Cascades Inc.

Fourth Quarter 2017 Financial Results

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CORPORATE PARTICIPANTS

Mario Plourde
Cascades Canada ULC – President & Chief Executive Officer

Allan Hogg
Cascades Canada ULC – Vice President & Chief Financial Officer

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

Luc Langevin
Cascades Canada ULC – President & Chief Operating Officer, Cascades Specialty Products Group

Jean Jobin
Cascades Canada ULC – President & Chief Operating Officer, Cascades Tissue Papers Group

Jennifer Aitken
Cascades Canada ULC – Director, Investor Relations

CONFERENCE CALL PARTICIPANTS

Hamir Patel
CIBC Capital Markets – Analyst

Paul Quinn
RBC Capital Markets – Analyst

Keith Howlett
Desjardins Securities – Analyst

Sean Steuart
TD Securities – Analyst

PRESENTATION

Operator

Mesdames et messieurs, bienvenue à la téléconférence des résultats financiers du quatrième trimestre et de l'année financière 2017 de Cascades. Je m'appelle Sylvie, 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 Sylvie, and I will be your Conference Operator today. At this time, I would like to welcome everyone to the Cascades Fourth Quarter and Full Year 2017 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 Inc.

Thank you, Operator. Good morning, everyone, and thank you for joining our Fourth Quarter and Full Year Financial Results Conference Call. Our speakers on this morning's call are Mario Plourde, President and CEO, Allan Hogg, CFO, Charles Malo, President and COO of our Containerboard Packaging Group, Luc Langevin, President and COO of our Specialty Products Group, and Jean Jobin, President and COO of our Tissue Papers Group. After discussion surrounding our North American operations, Mario will review results from our European Boxboard segment, followed by some concluding remarks, after which we will begin the question period.

Before I turn the call over to my colleagues, I would like to highlight that Reno De Medici's fourth quarter financial report, released on February 13, can be reviewed 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 Q4 2017 Investor Presentation for details. This presentation, along with our fourth quarter press release, can be found on the Investors section of our website.

I would like to remind members of the media and those of you accessing this call via the Internet that you are in listen-only mode and can therefore only listen to the call. If you have any questions, please feel free to call us once the call has been completed.

I will now turn the call over to our CEO. Mario?

Mario Plourde – President and Chief Executive Officer, Cascades Inc.

Thank you, Jennifer, and good morning, everyone. Earlier this morning, we published our fourth quarter and full year 2017 results. On a consolidated basis, our operations generated year-over-year increases in shipments, sales and operating income in Q4. This was largely driven by strong performance in Containerboard and European Boxboard, where improved pricing and sales mix offset higher average raw material costs, compared to the prior year. Containerboard results similarly benefited from the Q2 2017 consolidation of the Greenpac mill. Touching briefly on our Specialty Products segments, quarterly results were below those of last year, due to slightly higher production costs and a lower contribution from recovery and recycling activity. Finally, our Tissue segment faced challenging market conditions during the quarter.

Looking briefly at our sequential performance, Q4 sales declined by 2 percent on a consolidated basis. That was largely due to a lower contribution from Recovery & Recycling activity, following the decrease in OCC market pricing and the competitive market in Tissue that led this division to take reductions on time during the period to manage inventory.

On an adjusted basis, fourth quarter EBITDA was essentially unchanged from Q3 levels, reflecting improvements in our Containerboard and European Boxboard segments, the benefits of which were offset by lower results in our Tissue segment. Jean will discuss the factors driving performance in Tissue later in the call.

On the KPI front, fourth quarter shipments increased by a marginal 1 percent from Q3. This reflected higher shipment levels in Containerboard, driven by a strong demand and a stable performance in European Boxboard, highlighting solid industry fundamentals. These were offset by seasonality and market conditions in Tissue. On a year-over-year basis, Q4 shipments increased 14 percent, compared to last year, driven primarily by the consolidation of Greenpac and slightly higher shipments in European Boxboard and Tissue.

