

THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

CAS.TO - Q4 2012 Cascades Earnings Conference Call

EVENT DATE/TIME: FEBRUARY 21, 2013 / 3:00PM GMT



## CORPORATE PARTICIPANTS

**Riko Gaudreault** *Cascades Inc. - Director of IR*

**Alain Lemaire** *Cascades Inc. - President and CEO*

**Mario Plourde** *Cascades Inc. - COO*

**Allan Hogg** *Cascades Inc. - VP and CFO*

**Suzanne Blanchet** *Cascades Inc. - President and CEO, Tissue Group*

**Marc-Andre Depin** *Cascades Inc. - President and CEO, Norampac*

**Luc Langevin** *Cascades Inc. - President and CEO, Specialty Products Group*

## CONFERENCE CALL PARTICIPANTS

**Joe Stivaletti** *Goldman Sachs - Analyst*

**Tarek Hamid** *JPMorgan - Analyst*

**Sean Steuart** *TD Securities - Analyst*

**Leon Aghazarian** *National Bank Financial - Analyst*

**Pierre Lacroix** *Desjardins Securities - Analyst*

**Paul Quinn** *RBC Capital Markets - Analyst*

## PRESENTATION

### Operator

Good morning. My name is Jonathan and I will be your conference operator today. At this time, I would like to welcome everyone to the Cascades, Inc. 2012 fourth-quarter results conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions). Thank you.

Mr. Riko Gaudreault, you may begin your conference.

---

### Riko Gaudreault - Cascades Inc. - Director of IR

Thank you, operator. Good morning, everyone, and welcome to our conference call for the fourth quarter of 2012.

Members of our management team are joining me today and you will hear from Alain Lemaire, our President and CEO; Mario Plourde, our COO; Allan Hogg, our CFO, and our three Presidents, Suzanne Blanchet from our Tissue Papers Group; Marc-Andre Depin from our Containerboard Group; and Luc Langevin from our Specialty Products Group.

Alain and Mario will begin with their comments, followed by Allan and the Group's President. Mario will present a review of our operations in Europe. Following the question period, Mr. Lemaire will be back for the conclusion.

During this call, certain statements will discuss historical and forward-looking matters. Please note that the accuracy of these statements is subject to a number of risk factors. These factors, which are listed in our registration statement, can have a material impact on our actual results. Also the statements in our press release include data that are not measures of performance under IFRS.



You can have access to or request a copy of these documents through our website. I would like to remind the media and Internet users that they can only listen to the call. If you have any questions, please feel free to call us after the session.

I will now turn the call to Mr. Alain Lemaire.

---

**Alain Lemaire** - *Cascades Inc. - President and CEO*

Thank you, Riko. Good morning. We released our fourth-quarter results this morning showing an EBITDA of CAD70 million and a net loss of CAD0.02 per share, both excluding specific items. This gives an EBITDA of CAD304 million for the year, a 33% improvement over 2011.

Likewise our EPS was better for the year 2012 with net earnings per share of CAD0.17 compared to a net loss of CAD0.14 last year. The fourth quarter is really strongly we believe these results are encouraging in a number of ways.

On a segment basis, our Tissue Paper Group continued to perform well just by the impact of seasonability. Our Container Group did not achieve the desired utilization rate but the performance of our manufacturing activities is gradually improving.

The implementation of price increases in the corrugated product sector is in line with our expectations. But a different product mix impacted the result in our converting operation.

The fourth quarter sustainability was negative for our Specialty Paper Group and shipment of Specialty Paper and converted product experienced an important decrease. Compared to the same period last year, however, the EBITDA of this group increased significantly.

In Europe, our performance has improved both sequentially and year-over-year despite a very difficult market environment.

I will now let Mario tell you more about the market improvement in general and our strategic initiatives. I will be back for the closing comments. Mario?

---

**Mario Plourde** - *Cascades Inc. - COO*

Thank you, Alain. Good morning, everyone. Let me start with a quick overview of the recycled paper market. On average, both brown and white recycled paper prices decreased during the fourth quarter due to the weak demand and sufficient supply. Currently the market for white paper seems balanced. Our inventories are good and despite the recent slight increase for some grades, we do not expect significant change in white recycled paper prices in the short term.

The market for brown grades have been more active and is showing regional discrepancies. In the Northeast, the market stabilized after an increase of export at the end of the year due to a pickup in Asian demand to meet minimum annual volume and potential port strike. With the strike now averted and lack of demand due to the Chinese New Year, the export market softened recently but should become more active toward the end of Q1.

