Cascades Canada ULC

Third Quarter 2019 Financial Results

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PRESENTATION

Operator

Mesdames et Messieurs, bienvenue à la téléconférence des résultats financiers du troisième trimestre 2019 de Cascades. Je m'appelle Julie 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 Julie and I will be your conference Operator today. At this time, I would like to welcome everyone to the Cascades' Third Quarter 2019 Financial Results Conference Call. All lines are currently in a listen-only mode. After the speakers' remarks, there will be a question and answer session.

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

Jennifer Aitken – Director, Investor Relations, Cascades Canada ULC.

Thank you, Operator. Good morning, everyone, and thank you for joining our Third Quarter 2019 Financial Results 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 earlier this week, 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 accompanying Q3 2019 Investor Presentation for details. This presentation, along with our third 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 Canada ULC

Thank you, Jennifer, and good morning, everyone. We are pleased with our overall operational performance and financial results in the third quarter. We generated another quarter of solid Adjusted EBITDA, that reflected good execution in all four of our business segments. Our Tissue segment posted stronger results due to the successes we are generating from our turnaround initiatives, while results in Containerboard and European Boxboard continue to be solid, notwithstanding some market demand headwinds and a slight pricing erosion.

Net earnings for the quarter were $70 million, or $0.74 per share, including the $52 million one-time gain to reflect the low purchase price of the Orchids asset relative to their fair value. This compared to $0.33 in the previous quarter and $0.38 last year. On an adjusted basis, we generated $0.30 per share in the third quarter. This compares to the earnings per share of $0.28 in the second quarter and $0.40 per share in the third quarter of 2018. Adjusted EBITDA of $161 million increased 18 percent over last year and 3 percent, when compared to the second quarter. Our Adjusted EBITDA margin reached 12.7 percent in Q3.

In addition to our operational initiatives, results were also favourably impacted by lower raw material costs. The average index price for OCC brown paper grades during the quarter was down 51 percent year-over-year and 18 percent compared to Q2. The average Q3 price for white recycled paper goods, which we mainly use in our Tissue activity, decreased by 47 percent compared to prior year levels and 24 percent from Q2. On the virgin pulp side, hardwood and softwood pulp prices decreased both sequentially and year-over-year. As highlighted on Slide 6 in our presentation, the prices of all these materials continue their downward trends, which is positive for our outlook. OCC pricing has remained relatively low over recent months.

I will now briefly discuss the third quarter performance for each of our business segments, which are highlighted on Pages 8 through 13 of the presentation.

The Containerboard segment generated third quarter Adjusted EBITDA of $118 million, which is a 4 percent increase sequentially and a 1 percent increase year-over-year. During the quarter, we had unplanned maintenance downtime at the Greenpac mill, which we estimate negatively impacted EBITDA by $3 million. Despite this, and despite a slightly less favourable overall industry environment, margins remained solid at 24.9 percent in the quarter. This compares with margins of 24.5 in Q2 and 24.7 last year.

We are pleased with our sequential performance, which was largely driven by higher volume and lower transportation and operating costs. These benefits were partially offset by the lower average selling price and the impact of a less favourable exchange rate during the period.

Our Q3 operating rate was 94 percent, up 3 percent sequentially, with paper shipments increasing 9,000 tonnes, reflecting seasonal trends. Including sales to associated companies, our integration rate decreased very slightly to 71 percent in the third quarter, from 72 percent in Q2. Shipments of converted product increased 3 percent sequentially in millions of square feet. These outperformed the overall 1 percent increase for both the Canadian and the U.S. market.

In the third quarter, we took approximately 11,000 tonnes of maintenance downtime and 3,000 tonnes of market-related downtime. On Slide 8, we have updated our downtime plan for 2019, which we expect to take approximately 16,000 tonnes of maintenance downtime in the fourth quarter.

Moving now to the Tissue Papers, results continue to show positive momentum and highlight the growing benefits from ongoing operational and productivity improvement initiatives. In addition, lower raw material prices, more stable transportation costs and previously announced price increase supported operational performance sequentially. More significantly, Q3 results highlight the growing benefit from ongoing productivity improvement initiatives.