Our Q4 capacity utilization rate of 91 percent was 1 percent below Q3, largely driven by a decrease in Tissue, compared to the fourth quarter of last year, capacity utilization increased by 2 percent.

On the raw materials side, the average Q4 index price for OCC brown paper grade fell by a significant 39 percent from Q3, and decreased 2 percent year-over-year. The average price of white recycled grade decreased by 5 percent, compared to Q3, and 4 percent year-over-year. Conversely, virgin pulp prices increased both sequentially, compared to prior year levels. Hardwood virgin pulp was up 7 percent from Q3 and 27 percent year-over-year, while softwood virgin pulp increased 7 percent and 19 percent, respectively.

Looking more specifically at OCC, price fluctuated quite substantially in the months following its high of $175 in March 2017. Price fell by a total of $65 from September through November, ending the year at an index level of $100 in the Northeast U.S., which I would note is an average quarterly level that we have not experienced since mid-2016.

I will now pass the call over to Allan, who will provide more details regarding our financial results. Allan?

Allan Hogg – Vice President and Chief Financial Officer, Cascades Inc.

Yes, thank you, Mario, and good morning everyone. I will begin with sales, as detailed on Slides 12 and 13 of our fourth quarter conference call presentation, which can be found in the Investors section of our website, and also please note that a reconciliation of non-IFRS measures are also available on our website.

On a year-over-year basis, fourth quarter sales increased by $103 million or 11 percent. This reflects the consolidation of Greenpac, improvements in pricing and sales mix in all of our segments, with the exception of Tissue. A less favourable foreign exchange rate for our North American operations was an offsetting factor. Sequentially, Q4 sales decreased by $21 million or 2 percent. Lower volumes, mainly in Tissue, and a lower contribution from our Recovery & Recycling activities were the reasons for this decrease. Favourable foreign exchange rates and acquisitions in our Containerboard segment were the main positive contributors to sales sequentially.

Moving now to operating income and Adjusted EBITDA, as highlighted on Slide 14, Q4 operating income was $12 million above last year, while Adjusted EBITDA of $105 million increased $23 million from prior year level. The President of each of our segments will provide more details regarding performances of their respective groups.

On a consolidated basis, the benefits derived from the full consolidation of Greenpac, resulting in the favourable average selling prices and product mix in Containerboard and European Boxboard, were partially offset by higher raw material costs in Containerboard, higher energy costs in Europe, and a lower contribution from the Tissue segment.

Depreciation expense was also higher, due to the Greenpac consolidation, while corporate activities' contribution was positive in Q4. Sequentially, Q4 Adjusted EBITDA decreased by a marginal $1 million. The performance of our Tissue segment was offset by improvements in our European Boxboard and Containerboard segments, both of which benefited from lower raw material pricing. Corporate activities variance was also positive.

Slides 16 and 17 of the presentation illustrate the year-over-year and sequential volumes of our Q3 earnings per share and the details of the specific items that affected our quarterly results. As reported, earnings per share totalled $0.60 in the fourth quarter, including specific items that I will detail in a moment. This compares to reported earnings per share of $0.04 last year. Our fourth quarter adjusted EPS decreased to $0.14 from $0.16 last year. Our higher EBITDA was offset by higher depreciation and slightly higher financing expense, both due to the full consolidation of Greenpac. Also, the mix of contributors to our results has also changed compared to last year, as Greenpac and our Boxboard Europe segment represent a higher proportion of operating income. Consequently, net earnings attributable to non-controlling interest in Greenpac and Reno De Medici was higher compared to last year, thus reducing our share of the net results.

On a sequential basis, fourth quarter adjusted earnings per share decreased by $0.06 from the adjusted earnings per share of $0.20 in the third quarter of 2017. This reflects our sequential overall operating income and stronger results from our Boxboard Europe segment and Greenpac, which resulted in higher non-controlling interest.