As far as other drivers are concerned, such as oil, chemical, and Canadian dollar, nothing significantly different to report except maybe for recent strengthening of the euro. Likewise, no major initiatives were announced as part of our action plan. The deployment of our ERP system and the construction of Greenpac are progressing as planned.

Our CapEx budget for 2013 will revolve initially around the CAD150 million.

Lastly, I would like to take a minute to discuss the current valuation of our share. We felt it was important to highlight the value of our portfolio of assets. You will notice that we have included a sum of the part analysis in the investor presentation. If you apply conservative trailing multiple to

our 2012 results, you will see that we are trading at a discount. Remember that these results were not peak results and that they do not reflect the impact of most of our initiatives we undertook over the last 18 months.

Even if our results were not as we expected in 2012, we think the discount applied to our share is unwarranted.

I thank you for your attention will now ask Allan to give you more specific dollar information on our financial performance.

---

**Allan Hogg** - *Cascades Inc. - VP and CFO*

Thank you, Mario. Good morning. So to start with sales analysis compared to last year, sales were down 1% at CAD904 million as shipments increased by 4% but were offset by lower average selling prices and a 7% increase of the Canadian dollar against the euro and 3% against the US dollar.

Compared to last quarter, sales remained stable as higher sales in our Containerboard and European Boxboard sectors offset lower volumes in our Specialty and Tissue businesses.

For the year, sales were stable at CAD3.6 billion. The full consolidation of Reno De Medici fell to a set lower average selling prices in all of our sectors and unfavorable European exchange rates.

EBITDA for this quarter is up 37% compared to last year due to higher volume and lower raw material costs. This was however offset by lower average selling prices in all of our sectors. Sequentially our EBITDA was down 11% due you to lower average selling prices in Containerboard in Europe, higher energy costs, and lower volume in our Specialty Products and Tissue operations. These were offset by lower raw material costs during the period.

As Alain mentioned, EBITDA is up 33% for the year to CAD304 million compared to CAD229 million last year. Lower raw material prices and the positive contribution of the assets closed or acquired in the last 12 months and the full consolidation of Reno more than offset lower average selling prices and [considerable] product mix in all business sectors.

Slide 14 illustrates the impact of specific items that affected our results during the quarter. Specific items consists of accelerated depreciation and impairment charges of some Containerboard and European assets.

On page 15, cash flow from operations amounted to CAD34 million, slightly lower than Q3 due to interest payments during the fourth quarter. Free cash flow excluding working capital change was negative for the period.

When looking on our KPI on a same asset-based comparison, shipments remained sequentially stable but were up 4% compared to last year fourth quarter. For the year, excluding the effect of the full transition of Reno, shipments were down 2%.

Working capital was lower during the quarter as accounts receivable and inventories decreased during the period. Working capital generated CAD58 million of cash inflows during the period and CAD42 million for the year and stands at 12.4% of sales compared to 13.2% last year.

Our net debt slightly decreased over the last quarter to stand at CAD1.535 billion at year end. For the year, our net debt increased by CAD50 million as we completed our equity investment in the Greenpac project, acquired the business of Bird Packaging and continued the transformation of our ERP systems. Of this amount of debt, CAD133 million is nonrecourse.

In regards to our cash availability and taking into account the letter of credits outstanding, we have approximately CAD300 million available at this time.

Looking at our financial ratios, our debt to cap ratio remained at 61% and when including the recent acquisition, LTM numbers, our net debt to EBITDA decreased to 5 times compared to 5.8 times at the end of last year.



I thank you for your attention and I will ask Suzanne to discuss the tissue paper results. Suzanne?

---

**Suzanne Blanchet** - *Cascades Inc. - President and CEO, Tissue Group*

Thank you, Allan. Good morning, everyone. Overall we are pleased with our fourth-quarter results despite the sequential decline in profit as our lower EBITDA can be explained by usual seasonalities for them.

Shipment of converted products declined by 2% compared to the third quarter, which is in line with our historical seasonality in most segments. For the away-from-home segment, the overall decline is mainly due to lower private label demand by some of our US customer after a strong third quarter. The decline in the at-home segment is attributable to the Canadian market, where shipments for both the branded and private label market were lower than anticipated.

In the US, we finished the year with strong shipment in December resulting in stable sequential shipments compared to the third quarter. Our parent roll business experienced a 6% sequential decline in shipments which is normal for this time of the year given the lower production level of our customer base of independent converters.