Total shipments decreased by 2 percent year-over-year, excluding Orchids. This reflects a 29 percent decrease in external shipments of parent rolls year-over-year, due to the higher integration and the closure of our two paper machines in Toronto, which removed 44,000 tonnes annually. These factors were partially offset by a 6 percent increase in shipments of converted product, due to the increased demand of our target market segments and long-term contracts with key strategic customers.

As we have mentioned in the past, we continue to use additional subcontracting to supply our volume requirements, which has a negative impact on margins and profitability. The capital investments and business plan we are executing are focused on addressing this situation. The addition of Orchids' facility in our platform will optimize our logistics network and geographical positioning, and reduce subcontracting costs in the future.

Our average selling price increased 8 percent year-over-year in the third quarter. This reflects a combination of price increases announced in the second half of 2018, a favourable sales mix, and the depreciation of the Canadian dollar. On a sequential basis, the average selling price decreased by 1 percent, largely due to the appreciation of the Canadian dollar. As we have previously mentioned, a price increase of up to 8 percent in the Away-From-Home segment across North America was announced, effective June 1. This increase benefited third quarter results.

The European Boxboard operation generated solid third quarter results. Sales increased 22 percent, compared to last year, due to the acquisition of Barcelona Cartonboard at the end of 2018, and better volume on the same-plant basis. This was offset by a less favourable average selling price and 4 percent appreciation of the Canadian dollar.

On a year-over-year basis, the average Q3 selling price decreased in both euro and Canadian dollar. This reflected the stronger Canadian dollar, the higher proportion of recycled product sold following the acquisition of Barcelona Cartonboard, price decrease due to market softness, and a less favourable geographical sales mix. The average Q3 selling price of recycled boxboard decreased by €13, or 3 percent, year-over-year, while the average selling price of virgin boxboard increased by €14, or 2 percent. On a sequential basis, the 5 percent decrease in sales reflects the lower average selling price, a decrease in volume related to the usual seasonality in the quarter, and the stronger Canadian dollar.

Adjusted EBITDA decreased by $5 million, or 17 percent, from Q2 levels, primarily to the usual Q3 seasonality and the other costs related to the production downtime taken as a result. These were partially offset by lower raw material costs and a slightly higher energy credit in the current period. Year-over-year EBITDA increased by $6 million, as the impact of lower average price on the same-plant basis was more than offset by the benefit from the acquisition of Barcelona and lower raw material costs.

Third quarter sales in the Specialty Products were $176 million, down 9 percent from $193 million in Q2. This was largely due to the lower prices in the recovery sub-segment, lower volume in Consumer Packaging, and the closure of one our Specialty mills late in the second quarter.

Q3 EBITDA of $14 million was $1 million above Q2 levels. This reflects a sequential improvement in Industrial Packaging as a result of reduced operating costs. Conversely, Consumer Products generated lower results, that were largely due to lower volumes in the flexible and motor parts sub-segment. A fire at the Rockingham, North Carolina motor part plant in mid-September resulted in an eight-week closure.

This shutdown will have a slight impact on Q4 results, as operations were restarted at the beginning of November.

Our Packaging activity generated an EBITDA margin of 13.8 percent in the quarter, versus 11.1 percent in Q2 and 12.2 last year.

The recovered paper market remains difficult, with quarterly average selling price continuing to decline from Q2. Efforts to review our supply, collection and operating costs have helped to offset the impact of the sequential deteriorating spread.

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

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

Thank you, Mario, and good morning, everyone. I will begin with an overview of our key KPIs, on Slide 15. Our third quarter shipments increased by 1.2 percent from Q2. This was driven by Containerboard and Tissue, where shipments increased by 4 percent sequentially in both cases, reflecting seasonal demand trends. Shipment levels marginally decreased in Boxboard Europe following the usual seasonal softness in the third quarter for these markets. Third quarter capacity utilization rate of 93 percent was stable sequentially and increased 2 percent compared to last year. On an LTM basis, working capital came in at 10.3 percent of sales, while return on assets stood at 11.2.

Moving now to sales, as detailed on Slides 16 and 17, on a year-over-year basis, third quarter sales increased by $89 million, or 8 percent. This reflects the contributions from recent business acquisitions in Tissue, Boxboard Europe and Specialty Products, in addition to improvements in pricing and sales mix in Tissue and stronger volumes in Containerboard and European Boxboard. While exchange rates were favourable for our North American operations, they were negative for European results, for a net negative impact on the quarter. Offsetting these benefits were lower volumes in Tissue and lower average selling price in Containerboard. As has been the case in recent quarters, recovery activities negatively impacted sales due to lower recycled material pricing.