Slides 18 and 19 of the presentation illustrate the specific items recorded during the quarter, which were not significant when looking at our operating income. With regards to net earnings, the main items are a $14 million loss related to the early repurchase of our U.S.-denominated long-term debt and a $57 million income tax gain resulting from the U.S. tax reform announced at the end of 2017.

Cash flow from operations decreased by $8 million year-over-year to $77 million. Adjusted free cash flow remained stable with last year's level. For the year, adjusted free cash flow is lower due to the lower EBITDA, higher cash tax and interest payments, compared to last year.

As illustrated on Slide 20, you can see that CapEx spreads were also higher than last year, and the $4 million increase in dividends is related to the dividends paid to the non-controlling shareholders in Greenpac and Reno De Medici.

Our net debt decreased slightly in Q4 due to business acquisitions completed during the quarter in Containerboard and in Boxboard Europe segments, and also to our ownership increase in Greenpac. These were partially offset by our cash flow from operations and lower working capital requirements. Our net debt leverage ratio stood at 3.6 at the end of 2017, on a pro forma basis, to include our recent business acquisitions.

Slides 23 through 28 provide details of our fourth quarter performance on a segmented basis, and our interim outlook is detailed on Slide 31.

Thank you, and I will ask Charles to discuss our fourth quarter results from our Containerboard Packaging Group.

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

Good morning, everyone, and thank you, Allan. The Containerboard Group shipments increased 4 percent sequentially in the fourth quarter of 2017, to reach 372,000 tonnes. The paper shipments to external customers increased by 7,000 tonnes from the previous quarter, which reflects a 1 percent increase in our operating rate during Q4, combined with a 3 percent reduction in our integration rate. To this end, when including paper sold to our strategic companies, our Q4 integration rate totaled 64 percent, down from 67 percent in the previous quarter. Planned and unplanned downtime during the quarter subtracted 8,000 tonnes of production, compared to the previous quarter.

On the conversion side, shipments decreased by 4,000 tonnes, or 2 percent sequentially, which is in line with the 2 percent decrease reported to the Canadian market, but underperformed the 1 percent increase reported for the U.S. market. I will remind you that 65 percent of the Containerboard segment sales are generated in Canada.

On the pricing front, our average selling price decreased by $4.00 on a sequential basis, reflecting a less favourable product sales mix in the fourth quarter, compared to the prior quarter. On a segment basis, our average Canadian selling price for Containerboard increased by $18, or 2 percent, in the fourth quarter, while our corrugated product average selling price in Canadian remained stable, compared to the previous period. The Canadian dollar weakness helped to partially mitigate the impact of the unfavourable product mix.

The Containerboard Group generated an EBITDA of $74 million during the fourth quarter, which represents a margin of 17 percent. This represents a 1 percent increase on a sequential basis and a 4 percent increase compared to the same quarter of last year.

The sequential increase in our results was mostly driven by improvements in raw material costs, mainly due to lower OCC prices, which added $60 million to profitability. This more than offsets the lower average selling price which negatively impacted profitability by $6 million and higher energy costs which also reduced profitability by $2 million. Higher operation costs during the period also reduced our results by $6 million, mainly due to repair and maintenance, and increased labour costs.

We're optimistic with regard to the short-term outlook, as we expect demand levels to be in line with historical trends, and our results should continue to benefit from the more favourable OCC pricing. In addition, we will begin to realize benefits from the recently announced price increase of $50 of linerboard, $60 per short tonne on medium, and 8 percent on boxes, beginning in April and May. Unfortunately, these positive economic impacts will be partially offset by lower than anticipated shipments in the first quarter of 2018, following unplanned downtime in some of our mills. We estimate that these one-time mechanical issues and related repairs will result in a production shortfall of 14,000 short tonnes in the first two months of the year.

Looking briefly at our strategic initiatives during the quarter, we announced the acquisition of four facilities and the purchase of 32 percent ownership position in Tencorr Holdings Corporation in Ontario on December 4, that will strengthen our position in the Ontario Containerboard Packaging sector. I'm also pleased to note that we successfully increased our equity holding of the Greenpac mill from 62.5 to 66.1 during the quarter.