Looking at our average selling prices, they remain stable for both of our away-from-home and at-home segments. Parent roll selling prices also remain stable despite an unfavorable subsegment mix during the quarter. As a result, our sales decreased by 4% compared to the third quarter to reach CAD243 million, mostly driven by previously stated lower shipments.

In terms of profitability, our EBITDA reached CAD31 million or 13% margin on sales. The sequential EBITDA reduction was mainly driven by lower shipments, increased fixed costs as well as higher energy costs during the third quarter.

To conclude entering the first quarter of 2013, we remain cautiously optimistic about our market conditions, given the competitive environment especially in the US. Our operations are running well but we experienced an unexpected [increment] further at our Memphis mill, which resulted in an eight-day shutdown in January. This mill now is producing normally.

Despite the potential impact of these factors, we expect a stable performance due to the increased volume in most market segments.

Thank you and now I will ask Marc-Andre to discuss the Containerboard results. Marc-Andre?

---

**Marc-Andre Depin** - *Cascades Inc. - President and CEO, Norampac*

Good morning, everyone. Thank you, Suzanne. Turning now to the results of our Containerboard operations, sequentially you can see on page 21 that our global shipments remained stable at around 297,000 tons. For the third quarter in a row, our manufacturing sector increased external shipments of paper which have risen by 6% compared to the third quarter of 2012. And this despite 30 days of market downtime taken in our two Boxboard mills.

The shortfall represents 10,000 tons compared to 13,000 in the previous quarter. We also took 15 days of downtime during the holiday season in our Containerboard mills representing roughly 6000 tons. This is comparable to last year.

On the production front, our (inaudible) and Niagara Falls mills have improved their reliability of their equipments and the production shortfall due to mechanical issues were reduced to 6000 tons compared to 15,000 in the previous quarter.

In our converting segment, as always, our shipment decreased due to seasonal slowdown. Compared to the third quarter, our shipment declined by 1%. In comparison to the North American industry shipments declined by 2.5% while the Canadian industry saw shipments decrease by 3.9%. Compared to the same quarter of last year, our shipments have increased by 6%.

In October, we began implementing the linerboard and medium price increase. Accordingly, our containerboard manufacturing activity average selling price increase by CAD33 short ton during the quarter. On the converting segment, the average selling price increased by 2.5% in the quarter representing CAD27 per short ton.

The price increase announced for the Corrugated product is proceeding as planned and will be fully implemented by the end of the first quarter according to contract in place with our customers. Unfortunately on our Boxboard side we have experienced a selling price decrease which is in line with the CRB and SBS Pricing Index variances.

You might have noticed earlier in the presentation that we were presenting a negative selling price impact of CAD10 million, which is definitely not in line with my comments I have just mentioned to you. The CAD10 million price variance includes a CAD5 million price decrease in the Boxboard sector. It also includes a negative impact of CAD12 million related to product mix, which is due to the reduction of our integration rate of 1.7% in the Containerboard segment in addition to an unfavorable product mix in our Corrugated Products segment.

Looking at our fourth-quarter EBITDA, we have experienced a CAD1 million sequential decrease to reach CAD25 million representing a margin of 8% on sales.

As mentioned previously, our profitability has been impacted by the unfavorable product mix in our Corrugated Products segment for CAD7 million and by the reduction of the selling price in our Boxboard sector for an additional CAD5 million. These negative factors were partially offset by higher average selling price in Containerboard subsegment and lower recycled fiber price for CAD6 million.

On the strategic front, the investment of CAD22 million in certain of our folding carton plants in our microlithography plants in Canada and the closure of our Lachute Quebec folding plant is evolving according to plan. While some small benefit should be seen in this quarter, we are expecting to benefit from these actions in the second half of 2013.

In addition, the consolidation of our Corrugated Product activities in Ontario and the CAD30 million of related investment is progressing according to plan. We should also see the full benefit from these actions in the second quarter of 2013.

Regarding the Greenpac project, the start-up of the machine is still expected in July 2013 and the cost of the project remains within the budget and planned contingencies.

With regards to the outlook for the next quarter, the fourth-quarter price increase associated with the current OCC prices and the upward trend in our manufacturing productivity allow for a certain amount of optimism in the coming quarters.

I thank you for your attention. I will now ask Mario to give you an overview of our Boxboard operation in Europe.

---

**Mario Plourde - Cascades Inc. - COO**

Thank you, Marc-Andre. Before I start, let me remind you that Reno De Medici released its 2012 full-year results last week and these are publicly available.