Sequentially, Q3 sales decreased moderately by $11 million, or 1 percent, as the benefits of higher seasonal volumes in Containerboard and Tissue were partly offset by less favourable pricing and mix in all segments, except Specialty Products. Lower volume in Boxboard Europe and Specialty Products, lower sales from recovery activities and the unfavourable exchange rate were also offsetting factors.

Moving now to operating income and Adjusted EBITDA, I've highlight on Slide 18 Q3 Adjusted EBITDA of $161 million increased $24 million from prior year level. Results benefited from a stronger performance in the Tissue segment and European Boxboard. Sequentially, Q3 Adjusted EBITDA increased by $5 million, as shown on Slide 19. This was largely the result of stronger performances in Tissue Papers and Containerboard.

Take note once again that the impact of IFRS 16 accounting for leases contributed $7 million to EBITDA in the quarter and $22 million in the first nine months of 2019. Please refer to Slide 30 for supplemental information.

Slides 20 and 21 illustrate the year-over-year sequential variance of our Q3 earnings per share and the reconciliation with the specific items that affected our quarterly results. As reported, earnings per share were $0.74 in the third quarter, compared to reported EPS of $0.38 last year. Both periods included specific items. On an adjusted basis, EPS decreased by $0.10, compared to last year's results.

Higher operating results were offset by higher depreciation and financing expenses. The change in depreciation expense reflects 2018 business acquisitions and capital projects put in operations, and the adoption of IFRS 16 standard for leases. Financing expenses also increased due to IFRS 16, and also due to the fair value accretion of CDPQ's option in Greenpac, which is accounted for as a liability, as previously disclosed.

Slides 22 and 23 illustrate the specific items recorded during the quarter. The main items include a $52 million net gain on the acquisition of Orchids, following our preliminary purchase price allocation. We also incurred $4 million of related transaction costs—a $2 million gain to the sale of the building and land in the Containerboard segment and a $2 million loss following the sale of Specialty Products operation in France and closure of one North American facility in Q2—and also $7 million unrealized loss on the fair value re-valuation of an option in the Bear Island project.

Third quarter adjusted cash flow from operations increased by $16 million year-over-year to $108 million. Adjusted free cash flow was significantly higher this year versus 2018, due to lower net CAPEX paid in the period.

Moving now to our net debt reconciliation, as detailed on Slide 25, our net debt increased by $260 million in the quarter, reflecting the Orchids acquisition. Before business acquisition and disposal, I would highlight that net debt decreased by $62 million in the quarter. In mid-September, we completed the acquisition of Orchids for CAD$300 million; $40 million was previously paid in Q2, in addition to the absorption of debt for $7 million. In conjunction with this, at closing of the transaction, we sold the Mexican assets which were part of the Orchids acquisition to Fabrica de Pael for a cash consideration of $19 million, of which $14 million was received at closing. Also, during the quarter, we sold a Specialty Products group interest in two French operations for cash consideration of $10 million, and net debt was also transferred to the acquirer for $5 million.

Our net debt leverage ratio stood at 3.7 at the end of the quarter, compared to 3.4 at the end of Q2 and 3.5 at the end of 2018. Again, if we exclude transactions that occurred towards the end of the quarter, this ratio would have been 3.2 times. This, along with other financial ratios and information about maturities, are detailed on Slide 26.

On Slide 27, we provide details about our capital investments year to date on a segment-by-segment basis. Our annual CAPEX spend for 2019 will be less than initially disclosed and are expected to finish the year at roughly $300 million.

I will now pass the call back to Mario, who will wrap up the call with a brief conclusion, before we begin the question period.

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

Thank you, Allan. In summary, we are pleased with our third quarter performance. All of our business segments continue to generate solid results that met expectations. In addition, we made an important strategic move by completing the acquisition of Orchids' paper product Tissue activities in mid-September. This acquisition is highly synergistic and an important part of our U.S. Tissue modernization effort, and will strengthen both the geographic and operational positioning of our Tissue platform. The transaction creates value for Cascades, with an expected annual EBITDA contribution of $25 million to $30 million in 2020, increasing to approximately $45 million in 2021. Slides 29 through 31 provides an update on the integration of Orchids, which is going according to plan.