Finally, a word on the construction of the new corrugated plant in Piscataway, New Jersey. The construction is well underway and we continue to expect to start operating in the second quarter of 2018, within our announced $80 million budget.

Thank you for your attention and I will now ask Mario to provide you with an overview of our Boxboard activities in Europe. Mario?

Mario Plourde – President and Chief Executive Officer, Cascades Inc.

Thank you, Charles. The European Boxboard segment generated strong results in Q4, with sales and EBITDA up year-over-year. This performance was driven by increase in both average selling prices and ship volume, both of which reflect the more favourable market conditions throughout 2017. On a year-over-year basis, recycled boxboard shipments increased by 2 percent in the fourth quarter of 2017, with strong demand in Italy and Eastern Europe, while shipments of virgin boxboard increased by 1 percent during the period. The average selling price rose by 8 percent in Canadian dollar and 4 percent in euro, when compared to Q4 2016. This was driven by a €28 increase in the average selling price in recycled boxboard, partially offset by a €7 year-over-year decrease in the average selling price of virgin boxboard during the period. The 11 percent year-over-year increase in sales in Canadian dollar reflect volume, higher average recycled boxboard selling prices, and a more favourable exchange rate.

Fourth quarter Adjusted EBITDA increased by $8 million year-over-year, largely due to higher selling prices and volume in recycled boxboard. Higher raw material costs, primarily from recycled material, partially offset these benefits during the quarter. On a sequential basis, Q4 sales increased 5 percent, as shipment levels were unchanged from Q3. This was driven by a more favourable sales mix and the 3 percent increase in the average selling price in euro. In Canadian dollar, the average selling price increased 5 percent sequentially, reflecting the more advantageous foreign exchange rate during the period. Adjusted EBITDA increased by 36 percent sequentially to $19 million in the fourth quarter, reflecting the already mentioned factors and lower raw material costs.

The near-term outlook continues to be very positive for Europe, with order inflow and order backlog both higher than prior year levels, adding additional support to our positive macroeconomic forecast for the euro area for 2018, and the 8 percent sequential decrease in average recycled fibre costs in Q4, both of which should support performance and results in Q1. Furthermore, the acquisition of the residual ownership of the Italian cardboard processing and shipping company, Pac Service, effective January 1, 2018, is expected to positively contribute to results going forward.

Finally, on the pricing front, first quarter results will continue to benefit from price increases implemented over the course of 2017.

I will now pass the call to Luc, who will provide you with an overview of the performance of the Specialty Products Group. Luc?

Luc Langevin – President and Chief Operating Officer, Specialty Products Group, Cascades Inc.

Thank you, Mario. Good morning. For the fourth quarter of 2017, the Specialty Products Group reported sales of $161 million, slightly above the prior year, but 10 percent below Q3 sales levels. The sequential decrease is largely attributable to the impact of lower fibre prices on results from the recovery activities and, to a lesser degree, seasonally lower sales, primarily in the Consumer Products Packaging segment.

Our fourth quarter EBITDA of $14 million, which represents a margin of 8 percent, decreased slightly from $15 million in Q3. Again, lower volumes in our Packaging activities and lower contribution from our Recovery operations explain this variance.

Looking at performance on a segmented basis, the Industrial Packaging sub-segment EBITDA in Q4 was marginally higher than Q3. This reflects slightly lower volumes and higher maintenance costs at our URB mill, the effects of which were more than offset by higher spreads.

The EBITDA of our Consumer Products Packaging sub-segment was sequentially lower. Lower seasonal volume in the rigid and flexible packaging market, combined with lower spreads due to less favourable product mix, were the contributing factors.

Finally, results from our Recovery sub-segment were lower, as the favourable evolution of foreign exchange during the quarter and the slightly higher volume were more than offset by lower spreads, higher maintenance costs and increased logistics costs.