Looking at the performance of our European operations, you can see that the shipments were 8% higher than Q3 -- in Q3. The main reason behind this increase is the downtime taken during the third quarter. Demand for both coated virgin and recycled boxboard grade improved during the fourth quarter and our backlog was healthy at the end of the year. We successfully seized opportunity related to the permanent or temporary capacity closures.

On the pricing front, just at the index during the quarter, our average selling prices decreased slightly. In Canadian dollar terms, however, prices were 1% higher than the previous quarter due to a favorable exchange rate variation.

The factors explained why sales were 9% higher during the fourth quarter at CAD198 million. Likewise the EBITDA of our Boxboard operation sector increased to reach CAD11 million for the fourth quarter, a 57% increase compared to the previous quarter.

Increased shipments and cost savings generated by the recently installed equipment at the Reno plant in Villa Santa Lucia helped to explain these improvements. Also we incurred lower maintenance expenditures during the last quarter.

Our raw material cost remained relatively stable despite a sequential increase reflected in the production prices. In short term, we might experience an increase in cost of pulp and recycled fiber if Asian demand picks up in the spring. These factors counterbalance lower selling price and higher energy, costs.

In Italy, natural gas prices reached new highs during the last quarter but have started to retreat recently. The economic environment continued to make it hard to predict short-term demand. This might result in a downward pressure on prices in the short term but we believe the second semester will be stronger.

The next quarter will also be impacted by a recent production outage that occurred last week at our La Rochette plant. Production has been interrupted for eight days and resumed this past Tuesday.

I thank you and now I will ask Luc to follow up with the overview of the performance of the Specialty Product Group.

---

**Luc Langevin** - *Cascades Inc. - President and CEO, Specialty Products Group*

Thank you, Mario. Good morning, everyone. Sales for the Specialty Products Group decreased to CAD194 million compared to connect CAD196 million in the previous quarter. Lower volumes in our Consumer Packaging and Specialty Paper sectors have caused most of this negative variance. This decrease was expected as we typically experience lower seasonal demand in Q4 in these sectors.

On the pricing front, our average selling prices have remained fairly stable in our Specialty Paper and recovery sectors during the quarter.

We completed our quarter with an EBITDA of CAD8 million. This is below the CAD15 million recorded in Q3 but significantly better than Q4 2011 at CAD2 million. Seasonal slowdown in the last quarter increased maintenance costs, and unfavorable SG&A expenses negatively impacted our results.

If we look more closely at our four segments, the profitability of our Industrial Packaging sector decreased by CAD1 million in the quarter. Other than lower volume, we also recorded an inventory revaluation in the protective packaging sector.

The EBITDA of our Consumer Packaging sector dropped by CAD2 million in this last quarter. Most of our plastic operations were negatively impacted by lower seasonal demand. More specifically, our [thin] business was impacted more importantly by reduced pricing and margins as a result of a more aggressive competitive environment in our main market segment.

Moving onto our Specialty Paper sector, EBITDA decreased by CAD2 million compared to the previous quarter. The downtime taken in December in our kraft paper and fine paper units negatively impacted the results of this segment. Additional expenses resulting from an update to the actuarial valuation of our pension plan also contributed to lower results.

Finally, our Recovery and Recycling sector recorded CAD1 million decrease in EBITDA during this last quarter. Lower-than-expected volumes and higher SG&A expenses explain this negative variance.

To conclude, we expect to return to higher profitability in the current quarter. Volumes will pick up in most of our segments as seasonality seems more favorable. We remain cautiously optimistic with certain growth opportunities in the kraft paper business and the typically busiest season in the fine papers.



Thank you for your attention. I will now turn the conference back to the operator for a question period.

---

## QUESTIONS AND ANSWERS

### Operator

(speaking French) (Operator Instructions). Joe Stivaletti, Goldman Sachs.

---

### Joe Stivaletti - Goldman Sachs - Analyst

Good morning. I was just wondering could you review for us your expectations on the contribution from Greenpac this year and also what incremental spending there would be in 2013 on that?

---

### Unidentified Company Representative

I may maybe talk about the extra spending. We are right on plan with the proposed plant expenditure. There's no extra amount of money that we believe will have to be put in more than the usual capital expenditure that we have planned in our pro forma. Hopefully that will materialize. The extra amount of money that we have put in is CAD9 million. I don't know if you want to elaborate, Allan, on this or Alain?

---

### Alain Lemaire - Cascades Inc. - President and CEO

In regards to our contribution, we will as you know, it will not be consolidated and we only have a pickup of the net results below the line on our P&L. So obviously there is no cash flows coming from this JV for the first year, so there's not much impact for 2013 for us.