You can find a near-term outlook for our business segments in Slide 32 of our presentation. Overall, we expect four-quarter performance from our North American operations to reflect the softer seasonal demand in the period and a less favourable exchange rate, compared to our recent Q3 performance.

Due to the continuing strength of the Containerboard business and the positive momentum in Tissue, we are well positioned to generate record annual Adjusted EBITDA this year. We have already attained 92 percent of our full year 2018 results after only nine months. We remain focused on improving operational efficiency and productivity, successfully executing our capital investment plan, and finalizing details for our Bear Island project.

We will now be happy to answer your questions. Operator?

Q & A

Operator

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

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

Your first question comes from the line of Adam Josephson with KeyBanc. Please go ahead.

Adam Josephson – Analyst, KeyBanc Capital Markets

Good morning, everyone. Thanks very much for taking my questions, I appreciate it. Mario, you commented at the very end of your prepared remarks that you're still finalizing the details of the Bear Island conversion. You had the unrealized loss in the fair value re-valuation. You reduced your CAPEX guidance, obviously, mostly to remove the Bear Island-related spend that you were previously including in that CAPEX guidance. Can you just update us on your thought process with respect to that project?

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

Sure. As we highlighted in Q2, the Bear Island project, for us, is an important project. Considering the market right now, and knowing that there's a lot of capacity coming onstream, probably, in 2021, obviously, we want to make sure that this project is a good project for us, so we are looking to find uptake partners, and also financial partners, to support this project. It takes a little more time. The technical part of the plant is quite well advanced, but we still are on track, and by Q4, at the end of the year, we'll be able to give you a firm update on where we stand with Bear Island.

Adam Josephson – Analyst, KeyBanc Capital Markets

I appreciate it, and I have just one follow-up on that. You mentioned all the capacity coming on. Has that changed your thought process with respect to the long-term return potential of this project?

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

No, not at all. We think that the Bear Island project is a solid project for Cascades, and it will help us to position ourselves for the future.

Adam Josephson — Analyst, KeyBanc Capital Markets

I appreciate your clarifying that, Mario. Then, Mario or Charles, in terms of your sequential guidance on Containerboard, you talked about the potential for sequentially lower volume and price, with the sequential volume decline seemingly above and beyond the lower seasonality in 4Q. Can you just go into a little more detail on that, if you don't mind?

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

Yes, I'm just going to start without giving too much detail on the pricing, but the compounded impact of the index movement will have an impact in Q4, and this is what we're reflecting regarding the impact on the pricing.

In regards to the volume, as you know, into Q4, for us, there's always a lowering volume on our business, and that's what we're reflecting here. We're being conservative, also. We're cautiously conservative on the volume aspect from now till the end of the year.

Adam Josephson – Analyst, KeyBanc Capital Markets

Cautious for what reason, exactly, Charles?

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

Well, the business is still—actually, the business is still good, is still what we see both in Canada and also U.S. for us. Specifically, also, with the addition of our Piscataway facility, that is going very well and it's contributing, but just regarding the economy, and so we want to be cautious when we look forward.

Adam Josephson – Analyst, KeyBanc Capital Markets

I appreciate that, and just one last one on the seasonality issue. E-commerce, at least in the U.S. market, has largely eliminated the seasonality. Obviously, in years past, November and December used to be quite light from a demand perspective, and that's changed in recent years because of the growth in e-commerce, such that if you look at the industry data, fourth quarter shipments really are not that much different than the other three. Can you talk about what impact you see e-commerce is having had on that seasonality issue, and what your expectations are for e-commerce, specifically, this fourth quarter?

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

You're right about the e-commerce, that has flattened the seasonality. In our product mix, we do have—when compared to the overall, we have a bit more speciality in our mix, whether it's Purdue's or other, Bell's (phon), that we have in our mix, that can maybe influence a bit more the seasonality in our group. But, the point of the e-commerce, it really flattened the volume quarter-after-quarter, and we're seeing this also in our group.