Regarding the near-term outlook, our Recovery sub-segment performance will be negatively impacted in Q1 by declines in recovered paper prices. Since Q3 2017, OCC has been in abundant supply in North America, even during February, when generation is typically at its slowest. Inventories are very good at our mill. Near term, OCC pricing could potentially continue to decline. This is certainly good news for Cascades as a whole, but it will make it harder for the Recovery sub-segment to replicate last year's outstanding Q1 performance.

For white fibres, the market is currently more balanced in regions where we're active, with supply being generally more limited. The situation for mixed grade is challenging. Pricing varies according to quality and region, and inventories are generally high. The domestic market can't currently absorb all the quality and quantity being generated and residual volumes are moving to alternative export markets. I would note that our exposure to this market is limited, as we sell only small volumes of this grade.

In the long term, the Chinese requirements for cleaner recycled material will be tighter and we believe that this trend is here to stay. Consequently, pricing for higher quality material could be impacted. Future export volumes to China remain unclear at this moment, as Q2 import licences have not yet been communicated to the market.

Moving to our other business areas, I am pleased to note that our plants are currently busy and we expect demand for our product to remain solid. The recently announced price increase for uncoated recycled board is positive for our Packaging operation and we are entering into favourable quarters for demand in our converting facility. Recent price increase for polystyrene and polyethylene resin are keeping material costs at a higher level in our Consumer Products Packaging segment. We continue to closely manage our selling price to counterbalance this negative input cost impact.

Finally, looking ahead to Q1, we expect our results to be sequentially positive, but to be below our Q1 2017 performance.

Thank you for your attention and I will now pass the call to Jean, who will present the results for our Tissue Group.

Jean Jobin – President and Chief Operating Officer, Cascades Tissue Papers Group, Cascades Inc.

Thank you, Luc. Good morning, everyone. The Tissue Group faced challenging market conditions during the 2017, with an Adjusted EBITDA of $94 million or a margin of 7.4 percent. This compares to an Adjusted EBITDA of $150 million and a margin of 11.5 percent in 2016. During the fourth quarter of 2017, we generated $12 million of Adjusted EBITDA, which represents a margin of 3.9 percent. I would note that our fourth quarter is always less profitable than Q3, due to lower seasonal volumes and winter-related costs. On a year-over-year basis, our Q1 performance was also below the Adjusted EBITDA of $30 million and related 10.2 percent margin that we generated in Q4 2016.

Our overall performance, both sequentially and year-over-year, was negatively impacted by higher raw material prices, lower volumes, the continued ramp-up of our new Oregon converting facility, and higher maintenance costs. I will touch on each of those key drivers one by one, beginning with volume.

Fourth quarter shipments decreased by 4 percent, compared to Q3, in the parent roll segment, and 8 percent in both the away-from-home and the retail segment, largely due to the usual year-end seasonality. However, on a year-over-year basis, parent roll shipments increased by 15 percent, while shipments of converted products decreased by 3 percent.

As we have noted in previous quarterly conference calls, we are presently faced with overcapacity in the hand towel segment and expect that this will remain the case as we integrate our Oregon converting plant. To help manage inventory levels during the quarter, we scheduled paper machine shutdowns representing 11,000 tonnes, and also temporarily sold a limited amount of hand towel and bathroom tissue overseas.

In terms of pricing, our fourth quarter average selling price decreased by 1 percent on a sequential basis. This reflects a less favourable customer mix and a less favourable product mix, that was mainly driven by a lower percentage of converted product in our overall sales. We have finalized a price increase in the Canadian Consumer Products segment, as we announced in Q3, representing up to 10.5 percent, and we will begin to see the positive impact in Q1, mainly due to the agreements taken. On a year-over-year basis, our average selling price decreased by 4 percent in Q4, which reflects the same factors that I've just outlined, in addition to the competitive market environment.