---

### Joe Stivaletti - Goldman Sachs - Analyst

Okay, I was also wondering on the containerboard front, there's some reports out today about one of the major players announcing another price increase and I wondered if you had any thoughts on that, what you're hearing, and if you think the market would be ready again for another price increase?

---

### Allan Hogg - Cascades Inc. - VP and CFO

I am learning from you. Are you saying that some have announced price increase?

---

### Joe Stivaletti - Goldman Sachs - Analyst

We were hearing some anecdotal evidence of that today and I was just wondering -- I'm also just wondering if you had any color on that?

---

### Allan Hogg - Cascades Inc. - VP and CFO

I don't think we have ever tried to forecast any price increase or decrease. I don't think we should start to do it but I guess that supply and demand dictates everything. Our system is pretty robust today with well balanced, so if we feel that the market can bear this and that it's the timing to do it, we will evaluate. The same thing on the Boxboard side. We are evaluating as we speak on the potential price increase on CRP.

---



**Joe Stivaletti** - *Goldman Sachs - Analyst*

Okay, the final question I had was just you talked a little bit about your short-term outlook for recycled, both the brown and white grades. But I wondered how you are looking at -- I know it's very challenging but you guys have a lot of experience with this so I was wondering if you could give us your thoughts on the full year, how you are broadly looking at the cost for brown, white recycled grades for the full year 2013 at least with the information you have at this juncture.

---

**Mario Plourde** - *Cascades Inc. - COO*

It's pretty tough to make a projection for a full year. As you know, the market for waste paper is quite impacted by the export market. On the short term, though, what we are trying to track is the activity there is in Europe as well as West Coast, East Coast here. Our reading of the market right now, the market seems to be in balance. We were expecting prices to be a little higher on the Q1. It's not the case, so market is quite stable at the moment.

Generation seems to be okay. All our orders are being filled up at the moment, so for us, our momentum is now to build inventory. We expect at the end of Q1 the activity to pick up a little bit even domestic as well as exports. So prices should increase a little bit on Q2, not much because this is what we see at the moment, but I would be very cautious to look at the third and fourth quarter because we never know what the export market can do.

---

**Joe Stivaletti** - *Goldman Sachs - Analyst*

Okay, thank you.

---

**Operator**

Tarek Hamid, JPMorgan.

---

**Tarek Hamid** - *JPMorgan - Analyst*

Thank you. In terms of the implementation of the last price increase, a number of your competitors have sort of said they would have it fully through the system in the first quarter. Any kind of major differences with your North American containerboard network that would sort of drive that differential, why it takes you guys a little bit longer to get stuff through?

---

**Marc-Andre Depin** - *Cascades Inc. - President and CEO, Norampac*

I don't think we are longer than anybody else. What we are saying is that the Containerboard increase is in place. The Corrugated product increase is in place, but there's some lag in some contract that we have but it's no different than what we read from any publication or report from the various containerboard producer. We feel that we are really in line with the rest. We have 30% -- over 30% market share in Canada and we have a smaller footprint in the US. So we feel that what we have done is in line with the rest of the industry.

---

**Tarek Hamid** - *JPMorgan - Analyst*

Then just one more for me on the balance sheet side. With sort of Greenpac ramping up this year, any thoughts on updated kind of long-term leverage targets for the balance sheet?



**Marc-Andre Depin** - *Cascades Inc. - President and CEO, Norampac*

We are going to start by starting the machine in July and hopefully the ramp-up will be as planned. And the goal is as you know, is an off-balance-sheet company, so our goal would be to pay our debt as required by the financing that is in place. And we will see as we go along after this what kind of profitability we get and we will see what will be the future of the way that this company is financed.

---

**Tarek Hamid** - *JPMorgan - Analyst*

Thank you very much.

---

**Operator**

Sean Steuart, TD Securities.

---

**Sean Steuart** - *TD Securities - Analyst*

Thanks. Good morning, everyone. A few questions. You noted lower recycled fiber costs in the quarter and I guess I'm just trying to reconcile that with some of your waterfall slides that show flat to higher sequential raw input costs for each of your divisions. Is that related to parent roll transfers? I'm just wondering if you can shed a little light on that trend?

---

**Mario Plourde** - *Cascades Inc. - COO*

If you look at the waterfalls on page 6, you see how positive coming from raw materials. Containerboard and in tissue you see plus 6 and plus 3.

---

**Sean Steuart** - *TD Securities - Analyst*

Okay, maybe I will circle back on that. In the outlook slide, you noted that you expect some I guess modest price weakness in tissue for the near-term or near to mid-term. Suzanne, I'm just wondering if you can speak to if you seen any pressure yet or is this price pressure you anticipate from capacity additions coming into the system?