Adam Josephson – Analyst, KeyBanc Capital Markets

Thanks very much, Charles

Operator

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

Hamir Patel – Analyst, CIBC Capital Markets

Hi, good morning. Charles, can you give us a sense as to how your box shipments faired in the month of October?

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

Yes. The month of October, we are seeing good volume in most of our regions, and, again, I just want to mention that, in addition to this, we have our new Piscataway facility, that is really having a positive impact on the overall of our business.

Hamir Patel – Analyst, CIBC Capital Markets

Thanks for that, and just a question for Jean-David. I appreciate the 2020 EBITDA guidance for Orchids. How should we think about the ramp-up curve to deliver the US$25 million to US$30 million next year?

Jean-David Tardif - President and Chief Operating Officer, Cascades Tissue Papers Group

We're confident right now about, especially Barnwell, the modification that we're going to do, so we see this as more toward the second half of 2020, but it's still on the right track, if I can say.

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

The other piece of it, it's all related to logistics and the transfer of subcontracting, that will start really shortly, so that should ramp up quite—in the first half of the year.

Jean-David Tardif – President and Chief Operating Officer, Cascades Tissue Papers Group

Yes, we already started to bring some outsourcing back into the Orchids facility, and also the plant closure that we announced last week, or two weeks ago, will bring significant volume, also, to the Orchids facility in the first half of the year, also.

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

And reduce fixed costs at the same time, so.

Jean-David Tardif - President and Chief Operating Officer, Cascades Tissue Papers Group

Yes.

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

And logistics costs.

Jean-David Tardif - President and Chief Operating Officer, Cascades Tissue Papers Group

After the second quarter, yes.

Hamir Patel – Analyst, CIBC Capital Markets

Okay, great, thanks, that's helpful. Allan, any indication yet of what CAPEX would be in 2020, both if you went ahead with Bear Island and if you didn't?

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

So far, you know, Allan has mentioned around $300 million, if we go, we would say we'd go ahead with Bear Island, we'd probably end up at $330 million, $335 million, something like this, but it all depends on the decision of Bear Island in 2020, or either 2019.

Hamir Patel – Analyst, CIBC Capital Markets

Great, thanks, Mario. That's all I had, I'll turn it over.

Operator

Your next question comes from the line of Sean Steuart with TD Securities. Your line is open.

Sean Steuart – Analyst, TD Securities

Thanks. Good morning. Just one question. I wanted your broader thinking on recycled fibre costs. It feels like we're going to be in a lower cost environment for longer, and I'm wondering how that informs your long-term capital deployment decisions. What type of long-term OCC price are you assuming for your long-term plans, and how does that affect not just Bear Island thinking, but broader thoughts going forward on capital deployment?

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

Well, as you know, Sean, we always were recycle, 82 percent of what we produce is recycled, so for us, it hasn't changed our long-term view. We will remain mainly focused on recycle, obviously. Today, it benefits our business, and all the business segments. But, you know, we might be a little more precise in what we will recycle and the quality of the material we'll recycle, so, as we're doing today, we're reviewing all the networks of recovery and recycling activity, and just making sure that they support the business. They're there to complement what we do with the paper mills. So, yes, we will keep on expanding and using recycle material in the future.

Sean Steuart – Analyst, TD Securities

Okay. The rest of my questions have been answered. Thanks very much.

Operator

Your next question comes from the line of Paul Quinn with RBC. Your line is open.

Paul Quinn – Analyst, RBC Capital Markets

Yes, thanks very much. Good morning, guys. Just a follow-up question on timing of Bear Island. If you made the decision by the end of the year, is that coming up in 2022 now?

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

Yes.

Paul Quinn – Analyst, RBC Capital Markets

Okay.

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

Yes. No, no, but I said—the question was short, the answer was short, yes. Will it come in 2022? Yes.

Paul Quinn – Analyst, RBC Capital Markets

Okay, and maybe I could follow up. First half or back half?

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

It takes 24 months to go, just because of the timing of the equipment coming in and to do all the modifications, the deployment, and things like that, and that's what we're saying, that the …

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

Let's say, if we place an order by year end, probably first quarter of 2022 will be the start-up.

