Cascades Canada ULC

Third Quarter 2020 Financial Results Conference Call

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PRESENTATION

Operator

Mesdames et messieurs, bienvenue à la téléconférence des résultats financiers du troisième trimestre 2020 de Cascades. Je m'appelle Takan 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 Taken, and I will be your Conference Operator today. At this time, I would like to welcome everyone to the Cascades Third Quarter 2020 Financial Results Conference Call. 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, Investor Relations, Cascades Canada ULC

Thank you, Operator. Good morning, everyone, and thank you for joining our third quarter 2020 conference call.

We will begin with an overview of our operational and financial results, followed by some concluding remarks, after which we will begin the question period.

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

Before I turn the call over to my colleagues, I would like to highlight that Reno de Medici's interim report released on November 4 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 Q3 2020 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.

Overall, we are pleased with our third quarter results and the resilience and flexibilities of our employees, and our operations demonstrate, too, what best describes our ever-changing business conditions.

Within this context, demand level for Containerboard, Specialty Packaging, and Retail Tissue product all do remain robust in the quarter. In contrast, the Away-from-Home Tissue business has seen demand notably impacted as COVID-related closure has reduced tissue needs for businesses, restaurants, and office buildings.

In Europe, quarterly results primarily reflect the usual seasonal volume decrease related to the annual August production stats.

Net earnings were $49 million, or $0.51 per share. This compared to earnings of $0.45 per share last year and $0.57 per share in Q2. On an adjusted basis, we generated $0.50 per share in Q3. This was a notable increase from the $0.30 per share generated in the same period last year, but is below the $0.61 per share recorded in Q2.

On an adjusted basis, EBITDA of $162 million was 13 percent below the quarterly record level generated in Q2, but was stable with the $161 million generated in the same period last year. This speaks to the benefits being realized from our improvement initiatives across our platforms. On a consolidated basis, our Adjusted EBITDA margin reached 12.7 percent in Q2.

Slides 4 and 5 provide details for each of our business segments.

On the Raw Material side, highlighted on Slide 6, the Q3 average index price for OCC was up significantly year-over-year. The price was down notably compared to Q2, during which OCC pricing levels temporarily jumped in what we have previously note was an unwarranted response to COVID. White recycled paper grade remained stable year-over-year in Q3, and decreased both 30 percent compared to Q2. On the virgin pulp side, hardwood and softwood pulp prices decreased both year-over-year and sequentially in Q3.

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

The Containerboard segment generated an 11 percent increase in sales sequentially. This was driven by a 14 percent increase in manufacturing shipments, partially offset by a less favourable exchange rate.

Q3 Adjusted EBITDA of $100 million, or 20 percent on a margin basis, increased 6 percent from Q2 levels. This was driven by higher volumes and additional R&D tax credit, partially offset by a less favourable exchange rate and higher energy, raw material, and production costs in the current period. Our quarterly EBITDA margin was impacted by the distracting effect that occurred in Q3 after inventory build-up at the end of Q2, resulting in higher cost of production sold due to the record increase in OCC costs at the end of the second quarter.

Note that the Q3 results also included an approximate $3 million impact related to the operational stop at our Niagara Falls complex due to maintenance and a disruption from the (inaudible) supplier. Additional manufacturing downtime related to planned maintenance and technical investment of 11,400 short ton were also taken in the quarter.

Year-over-year, Containerboard sales increased 7 percent. This was driven by a 9 percent increase in shipment that reflect growth, up 12 percent in manufacturing side and 6 percent on the converting side.

Q3 Adjusted EBITDA decreased 15 percent from the prior-year levels. This reflect higher raw material costs and less favourable selling price and sales mix, the effect of which were only partially offset by higher volume and R&D tax credit recorded in the quarter.

The third quarter result in the Tissue Paper segment are a direct reflection of the impact that COVID-related closure of businesses, office building, restaurant, and school is having on demand for Away-from-Home products. It is important to highlight that sales of Retail Tissue product remains solid, and we have taken important step to reduce our operational costs and adjust capacity to meet the change in demand factors with the temporary closure of two facilities.

Third quarter sales decreased 14 percent sequentially, reflecting the immense contraction that resulted in converted product shipment decrease, 11 percent, in manufacturing shipment decrease, 23 percent. Following elevated Q2 levels, Retail volume were down 11 percent sequentially, while Away-from-Home volume were down 8 percent.

