the market.

How do you square up holding the overall dollar figure and just pushing out the time frame if potentially some buyers are resisting a little bit? Maybe I'm over-reading into it, but if you can give us some additional context there, it would be appreciated.

Hugues Simon

Yeah. No, great question. I reinforce the 230. It's a question of timing. We will reach the 230, but sometimes you have to play time to see what you want to do.

As I shared with our shareholders before, when you focus on the number, you need to be working on a bigger number. So I really, I'm very comfortable with the 230. Now we'll play with the timing to make sure that we get the fair value for the assets that we feel are not strategic and they're not moving the needle for Cascades. That being said, we still have a good line of sight to achieving the 230. And sometimes, it's just a matter of a bit more time.

Our initial target was the end of the year of 2026. And then we said, well, we'll be more aggressive, push a bit the envelope to the third quarter. But now it's a question of cost benefit. Right? I mean, we think a bit more time will give us more cash. And in the macroeconomy like today cash is king. So we really want to get the debt level down and we want to get the fair value.

And we're not being overly optimistic on the fair value. So it's not a question of that's what we think it's worth and that we're just kind of way overestimating this. We're very comfortable with the 230.

Sean Steuart

Okay. Thanks for that. One last one for me. You had very good volume momentum in the second quarter year over year. You touched on that. The industry also grew year over year. I'm trying to gauge how much of that might have been buyers getting ahead of proposed price increases versus sustained demand pull.

Are you continuing to see good momentum? I know seasonally Q3 is always strong, but even on a year-over-year basis, is that momentum continuing into the third quarter?

Hugues Simon

Yeah. So I mean, let me split Tissue and Packaging here on that question.

In Tissue, we don't think that's happening. I mean, we go on the retail business where we have a continuous deal with our customers. There might be a bit of that, but that would not be a material number on the away-from-home, let's say.

And then on Packaging, on rolls, it's so tight that even if people wanted to get ahead of that, we wouldn't be able to over ship versus what we see in in the ongoing order files that we have.

And on the box it's more a seasonal thing that this quarter will have more volume than the previous, just from a seasonality.

So it becomes from a materiality, it becomes small numbers when people are doing that. So it's not an area of concerns for us.

Sean Steuart

That's great. Thanks very much for the context. I'll pass it on.

Operator

Ladies and gentlemen, again, if you would like to ask a question, please press *, then number 1 on your telephone keypad.

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.

First for me, Slide 7 in your materials notes the continued strategic conversion toward greater use of eucalyptus over NBSK. Could you tell us just a bit more about this initiative? How far along are you in the process?

And how do you think about the cost savings and any of their impacts from the continued conversion? Thank you.

Hugues Simon

Yeah. So if you go—if you were to step back a few years versus today, we made significant progress. And our strategy is really to have flexibility over the type of pulp we use, understanding that the spread between the different pulp production moves quite a bit. And so we want to have flexibility. We have flexibility within what our customers are asking us. So it's a clear understanding between us and our customers on what we can and cannot do.

We feel there's more flexibility that we can get. We may have to do some small investments in some of the facilities, but nothing that will bring us over the CapEx amount that we've—the 150 to 175 over time. It's really like tactical investment to make sure that we provide ourself more flexibility. And we still have upside on more eucalyptus.

On the cost-saving initiatives, that really depends on what the spread is. Our strategy is really to be up to speed to what the prices are, our options. We have strategic agreements for some volume of fibre that we use. And we want to stay ahead of the game there all the time as fibre moves fast.

And there's more capacity in Asia today. So we don't see like, from a eucalyptus standpoint, the supply is there. It's available. On the softwood, it's a bit more restricted where new capacity is not something that we feel is going to happen, understanding there's a few projects in Canada trying to restart some assets.

But over time, we feel that we really need to get more and more flexibility to use all kinds of fibre to make sure that we optimize the spread between the different options.

Matthew McKellar

Great. Thanks for all that detail. And I'll follow up with sort of a related question here in that you've called out mixed paper as being or becoming a viable alternative to reduce production costs with how costs have trended here.

I know that's something you've discussed doing at Bear Island, but can you remind us how far you can flex your overall mill systems inputs as it relates to using mixed paper in place of OCC? Thank you.

Hugues Simon

Yeah. So mixed paper, we've been on and off at Bear Island on mixed paper as we were focusing on getting the uptime and the speed and the quality was the priorities of the operation. We can get quite a bit of mixed paper. We're not using it all the time. Again, it depends on the spread. It's more an opportunity right now than something that's already in our cost structure.

We've been focusing on using better grades to get the machine to the 95 percent to 100 percent. So the upside, we could probably use between 15 percent and 25 percent, but we're not at these numbers today. And these targets may evolve, depending on the cost spread between the different type of fibre and also the difference in actual quality that we see between mixed and the other Number 11 grades of OCC.

Matthew McKellar

Great. Thanks very much. I'll turn it back.

Operator

Next question comes from Ryan Fox at Bloomberg. Please go ahead.

Ryan Fox — Bloomberg

Good morning, and congratulations on a good quarter.

I'm wondering if you can remind us what percentage of your customers are contractually tied to linerboard prices?

Allan Hogg

Yeah. It's approximately 75 percent.

Ryan Fox

Okay.

Allan Hogg

On the box side in containerboards.

Ryan Fox

Yeah. And I know you can't comment about what competition is doing as far as this price increase, but can you give us any colour about how you got to $100 a ton? Or what this next increase is going to be? I mean, a third increase in one year is kind of, I'll say, unprecedented. We've only seen it a few times. And just curious how you are portraying that to customers.

Hugues Simon

Yeah. I mean, we're not going to provide much detail on the strategy and how we get to a number. What I can say on unprecedented three price increases in the same year, I have a list of unprecedented things that happened over the last 12 months.

When you look at the profitability of Cascades with the cost of having assets like we have, I mean, we're getting into a trend that's acceptable for our shareholder. So there were tremendous cost inflation, unprecedented cost inflation in many of the categories of items that we use.

So our responsibility is, I mean, it's to our employees and to our customer is to have a sustainable product offering to them. So in order to do that you need to have profitability within your business so that they can rely on you for the long term. And you look at the margins, like we just got above the 15 percent mark on Packaging. We're below 9 percent on Tissue.

So it's—we're really adjusting our pricing to the reality of the economy. And maybe for the first time, instead of being behind we're getting on pace. We're not even getting ahead of pace as far as I'm concerned. We're just getting on pace from a profitability standpoint.

Ryan Fox

Okay. And if I'm seeing this properly in the slide deck, your integration, vertical integration rate, it's around 51 percent. Is that what I saw? (unintelligible)

Allan Hogg

Yes. It's 50 percent—50 percent. Yeah, 50 percent-something on a consolidated basis. But we have a partnership as well. So then it increases with partnership to the 70 percent mark.

Ryan Fox

I gotcha. Those vertical alignments are great. That's all I got. Thanks.

Allan Hogg

Thank you.

Operator

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

Mr. Simon, please continue.

Hugues Simon

Thank you, Operator.

Before we end the call, I'd like to thank all of the Cascades employees for their hard work and commitment. Their efforts continue to drive our progress that we're making, and you've seen that from our second quarter results.

Health and safety and execution, they will remain our highest priorities. And we're pleased with the progress we've achieved this year.

And lastly, I want to reinforce the fact that high-quality execution is critical in a fast-moving economy.

Thank you.

Allan Hogg

Thank you.

Operator

[Remarks in French]

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