Paul Quinn – Analyst, RBC Capital Markets

Okay, that's helpful. Then just overall, I mean, there's a notion out there that e-commerce got started in Canada a little bit later than in the U.S., and that you've got the majority of your Containerboard assets in Canada. Do you see that as a tailwind for e-commerce across Canada for your Containerboard Group?

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

We do have both sides of the business. First of all, our converting mainly in Canada, but we also sell to outside independent customers that are also using e-commerce. So, for us, we see the benefits on the overall of our group.

Paul Quinn – Analyst, RBC Capital Markets

Okay, that's helpful. Then, just lastly, just on the unplanned downtime at Greenpac, what happened, and is it fixed?

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

Yes, it's an issue, a one-time issue that we had, non-predictable on our side, but, yes, it's fixed, and we should not see something like that happen in the future.

Paul Quinn – Analyst, RBC Capital Markets

Okay. Then, just I guess lastly, just on Tissue, besides the integration of Orchids, what's the priority within Tissue?

Jean-David Tardif - President and Chief Operating Officer, Cascades Tissue Papers Group

Well, definitely, we have a major turnaround plan across all the facilities. On the West Coast, as you know, we lost a significant of money there last year, so we're putting a lot of emphasis, so it's going really well there, but, also, there's also the subcontracting that we're bringing back internally, and other initiatives in fixed cost reduction, profitability improvement, etc., through the organization.

Paul Quinn – Analyst, RBC Capital markets

All right, that's all I had. Thanks very much. Best of luck.

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

Thank you, Paul.

Jean-David Tardif - President and Chief Operating Officer, Cascades Tissue Papers Group

Thank you.

Operator

Again, if you'd like to ask a question, press star, then the number one on your telephone keypad.

Your next question comes from the line of Keith Howlett with Desjardins. Your line is open.

Keith Howlett – Analyst, Desjardins Securities

Yes, I had some questions on the Orchids plant. You mentioned that you're converting it from QRT to conventional. I was just wondering why that was and what's that to achieve.

Jean-David Tardif - President and Chief Operating Officer, Cascades Tissue Papers Group

Well, right now we have a lot of volume in conventional paper, a lot of outsourcing, as I said earlier, so we want to fill this mill. We made really significant improvement on the QRT technology only after a few months, so we want to run the machine and the mill at full capacity short term. It will take time to develop the QRT technology and improve the product over time, but it was important for us to get the 36,000 tonnes and the 5 million cases capacity of that mill. So, that's why we're putting conventional paper into this short term, but we will be able to grow the QRT business later on.

Keith Howlett – Analyst, Desjardins Securities

What is the—is there a future ongoing relationship with Fabrica, or does that end with the sale of assets to them?

Jean-David Tardif - President and Chief Operating Officer, Cascades Tissue Papers Group

No, we maintain—we renegotiate the supply agreement with them, so the volume is the same as it was before. We just renegotiate the terms of it. That's why they buy back the assets. But, the volume in tonnes or in cases is the same as it was.

Keith Howlett – Analyst, Desjardins Securities

Then, I was just wondering, on transportation costs—I think it was mentioned that there had been improvement in transportation in Q3 in Tissue. Does that relate to your internal restructuring of facilities, or has the market improved for transport services.

Jean-David Tardif – President and Chief Operating Officer, Cascades Tissue Papers Group

It's mainly due to improvement in our system, by moving less cases between our plants and having better logistics to support our customers from the right mill, mainly, yes.

Keith Howlett – Analyst, Desjardins Securities

Then, I just had a question on the European roll pack business. As I understand it, you also operate a joint venture in a similar business in North America. Is there any change of view on the North American business?

Luc Langevin - President and Chief Operating Officer, Cascades Specialty Papers Group

No, no—this is Luc, sorry Keith—no, we have no—it doesn't impact at all our vision for the North American assets.

Keith Howlett – Desjardins Securities

Then just finally, on the recovery business, in terms of the business model going forward, are you sort of trying to evolve that to a service business, or is it still sort of a margin business, or what's the outlook there?

Luc Langevin - President and Chief Operating Officer, Cascades Specialty Papers Group

The reflection and the vision for the recovery business was actually revised four years ago, and it was already our intention to focus more of this business towards supplying our mills and growing this business to support the global growth plan of Cascades, so we're just going to continue what we have already initiated over the last few years. So, definitely, the future investments, if they are in this business, will be there to support the growth of Cascades.