Adjusted Q3 EBITDA decreased $18 million sequentially, due largely to lower shipments, in addition to higher transportation and maintenance costs and less favourable exchange rates. Despite these challenging market conditions, Tissue Q3 Adjusted EBITDA of $36 million represent a margin of 10 percent.

Tissue sales were down 6 percent year-over-year, reflecting 11 percent decrease in shipment levels. Retail shipment increased 4 percent, while Away-from-Home shipments were down 27 percent compared to the prior-year period, the effect of which were partially offset by a higher average selling price and favourable exchange rate.

Conversely, Q3 Adjusted EBITDA levels increased $12 million, or 6 percent, compared to the prior-year levels. This is a testament to the steps we have taken to reduce expense levels and control costs, which include the plant close in Q1 of this year. Lower raw material, energy, and transportation costs, R&D tax credits recorded in the current period, and improved selling price and customer and products mix similarly contributed to the strong result year-over-year.

The European Boxboard operation generated solid Q3 results, in line with expectations.

Sales decreased 2 percent sequentially, reflecting lower shipment in Western Europe and the usual seasonal production stops in August.

Adjusted EBITDA decreased $14 million for Q2 levels due to the same factor and higher maintenance costs.

Year-over-year sales levels increased by 2 percent of $5 million as the benefits of more favourable exchange rate offset slightly lower volume and average selling price in the current period.

Q3 Adjusted EBITDA increased 16 percent over the prior-year levels, the result of lower energy, raw material, and production cost, the benefit of which more than offset the impact of a lower average selling price.

The Q3 results for the Specialty Products segment were stable sequentially and year-over-year. When compared to the prior quarter, sales decreased by $3 million as stronger volume in Consumer and Industrial Packaging were offset by the sales mix impact in the segments and less favourable exchange rates. Year-over-year, sales decreased $6 million, or 5 percent, a reflection of the combined impact of the divestiture of European activity and closure of a mill in the second half of 2019. Sales volume increased in all sub-segment year-over-year.

Adjusted EBITDA level decreased by $1 million sequentially, but was stable year-over-year.

Compared to the prior quarter, Q3 results reflect higher sales in industrial and consumer food packaging, the benefit of which were offset by a less favourable sales mix and exchange rate and slightly higher raw material costs. Year-over-year stable results benefited from higher volume and beneficial raw material costs. These benefits were offset by a less favourable sales mix and selling price, and the previously-mentioned business divestiture and closure.

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

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

Thank you, Mario, and good morning, everyone, so I will begin with an overview of our key KPIs on Slide 13.

Our third quarter shipments increased by 18,000 short tons, or 2 percent, from Q2, driven mainly by an increase of 14 percent in Containerboard.

The third quarter capacity utilization rate of 91 percent decreased 2 percent compared to the prior year and 1 percent from the second quarter levels.

Working capital came in at 9.8 percent of sales, while consolidated return on assets stood at 12.8 percent.

Moving now to sales as detailed on Slides 14 and 15, year-over-year, Q3 sales increased by $11 million, or 1 percent, driven largely by volume increases in Containerboard and Specialty Products segments, and a beneficial foreign exchange rate for all of our business segments. Less favourable pricing and sales mix impacted sales level in all segments except for Tissue. Sales performance in the Specialty Products segment was impacted year-over-year following a mill closure and a business divestiture completed in 2019. On a sequential basis, third quarter sales decreased by $10 million, or 1 percent, largely driven by less favourable FX in all segments apart from European Boxboard.

Moving now to operating income and Adjusted EBITDA as highlighted on Slide 16, Q3 Adjusted EBITDA of $162 million increased $1 million from the prior-year level. Stronger results in the Tissue Paper and Boxboard Europe segments, coupled with favourable (inaudible) activities results, offset the lower Containerboard performance.

Sequentially, Q3 Adjusted EBITDA decreased by $24 million, or 13 percent, as shown on Slide 17. This was driven by a weaker performance in Tissue and European Boxboard.

Slide 18 and 19 illustrate the specific items recorded during the quarter. The main items worth mentioning are 13 million of impairment charges recorded in Tissue related to the revaluation of certain assets in light of the current Away-from-Home market conditions, $7 million of gains recorded in Containerboard and Tissue related to the sale of previously-closed assets, and $3 million of restructuring charges that were recorded in the Containerboard segment following the announced closure of a facility in Ontario by August of next year.