On the material side, Q4 pulp prices remained very high. The significant price increases seen in both recycled fibre and virgin pulp, coupled with our higher utilization of virgin pulp in our products to enhance quality, negatively impacted our performance by increasing our total raw materials by $7 million, compared to last year's Q4. While OCC pricing has decreased in Q4, this has only a limited benefit for the Tissue Group, as OCC accounts for less than 20 percent of our overall raw material usage in terms of mix. On the other hand, the steadily increasing prices in pulp and other white fibre has a more pronounced negative effect on our results, as these fibres make up more than 80 percent of our raw materials. Lastly, I would note that our growing use of virgin pulp is both purposeful and strategic, as it supports important growth with our key retail customers, while also helping us to increase the quality of our products, making us more competitive.

Looking ahead, even though the first quarter is usually our lowest season, we expect higher shipments, primarily in the converting segment. In terms of raw materials, we expect an increase in virgin fibre prices and white recycled fibres, and a reduction in OCC, reflecting recent index pricing changes.

Moving now to our West Coat converting plant, this new facility and the St. Helen's paper mill negatively contributed to our EBITDA for approximately $50 million in 2017. Market development efforts are progressing and, while penetrating and developing a new market always takes time, we are making inroads and are steadily growing our market share. Therefore, we expect to significantly reverse this trend by the end of this year.

While we expect continued challenging market conditions in the next quarter, we are focused on execution. Our efficiency levels are at the same level of 2016, and our variable costs are also in line with 2016. We are proactively managing our controllable fixed costs and continue to grow our West Coast market penetration. We are also anticipating higher volume in our CP Division starting in Q2, as we have successfully secured new important strategic customers.

Thank you. I will now turn the call back to Mario for the conclusion. Mario?

Mario Plourde – President and Chief Executive Officer, Cascades Inc.

Thank you, Jean. We expect near-term results to benefit from several favourable external factors. The first of these are the changes related to the recent corporate tax reform in the U.S., which will reduce our U.S. corporate tax rate to approximately 25 percent in 2018, from 38 percent previously. The second is the current lower average price of OCC, which accounts for a large portion of the raw materials we use across our operations, and the recently announced price increase in our Containerboard segment that will be effective on March 5, 2018. Providing additional support for near-term performance are positive underlying industry fundamentals for both Containerboard businesses in North America and Boxboard operations in Europe.

As discussed earlier in the call, our Tissue Division continued to face difficult market conditions, new industry capacity addition and the sales ramp-up of the Oregon converting facility. That said, our sales and marketing efforts on the West Coast are generating positive results and we are confident that this facility will become a solid contributor to our Tissue Division in the future.

We have provided an overview of our near-term outlook for each of our business segments in Slide 31 in our Investor Presentation. The slide highlights the expected net impact of various factors on our operational performance, both on a sequential and year-over-year basis.

To summarize, Q1 results in European Boxboard and Containerboard are expected to be stronger both year-over-year and sequentially. First quarter results in the Specialty Products Group are expected to be positive sequentially and slightly below prior year levels. Finally, for the reasons highlighted throughout the call, Q1 results from our Tissue Papers segment are expected to decrease year-over-year, but increase sequentially.

Before we open the call for questions, let me touch briefly on some of our plans for 2018. As highlighted on Slide 30 of our Investor Presentation, we are planning to invest between $250 million and $300 million during the year. Note that this amount is net of the proceeds from the sale of our New York facility. We are planning additional investments in Tissue over the next several years that will further modernize both the retail and the away-from-home platform, and equip the segment with an asset base that is positioned for the long-term growth. In summary, as we move forward, we are focusing on projects that will increase integration, modernize our operation base and optimize our geographical footprint.

I will now open the line for 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 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 star, then one on your telephone keypad. We will pause for just a moment to compile the Q&A roster.

Your first question comes from the line of Hamir Patel of CIBC Capital Markets. Please go ahead.

Hamir Patel – Analyst, CIBC Capital Markets

Hi, good morning. I had a couple questions. Perhaps we start with Allan. The CapEx spend this year of potentially up to $385 million, it seems a lot higher than I think the $200 million figure that you guys were previously pointing to, so could you elaborate more on maybe where that incremental increase is coming from, in terms of the various divisions, and what sort of step-down in CapEx should we expect in 2019?