---

**Suzanne Blanchet** - *Cascades Inc. - President and CEO, Tissue Group*

Sean, at the moment the demand continued to be strong and it is very driven by offer and the demand. The unit pricing is driven by that and for the moment, it's continued -- the demand continued to be strong and the pricing remains stable.

---

**Sean Steuart** - *TD Securities - Analyst*

Okay, it just looks like in the outlook slide that you are maybe calling for some --

---

**Suzanne Blanchet** - *Cascades Inc. - President and CEO, Tissue Group*

Yes, for the outlook. So these additional capacities, (inaudible) they are in startup mode and maybe more in the second and third quarter but at the moment the market continues to be that strong, maybe I won't be -- price would be stable.



**Sean Steuart** - *TD Securities - Analyst*

Then just one last question for Allan. The outages you had at Memphis and La Rochette in the first quarter, can you quantify an expected impact from those closures?

---

**Allan Hogg** - *Cascades Inc. - VP and CFO*

We are not -- we are in the process of trying to put all the numbers together but it's impossible for the moment to share the amount at this time.

---

**Sean Steuart** - *TD Securities - Analyst*

Okay, thank you.

---

**Operator**

Leon Aghazarian, National Bank.

---

**Leon Aghazarian** - *National Bank Financial - Analyst*

Thank you. My question is regarding the containerboard utilization rates. What were the rates at in this quarter and I guess what would be the target going forward?

---

**Unidentified Company Representative**

Our rates were -- just a sec -- were at 86% and we were historically in the mid -- between 90% and 95%, so that would be the target to get back to.

---

**Leon Aghazarian** - *National Bank Financial - Analyst*

And is that -- the decline, is that primarily due to some operational issues we've seen in the last couple of quarters? If so, do you expect that to come back to the past levels?

---

**Marc-Andre Depin** - *Cascades Inc. - President and CEO, Norampac*

You have to know that it's both Boxboard and Containerboard mix. So as I commented in my comments at the beginning, we took down time for market related to the Boxboard the usual holiday season downtime, which is about the same as last year, so those both markets have affected our operating rates.

---

**Leon Aghazarian** - *National Bank Financial - Analyst*

Okay, just a final question on that. In regards to the sensitivity maybe on that, I mean for example, if you take from the 86% and let's argument sake you take it back to the 90% utilization rate, how much more incremental EBITDA would you think you can generate from that?

---

**Marc-Andre Depin** - *Cascades Inc. - President and CEO, Norampac*

We don't track this but you have to realize its fourth quarter, this is the usual downtime. Our box plant and every box plants don't run through the holidays and the mills do, so that's why we are taking downtime at the Christmas holiday time. So it's normal for us to do this.



---

**Luc Langevin** - *Cascades Inc. - President and CEO, Specialty Products Group*

If I may add, this is a manufacturing capacity utilization, so it depends if it goes internally or externally, so that's pretty hard to put a sensitivity on this.

---

**Leon Aghazarian** - *National Bank Financial - Analyst*

Thanks, that's it for me.

---

**Operator**

(Operator Instructions) Pierre Lacroix, Desjardins.

---

**Pierre Lacroix** - *Desjardins Securities - Analyst*

Thank you, Suzanne, I wanted to ask you on the strategy for your organization with -- at the management level you did in the tissue. In the press release you mentioned that you want to focus more on strategy for development and expansion. Could you maybe expand on that? What is the plan? Do you want to do acquisitions? What exactly do you want to go there?

---

**Suzanne Blanchet** - *Cascades Inc. - President and CEO, Tissue Group*

I think Cascades wants to continue to grow the Tissue business and we always are looking at acquisitions or to grow internally and we will have more time to look at that more thorough. Then working the investment and also on if there is a partnership or acquisition that comes from that to have more time to work on it.

---

**Pierre Lacroix** - *Desjardins Securities - Analyst*

Is this an increased focus and is there any trigger in the market that explains that?

---

**Suzanne Blanchet** - *Cascades Inc. - President and CEO, Tissue Group*

No, but I think we are again, as I said, in Containerboard and Tissue and Tissue has continued to be a good business and we are a good -- we are the fourth largest tissue producer in North America and there is -- could be opportunities and fortunately there is always new equipment and more to be -- look at the different opportunities on the market.