Slide 20 and 21 illustrate the year-over-year and sequential volumes of our Q3 adjusted earnings per share and a reconciliation with the specific items that affected our quarterly results.

As reported, earnings per share were $0.51 in the third quarter. This compared to earnings per share of $0.45 last year. Both periods included specific items. On an adjusted basis, earnings per share increased by $0.20 compared to last year's results. Slightly higher operating results, lower financing expenses, and lower income tax were offset by higher depreciation expenses reflecting business acquisition and operational capital projects. On an adjusted basis, sequential third quarter earnings per share decreased $0.11 per share from Q2 2020 levels, largely a reflection of lower operating results.

As highlighted on Slide 22, third quarter adjusted cash flow from operations increased by $7 million year-over-year to $115 million. This reflected slightly higher cash flows from operation due to improved operating results and lower income tax paid, offset by higher net financing expense paid in the third quarter reflecting the impact of the refinancing at the end of 2019. Adjusted free cash flow levels increased by $6 million year-over-year.

Moving now to our net debt reconciliation on Slide 23, our net debt decreased by $95 million in the quarter. This reflects strong cash flow from operations, a positive foreign exchange impact of $32 million, and a favourable $30 million benefit in change—in non-cash working capital, partially offset by dividends and CAPEX payments. Our net debt ratio stood at 3 times at the end of the third quarter, down from 2.1 times at the end of the second quarter and 3.25 times at the end of 2019. The equity offering concluded on October 22 will further improve our debt profile in Q4. This, along with other financial ratios and information about maturities, are detailed on Slide 24.

On Slide 25, we provide details about our capital investment plans for the full year. We expect to invest approximately $240 million in 2020, which includes estimated investments associated with our Bear Island project.

We remain focused on prudently managing cash flow and managing our debt profile. Currently, including our recently-completed equity offering, we have cash and revolver availability of approximately $1 billion.

Mario will give you more details, and will wrap up the call with a brief conclusion before we begin the question period. Mario?

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

Thank you, Allan.

We have provided details regarding our near-term operational outlook on Slide 27 of the presentation. Please note that this outlook is based on what we are seeing today, and given the current unusual circumstances, may change in the coming months.

On the demand side, we remain optimistic for our Retail, Tissue, and Packaging Solutions in North America. Demand for consumer food packaging and corrugated product used in the food and personal care industry remains solid. Similarly, demand for at-home tissue product also remain good as people are spending more time at home.

That said, predicting what the potential impact that the ongoing pandemic will have on both demand levels and demand pattern remain challenging. Given this caution, and usual softer seasonal demand in the fourth quarter, we are expecting the Containerboard and Specialty Products segment to generate stable results sequentially.

In the near term, performance in the European Boxboard is expected to reflect continued uncertainty regarding the economic impact of COVID-19, with volumes and pricing expected to remain under pressure. That said, we remain cautiously optimistic in terms of outlook based on the essential nature of the products, steady volume performance year-to-date, and the good operational execution and management throughout what has been an unpredictable environment.

In the Tissue segment, seasonality and (inaudible) for our Away-from-Home products are expected to largely offset the benefit from stable demand in the Retail Tissue, pricing improvement, and our ongoing improvement initiatives in the fourth quarter.

We are focused on optimizing production in our cost structure, which include the closure of two tissue facilities in Pennsylvania in December and January. These closures will not impact our capacity, as these tons will be moved to other assets where production capacity has been optimized with our investment in modern equipment.

Moving now to Raw Materials, the recovered paper market remained stable in the third quarter, with robust generation providing ample materials to meet demand levels. We expect OCC dynamic to continue providing a subtle tailwind for our paper mills, with material remaining abundant and actual prices anticipated to continue. We are maintaining relatively high inventory levels as a precaution, given the less predictable market dynamic caused by the pandemic. That said, we expect market conditions to remain relatively stable for the remainder of the year.

Conditions for the white grade were also favourable for our mills. The SOP published index lost another US$60 per short ton in the last three months. Availability of material and reduced demand for both contributed to this variation. Material remains readily available, and we continue to maintain standard inventory levels. (Inaudible) and (inaudible) residential paper both saw tighter market conditions in Q3 which impacted pricing and average quality of material for our moulded pulp mills.