Keith Howlett – Analyst, Desjardins Securities

I see. So, is that business sort of stable now and improving, or how does it …

Luc Langevin - President and Chief Operating Officer, Cascades Specialty Papers Group

Yes, I think, as Mario mentioned, obviously, we hope—we would believe that, with the current price of OCC, we're getting close to a bottom price. So far we have been able to offset the sequential decrease from last quarter, so, yes, the situation is improving. As I said, I guess, last quarter, it involves for us to renegotiate all the agreements we have with the suppliers and review all the routing we have. We have, obviously, to adapt the business model to the new cost structure. It's a significant change from the—about $100 we had last year to $30 now, but the moves and the decisions are already in place. Obviously, we have some long-term agreements that we have to respect, but every time we have an opportunity to renegotiate, we do.

Keith Howlett – Analyst, Desjardins Securities

Thank you.

Operator

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

Zachary Evershed – Analyst, National Bank Financial

Good morning, everyone. Congrats on the quarter.

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

Thank you.

Zachary Evershed – Analyst, National Bank Financial

I was hoping you could walk me through, in terms of thought process on the top line and margins, the whole process, the shutdown of the two facilities in March, and then the rebalancing to the rest of the Tissue network, how quickly that will go and what we can see on the financial statements from that.

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

In Tissue, particularly?

Zachary Evershed – Analyst, National Bank Financial

Yes, please.

Jean-David Tardif – President and Chief Operating Officer, Cascades Tissue Papers Group

You mean in 2020 or …

Zachary Evershed – Analyst, National Bank Financial

Yes, the shutdown in the Kingman and Waterford plants in 2020.

Jean-David Tardif – President and Chief Operating Officer, Cascades Tissue Papers Group

Okay. So, we announced the shutdowns for end of March, so it’s going to take time to integrate all the volume in the other mill, but right now we see, probably, $10 million fixed costs reduction by shutting down these two facilities, and the volume, we have the open capacity into the Orchids platform. It’s also related to the other investments that we announced late last year in Wagram, North Carolina. So, both Away-From-Home and the customer products market are benefiting from those recent investments.

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

So, Zachary, combined with the Orchids platform, as we said, our target is to come back to 10, 12 percent EBITDA margin as soon as we can, so that’s the plan, and these are steps that we’re taking to move towards that as soon as we can next year and the year after.

Zachary Evershed – Analyst, National Bank Financial

That’s great, and just in terms of the thinking on that, because the capacity is available, the network could be rebalanced the next day, essentially, there’s not going to be a long time to ramp up this move to capacity.

Jean-David Tardif – President and Chief Operating Officer, Cascades Tissue Papers Group

No, not really. We’re ramping up Orchids volume a little bit, but, all in all, there is no major ramp-up.

Zachary Evershed – Analyst, National Bank Financial

Understood, thank you, and then just one last one for me. I'm curious to get your thoughts on China's impact on recycled fibre and how you see that evolving over the coming years.

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

Yes, this is Luc talking. Last year, or two ago, It was announced by China, that by 2020, they would be pretty much out of the recycle market, and what we hear is that they stick to their plan. Not only we see that the Chinese market is going down, but we see also the other markets are taking more recycle, the other export markets more recycle. So, it's very quiet now for exports. That's probably why we've seen an additional reduction in the OCC earlier this week. There's plenty of material in the market.

Zachary Evershed – Analyst, National Bank Financial

Beauty. Thank you very much, that's it for me.

Operator

Your next question comes from the line of Keith Howlett with Desjardins. Your line is open.

Keith Howlett – Analyst, Desjardins Securities

Yes, I wondered if you'd just update us on the St. Helens and Scappoose manufacturing and converting operations.

Jean-David Tardif – President and Chief Operating Officer, Cascades Tissue Papers Group

We made a really good improvement in those two facilities. The St. Helens facility is making good profit these days. The two together are now breakeven since a month, two months almost. So, we are continuing our improvements down there, yes.

Keith Howlett – Analyst, Desjardins Securities

Great, thank you.

Operator

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

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

Thank you, everyone, for being on the call today. I am looking forward to talk to you for our Q4 results. Have a good day. Thank you.

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.