---

**Alain Lemaire** - *Cascades Inc. - President and CEO*

If I may add, Pierre, you know Tissue has always been a good segment for us and what we are trying to do with this reorg is give support to Suzanne. It is a huge group of there is opportunity right now in the converting as well as in the mill site, so by installing and putting the structure in place we think we will have more time to focus and be specific about our expansions. So we want this segment to grow and this is -- we're getting equipped to do that.

---

**Pierre Lacroix** - *Desjardins Securities - Analyst*

Are you going to allocate more capital to that or how do you look at it? Is it opportunity based or can we --?



---

**Alain Lemaire** - *Cascades Inc. - President and CEO*

We will look at whatever Suzanne will present to us. Obviously it is a segment we want to grow. If projects make sense and the returns are good, obviously we will support the expansion.

---

**Pierre Lacroix** - *Desjardins Securities - Analyst*

Okay, good. Do you have a focus? Do you intend to continue to focus on private label, doing some push in the national brands?

---

**Suzanne Blanchet** - *Cascades Inc. - President and CEO, Tissue Group*

For sure, we more specialize in the private label in the United States and in Canada we continue -- we have the Cascades brand but we are also very strong in the private label and the away-from-home we are in there -- with our brand name, we are very strong at it and as well as some private label. And for sure the growth will look more in the states for to continue our growth.

---

**Pierre Lacroix** - *Desjardins Securities - Analyst*

Okay, good. Switching on the Greenpac and the buildup of recycled paper inventory there, how do you strategize there? Have you started the buildup of inventory for Greenpac and is it going to be a gradual ramp up or you expect to be in the market in the spring and have an impact on prices?

---

**Marc-Andre Depin** - *Cascades Inc. - President and CEO, Norampac*

We already have -- our plan of action is in place. We've been talking about this for two years. We have started already to accumulate OCC in Greenpac, for Greenpac itself. We have optimized in every of our actual Cascade location where all our inventories are at close to maximum. I would say 90% to 100% of maximum input.

We have not seen any ripple effect from what I just mentioned so we are not expecting any as we go forward the start up. We will have enough OCC at start up to put up for a lot of days of start up. You need to realize that the mill is not going to start making 1500 tons in the first day. Even if we would like that, it's not the proper way -- it is not the way that the ramp-up is scheduled.

So with having all of OCC and all the locations, with having Greenpac with all of -- with full inventory and the ramp-up to start gradually, we are not expecting the market to change at all based on this start up.

Mario mentioned at the beginning that Asia is always a wild card, so we are more looking at what's going to happen in China than we are worried about what's going to happen in North America. Because we have already have contracted volume which we already have people that are committed to supply the Greenpac mill plus the actual mills. So we are not worried but I think we are looking at what's going to happen in China on the export side more than anything else.

---

**Pierre Lacroix** - *Desjardins Securities - Analyst*

Okay, thank you for that, Marc-Andre. By the way, on Greenpac, can you give me some help there to help understand the ramp-up process and where do you expect the mill to be let's say in everything else being constant in terms of conditions of ramp-up -- normal conditions of ramp-up in let's say two quarters, four quarters? And then when do you expect the mill to be running at 100%?

Tied to that, at what percentage of capacity do you think that the mill will start to be breakeven?



**Marc-Andre Depin** - *Cascades Inc. - President and CEO, Norampac*

The first -- your first question is we've chosen the Metso paper machine, which is one of the best in the world. We have picked the right equipment. This equipment has been in place in other parts of the world, so it's not new technology. Yes it is for us new technology. We have the help of the Metso Company to make the start-up. And like I said, those machines have been installed.

So the ramp-up that we have planned in our pro forma for the financing is from zero to 12 months but the main increase is coming from zero to nine months, where we should be close to 90% of capacity after nine months but the full ramp-up of the full operation should take 12 months.

So based on that pro forma, we have financed this. Based on this pro forma of the ramp-up, we are financing the Company -- this Company has been financed on a stand-alone basis, like I said before, and we're meeting all covenants required by our banks and our equity partners to be able to be self-sufficient on the financing.

We are -- we have 85% of our tonnage that is already sold in a marketplace through a take or pay agreement, so we are not forecasting to have any problem in the marketplace either running out of orders if that's what you meant or impacting the marketplace heavily on the pricing.

---

**Pierre Lacroix** - *Desjardins Securities - Analyst*

Good, so in terms of breakeven you would expect let's say that between six and nine months you will be able to reach that level?