Finally, conditions were stable in the virgin pulp market. We will continue to monitor global dynamics, plant downtime announced by pulp mills, and the evolving demands in printing and lighting industries. We expect no significant variations from this market for the rest of the year.

Before turning the call to questions, let me finish by saying that we are pleased with our performance in Q3 within the context of the challenging environment. I would like to thank every one of our employees for their continued hard work and resilience during these unusual times. As always, their health and safety remain our top priority, and we applaud their diligence to the safety measures that have been put in place in all of our facilities.

Looking ahead, we expect our ongoing modernization initiative investment completed over the recent year to continue to benefit performance. Added to this, we began a margin improvement initiative across our North American operations earlier this year targeted area such as revenue enhancement, reduction in supply chain efficiency, and our organizational structure. These initiatives are expected to generate a 1 percent annual increase in our consolidated EBITDA margin in each of the next two years. Similarly, we expect to begin realizing benefits from the US$50 per short ton increase announced in the Containerboard at the end of Q4.

With that, 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 composer l’étoile suivie du un, sur votre clavier téléphonique. Si vous voulez retirer votre question, composez le carré.

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

Your first question comes from Hamir Patel. Your line is open.

Hamir Patel – Analyst**,** CIBC Capital Markets

Hi. Good morning. Mario, could you speak to what sort of maybe EBITDA margins on a consolidated basis you'd be expecting for Cascades next year given some of the initiatives you highlighted?

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

Well, the target we're looking at right now will be around, I would say, 14 percent. We're trending close to 13 percent now with the initiative we just talked about. We are looking to increase EBITDA at least at the level of 40 percent this year.

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

Hamir, remember that our stated target is at 15 percent, so we're trending towards that.

Hamir Patel – Analyst**,** CIBC Capital Markets

Okay, great. Thanks for that, and Allan, could you speak to—for CAPEX next year, other than Bear Island, what are the larger projects in the envelope?

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

Well, we have not completed yet our budget process, but what we can say right now, there's a few lines that are still to be installed in Tissue, as we stated before, during the course of the first quarter, so that would be one of the major projects for this year, and also, in Ontario, in the Containerboard, and maybe Charles can expand on this, there's a—following the reorganization in Ontario, we will transfer some capacity to the other facilities and some investment will be needed, but that's nothing major compared to Bear Island, obviously.

Hamir Patel – Analyst**,** CIBC Capital Markets

Thanks. Thanks, Allan, and Charles, another question I had for you was since you announced Bear Island, there's been some additional capacity announcements from Atlantic Packaging, and looks like (inaudible) now looking at a potential second project, so is—have those developments changed how you prioritize the internal integration plans for Bear Island, and could you just remind us what are you targeting at in kind of the first year production? How much of that is going to be source—sold internally and how much is already committed with off-take agreements?

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

Okay, so Hamir, just maybe to complete on Allan's first. Yes, we do have a project in Ontario that will be in line we're talking about. We announced the closure of one of our facilities, which is based in Etobicoke, and we're going to do about what we did with our project in Piscataway, as we are going to be selling the building, which we are reinvesting to create and install better lines, better equipment, and give us more capacity that will come in towards the end of Q4 next year, and also in the year after, which will be in line, also, with the goal that we have in our (inaudible) plan to continue to increase our converting capacity in our group. So, this project is well in line and will be good for Cascades like the Piscataway.

Regarding the project in the Bear Island, the addition capacity, some of which are happening, some of which are probably—are not going to happen, I don't know, but the ones that have been announced and started, this is reinforcing the fact that we need a project like Bear Island to be better prepared to compete. The line of product that we have, we feel that it's niche. It will be in the lowest basis weight, so we are very confident that the demand is there for this product.

Now, when we start, we announced that about 50,000 tons of the product will be used internally. We are continuing to discuss with our current customers to increase the wallet share with them, so this is going in the right direction, and the first year of production—this is going to be about 150,000 tons that we will try to find a way to develop at the customer's base for that.

Hamir Patel – Analyst**,** CIBC Capital Markets

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

Operator

Your next question comes from Sean Steuart. Your line is open.

Sean Steuart — Analyst**,** TD Securities

Thank you. Good morning, and thanks for all the detail on the prepared comments. A couple of questions. On Tissue, with respect to the Retail side, there was clearly some pull forward of demand in the initial wake of the pandemic. You're guiding to further volume pressure in Q4, which I guess is mostly seasonal, and Mario, you positioned Retail demand trends as solid. I'm wondering if you can give us some context on your expectations into 2021 as economies presumably start to reopen and with a vaccine, and thoughts on the Away-from-Home volume trends as that happens, as well.

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

I will let Jean-David explain the dynamic between the demand of the two product, but if ever a vaccine would be coming, obviously there would be a shift in demand for our products, because the school, the restaurants, the hotels will reopen, and this is likely what has—is affecting our volume right now. It did compensate it to a certain degree on the Retail side, but so if ever the vaccine would be there, I think the normal business will probably take a year or two to get back to where it was prior to COVID, but obviously there will be a shift, because people are looking to go out and come out of their house.

Maybe Jean-David, do you want to give a little more detail about the volume between the two dynamics—the two markets?

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

Yes, Mario. Good morning.

You're right, and to your question, Sean, the Retail volume is really solid. Right now we're booked 100 percent. The results of Q3 were limited by lower inventory in our capacity. Now, in Q4, the thing is we're putting our customer on allocation as well because the demand is strong, so it's—right now we're trying to—we built inventory to get the right or the appropriate service level to our customers, so we're limiting the Retail sales.

On the Away-from-Home, Mario was right, I think that we still have customer that are doing really well, so we have about 40 percent of our customer that are at budget, so there's some channels or market segments that are doing good. There's some customer also doing good on e-commerce, so we believe that by focusing on the right customer, we can offset the market condition. Right now, we're doing slightly better than the (inaudible) number on the Away-from-Home side, so the problem is we are overexposed on the Away-from-Home market as opposed to some of our peers, so—but we're working really hard to bring more volume toward the retail market, and develop new product as well for the pro line or they Away-from-Home line.

Sean Steuart — Analyst**,** TD Securities

Thanks for that detail. Second question is on recycled fibre, OCC specifically. It looks like those costs are bumping along the floor. At what point do you expect inflation for OCC, given all the recycled Containerboard capacity that's going to be coming onto the market, yours included, the next few years, how do you expect that to feed into OCC inflation, if at all?

Luc Langevin – President and Chief Operating Officer, Cascades Canada ULC

This is Luc. Maybe I can try to answer your question. I would be very cautious to predict what the market's going to be in the long term. What I can see is that since late spring, we've seen quite a lot of stability in the market despite the strong domestic demand. As you know, the Containerboard mill is now running flat out, and despite this, this hasn't created any specific pressure on the OCC market.

Export outside of China, also been—has been also present in the last few weeks, but on the other side, generation has been very good, so we don't see, for the moment, any challenge with the OCC price, so what's going to be in a few years from now, for me, is—I wouldn't get there, but what I can say is that if—is that the duration in demand seems—we don't see—I don't see short ton with what I have on the radar screen that is going to be things that can change in the market conditions. What it's going to be in two years from now, I think it would be too dangerous to make a statement on that, but for the time being, market seems very stable.

Sean Steuart — Analyst**,** TD Securities

Okay. Thanks for that detail. I'll leave it there. Thank you.

Operator

Your next question comes from Mark (inaudible). Your line is open.

Mark

Good morning.

Unidentified Speaker

Good morning.

Mark

I have a few questions. A couple on Containerboard first. Can you just talk with us a little bit about the cadence that you expect on the roll through of this containerboard price hike?

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

Okay, Mark. First, I can say that the—we're still in line with our price—announced price increase. Our team are working with our customers to implement that. We anticipate that the impact will start gradually in—towards the end of Q4, but really, in mid Q1 next year, we'll be about 80 percent in place.

Mark

Okay. All right. That's helpful.

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

The delay is—as you know, we have contractual that takes in consideration timing of the price increase, and that's why the—it's spread, so we always keep saying that to be fully implemented, it takes about four to five months to deploy 100 percent.

Mark

Okay. All right. That actually seems a little bit shorter than some of your other kind of publicly-traded peers, so that's good.

Also, on the Containerboard side, can you talk with us about pre-selling some of that incremental capacity at Bear Island? I mean, I just—I think a lot of us on the outside—we have Bear Island, and then not too far away, at the same time, we have Kingsport, so in total, it's a little over a million tons of capacity, and we all know that the open market has shrunk, so I'm just curious about what you can do to really try to de-risk that project by pre-selling volume right now.