---

**Marc-Andre Depin** - *Cascades Inc. - President and CEO, Norampac*

No, it's quicker than this. But I don't think that we need to go in that detail. The ramp-up is really important. The selling price versus the OCC, which is the spread is really, really important also. What would be the spread in a year from now will remain to be seen but based on our forecast pro forma today, we are right according to plan, but profitability is way higher than we expected. So that's what we have in our portfolio now.

---

**Pierre Lacroix** - *Desjardins Securities - Analyst*

Just remind us -- I mean -- I was looking at the numbers I think when you launched the project between 23% and 30% of EBITDA margin based on the spreads between 2007 and 2010. So now spreads are a bit wider, so you would expect that you could be above that level?

---

**Marc-Andre Depin** - *Cascades Inc. - President and CEO, Norampac*

Exactly.

---

**Pierre Lacroix** - *Desjardins Securities - Analyst*

Okay. Thank you very much.

---

**Operator**

Paul Quinn, RBC Capital Markets.

---

**Paul Quinn** - *RBC Capital Markets - Analyst*

Thanks, good morning. Just a question just trying to reconcile the comments made by Suzanne on management changes within the Tissue Group and potential for growth, combined with the sort of balance sheet that you've got which doesn't seem to have a lot of room for additional debt. So maybe you could talk about non-core assets that you might have for sale that might be able to give you that room for growth.

---

**Alain Lemaire** - *Cascades Inc. - President and CEO*

You know, Paul, we're looking at all options to manage the balance sheet at the same time that we want to invest. A lot of CapEx last year were done in the Containerboard. This year our focus will be more towards the Tissue so we are managing the allocation of our cash as we go along and we look at all options to make sure that we don't leverage too much our balance sheet and manage that closely.

---

**Paul Quinn** - *RBC Capital Markets - Analyst*

Any specific assets that you've got that you would look at divesting in 2013 here?

---

**Alain Lemaire** - *Cascades Inc. - President and CEO*

We cannot say anything at this point. You know we are evaluating everything as we speak.

---

**Paul Quinn** - *RBC Capital Markets - Analyst*

Okay, fair enough. Best of luck.

---

**Operator**

Leon Aghazarian, National Bank.

---

**Leon Aghazarian** - *National Bank Financial - Analyst*

Thanks, just a quick follow-up question maybe for Luc. Regarding some of the expenses we see for pension plan in the quarter as well as higher admin expenses, could you maybe provide a bit more color on that and were they more specifically I guess one-time expenses or should we look at these expenses as recurring in the future?

---

**Luc Langevin** - *Cascades Inc. - President and CEO, Specialty Products Group*

Okay, most of these expense are actually one-time expense. One of the major ones we have was in industrial packaging, where we did a revision of certain manufacturing and the cleanup of a product line. That is one thing that has been accomplished in the last quarter of 2012.

The other outstanding we have is we are -- the application of a new collective agreement and the new pension conditions with our office employees in Saint-Jerome; the actuarial evaluation of these new conditions provided another additional expense in the month of December.

And finally, we have another outstanding one in the recovery division for incentive plans for our staff, which is also a nonrecurring one.

---



**Leon Aghazarian** - *National Bank Financial - Analyst*

So if you were to quantify all the one-time expenses in the quarter, how much would you put that at in terms of EBITDA?

---

**Luc Langevin** - *Cascades Inc. - President and CEO, Specialty Products Group*

A couple of million.

---

**Luc Langevin** - *Cascades Inc. - President and CEO, Specialty Products Group*

Okay. Thank you.

---

**Operator**

There are no further questions at this time. Mr. Lemaire, I will turn the call back over to you.

---

**Alain Lemaire** - *Cascades Inc. - President and CEO*

So thank you, everyone. To conclude, operational issues and pressure on our selling prices in many segments affected our performance in 2012. However, the initiative we undertook over the last two years are starting to show benefits. As a matter of fact, we were able to increase our market share in Containerboard and Tissue businesses. We are confident this will translate in better performance in 2013.

The start of the year slightly be similar to the last quarter of 2012 as we continue to reorganize our Boxboard and Corrugated Products operation. The activity in our Tissue business remains robust despite recent capacity addition in North America.

On the other hand, the Containerboard Group should show improved results as a price increase will be in place, as Marc-Andre explained.

Major unknowns for this year are still recovered paper prices and the state of the economic recovery in Europe and in the US. Even if these seems to show positive signs for the moment, we will continue to act cautiously as we move ahead with the continuation of our strategic action plan and manage our balance sheet prudently.

We thank you all for your attention and talk in the springtime. Thank you very much, everyone.

---

**Operator**

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.

---



**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2013, Thomson Reuters. All Rights Reserved.