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

Okay, so like I said, the type of product that we have is lightweight, high performance, lighter weight than most of the install capacity, and even the ones that are going be installed, so we—our plan, like we did when we started the green pack (phon) is exactly the same thing, is we are going to niche our product to be able to develop the customer base. Give you an example, everybody talks about the e-commerce. E-commerce requires lighter packaging, and that can be done in two ways. First, design of the packaging, but also the weight of the paper, and we are going to focus on that. There is demand for this type of product to respond to that new trend.

Mark

Okay. All right. Then, just toggling over to the Tissue business, can you talk with us about any ability to swing capacity from Away-from-Home Tissue over into Retail-oriented Tissue, maybe just shifting the fibre you're using, or anything else you could do to just pivot a little bit?

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

Yes, Mark. It's Jean-David. We're working hard. There's new product coming, so for example, we're partnered with a major retailer to develop a new format, which is something not available on the retail market for now, but that would be made on that Tissue Away-from-Home line, so that will book that line, because, as I said, their huge demand for retail is pretty strong, so there's probably three quarter of a million cases that we will be able to sell for that product only, so it's difficult.

Most of the lines are dedicated, as you know, like multifold, single fold, (inaudible). Those are lines that you cannot do anything other than Away-from-Home product, but definitely there's some lines—that line, kitchen roll towel, those lines have been migrate to retail product, so those lines are fully booked, but all in all, it's—right now we're up to about 10 percent of the capacity that was migrate from Away-from-Home to Retail, so we're continuing in that manner, but most of the lines are Away-from-Home dedicated, I would say.

Mark

Okay, and then the last thing I wanted to (inaudible) is just inflation, and we've kind of—we've already talked about OCC, and it is pretty striking that we've seen this tightening in the Containerboard market and not really seeing any pressure on OCC at this point, but this lack of Chinese import seems to have shifted that market. The other issue on inflation, though, at the moment, seems to be transportation costs, so I wondered if you could talk a little bit about your exposure to kind of higher trucking rates.

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

Mark, it's Mario. Basically, right now, we see a tightening in the transportation, and we see that it's more difficult to get trucks in to service us, and we see our price increase, but this dynamic in the market of logistics is really fluctuating, so we feel it’s temporary right now. It's probably related to the activities in the commerce business, so as we are busy in the Containerboard, people are buying more. I think it's related to that.

If markets slow down, I think then we could see a reduction in pricing out of transportation. We do have a centre of excellence that is managing all our logistics throughout North America, and they're working really hard with the asset owner to monitor and manage the pricing that we have and give them some volume to maintain good logistic pricing, so we're fighting—we're working hard to reduce this inflation.

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

Maybe we can add also—it's Allan speaking—that to mitigate debt with the acquisition of Orchids and all the modernization and closure we're doing in Tissue, it's also related to this and to optimize our network of product and so on to reduce these costs given what is happening on the open market.

Mark

Yes, okay, and Allan, just any sense just kind of across all of Cascades, how much of your trucking would be on a contractual basis; maybe an annual or a multi-year contract versus how much is indicative of these spot market prices we see?

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

Well, we've made a lot—as Mario mentioned, with our centre of excellence over the last few years, we've put everything together under one team, and now I believe we are maybe—is it 90 percent contracted?

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

It's a little less than that, but we're in the high, let's say 70s.

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

Seventies or…

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

We still have some road—inroads to do, but we have a large portion of our trucking that's already contracted for—some for one year and some for multi-year.

Mark

Okay. That's helpful. I'll turn it over.

Operator

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

Your next question comes from Zachary Evershed. Your line is open.

Zachary Evershed — Analyst**,** National Bank Financial

Thank you. Morning, everyone. Quick follow up for you on the potential to migrate from Away-from-Home Tissue into Consumer. For those lines that could be converted, what intensity of CAPEX would that require, and what's involved in the transition?

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

Oh, it's limited. We're talking about a million and a million and a half per line for wrapping capacity, usually, so when you talk about a few lines, it's probably less than $5 million overall, so it's not that much, but the thing is we're trying also to limit CAPEX because we've shut some facilities, as you know, so we have some Retail bundling or wrapping equipment that we're moving right now, so, for example, there are some wrappers from Arizona that are now being installed in Grundy where Grundy used to be 100 percent Away-from-Home plant, and it's going to produce more and more Retail plant.

So, as Allan mentioned, as well, the fact that we're having less sites is also helping us to better manage costs, and obviously, there are both for Retail and Away-from-Home, because in the past, Grundy or (inaudible) were 100 percent Away-from-Home plants, and now there's more Retail in those plants, so on the west coast, for example, it's going to be 50/50 Retail and Away-from-Home next year, so—as opposed to 100 percent Away-from-Home last year, so we're trying to move toward this with limited CAPEX and with the existing equipment that we have.

Zachary Evershed — Analyst**,** National Bank Financial

That's really helpful. Thanks, and could you give us a ballpark idea of how many Away-from-Home lines are dedicated and can be converted in the network?

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

In the number of lines, that's a good question. There's probably, I will say, five—maybe five, plus/minus one, four to six maybe, but most of them can be converted with really limited effort, because it's already kitchen roll towel or single roll bath lines. The one that required investment, there's probably two or three lines right now, but the thing is by the consolidation, we're also stopping smaller or older lines by consolidated, so as you know, we've announced—we’ve done four closures was done—four closures so far. We announced two more for the next two months, so there's a lot of effort to consolidate and focus on the right product with the right margin with the right customers.

Zachary Evershed — Analyst**,** National Bank Financial

That's great. Thanks. I'll turn it over.

Operator

Your next question comes from Paul Quinn. Your line is open.

Paul Quinn – Analyst**,** RBC Capital Markets

Yes. Thanks very much. Morning, guys. I guess I'll start in Tissue with Jean-David. I think a couple of quarters ago when we talked about migrating some of this Away-from-Home to Consumer, you thought you could do 10 percent to 15 percent, so it sounds like you're at 10 percent level now, sort of moving up there, which is great. What surprised me in the quarter was the drop in capacity utilization from 87 to 73. Is that all on the Away-from-Home side?

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

Yes, but also on jumbo roll, and so this sometime something we sometimes forget. We used to sell jumbo rolls, so we've shut down Memphis facility was where—which was 35,000 tons sold on the open market, so globally, that's why the utilization went down. Same thing on the west coast. Our integration level on the west coast is limited, so we had to shut down or curtail both machines there for a few weeks.

Paul Quinn – Analyst**,** RBC Capital Markets

Okay, so is it fair to say we're not going to see a big jump up in that capacity utilization until people are back working in the office and travel?

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

Yes, overall, but we're just shutting down 50,000 tons in (inaudible) over the next few months, so that will help the total percentage, if I can say. Also, the fact that we're installing new lines—so there's four new lines starting in the first quarter of next year, all dedicated to Retail, so we will be able to restart Memphis probably first quarter of next year, and with the forecast that we have, again, like Memphis, all those tons will be integrated into (inaudible) and North Carolina or (inaudible) Oklahoma toward the mid or end of next year, so the focus of increasing integration is really a priority for us as well, so by having the right machine or the right trims to supply the new line that we're putting to the system, it's—I believe it's going in the right direction for integration, but also for more Retail product.

Paul Quinn – Analyst**,** RBC Capital Markets

Okay, and then maybe just a question for Charles on Containerboard. I couldn't quite understand where the tons are going on Bear Island on start-up. It sounded like you've got 50,000 internal, and then you're looking for partners for the other—another 150,000, so in the first year, it'll run around 200,000 tons. Is that the way that sort of balances out?

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

About the first 12 months, yes, of operation. That's what we—that we know today of what we're trying to secure, that's about the split. Yes.

Paul Quinn – Analyst**,** RBC Capital Markets

Okay, and then, I guess, Mario, just overall, I understand seasonality in Boxboard Europe will be down, but it's—it feels like Boxboard Europe is a different business than it was a year or two years ago. Is that true, and what are you looking for 2021?

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

I would see the same progression, Paul. We've done a lot of work in managing our accounts and managing our numbers of SKUs in Europe, and (inaudible) has done a fantastic job of making a multi-mill concept, so now we can swing the product from the different mills, so I think the progression you see in Europe for the last two years will keep on for next year, and you're probably aware that we just made an acquisition in Spain, so this will help even consolidate our position in the south of Europe, and the synergies coming out of this acquisition with the Barcelona facility, so I think that the improvement in EBITDA and market penetration will keep on going.

Paul Quinn – Analyst**,** RBC Capital Markets

Great. That's all I had. Best of luck.

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

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 line today. Looking forward to talk to you after Q4, and be safe in the meantime, so thank you, everyone. Have a good day.

Unidentified Speaker

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.