Mario Plourde – President and Chief Executive Officer, Cascades Inc.

Hamir, it's Mario talking, so good morning. Some of the CapEx you see on the envelope we have this year are carry-over from 2017, as we have a large project going on, the Piscataway project, and this project is still ongoing, so we're still installing equipment. So, a good chunk of this is part of the envelope.

Secondly, as we said on the call, we want to accelerate the modernization on our Tissue, both retail and away-from-home. As you know, this market is getting very active, there's a lot of activities and investments, so we want to make sure that we stay competitive in this field of activity, and so a portion, a large portion of the CapEx we announced today will be directed to the same area.

At the same time, we have to protect our Recovery & Recycling Division on SPG and we will be investing, as well, to increase our capacity on the recycling side.

What will be the envelope for 2019, it's a little early to talk about this. I think we will just finish 2018, see how we progress in the installation of all these large projects. Most of the envelope is directed towards large investment, large CapEx, so it's not spread all over the Company. So, that's basically my answer.

Hamir Patel – Analyst, CIBC Capital Markets

Thanks, Mario, that's helpful. I guess some of that might be capital to just maintain your competitive position, so what sort of incremental EBITDA do you expect from the growth CapEx, and then what's the sort of timing for that to show up in your results?

Allan Hogg – Vice President and Chief Financial Officer, Cascades Inc.

Well, in terms of numbers, that's nothing something we're going disclose right now, but in terms of delivering to our results, you know that if we modernize and we add new lines, let's say, in Tissue, it takes a few months, or even a year, to order and then to install, so we should see the main impact in 2019. Some projects are still to be finalized and defined, so when we have more clarify, we can be a bit more precise on the where and the when of the CapEx will be put into operations, but so far that's what we can say.

Hamir Patel – Analyst, CIBC Capital Markets

Okay, fair enough. Thanks, Allan. Mario, another question for you on the Boxboard Europe business. I was curious, how much mixed paper gets actually used in producing boxboard at Reno versus OCC, and is the mixed paper effectively free right now for producers?

Mario Plourde – President and Chief Executive Officer, Cascades Inc.

Well, they have the same dynamic in terms of recycling. I would say it's probably in the average of 50/50, depending on the grade they're producing. Don't forget that we are also producing virgin boxboard in Europe. So, on the net side, I would say probably 40 percent mixed, 40 percent OCC and 20 percent virgin. That's an average and I would have to come back to you to be a little more precise, but that's my take.

Hamir Patel – Analyst, CIBC Capital Markets

Okay, and how do mixed paper prices in Europe fare relative to North America?

Mario Plourde – President and Chief Executive Officer, Cascades Inc.

I would say similar to what we lived in North America.

Hamir Patel – Analyst, CIBC Capital Markets

Okay, thanks, that's helpful, and just a final question I had on the Containerboard business for Charles. The RISI benchmarks look like they averaged about $100 in Q4. I'm assuming you guys had some higher cost inventory that perhaps you're working through in the fourth quarter, but can you help us understand what that OCC price that showed up in your P&L was, and how long will it take before your results reflect spot pricing?

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

In Q4—you're talking about Q1 2018 compared to Q4?

Hamir Patel – Analyst, CIBC Capital Markets

Well, no, even the benchmark looked like it averaged about $100, but perhaps maybe you guys had some higher cost inventory going into the quarter. I know there's a lot of view in the industry, myself included, that perhaps OCC was going to run up by the end of Q4 and it didn't end up happening, so I'm just curious if maybe if you've positioned yourselves with some higher cost inventory in the fourth quarter.

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

You're right about. The impact of Q4, I think is around—Q3 to Q4, about an $8 differential, about $8, and we're going to have additional impact in Q1 2018.

Hamir Patel – Analyst, CIBC Capital Markets

Okay, thanks, Charles. That's all I had for now, I'll turn it over.

Operator

Your next question comes from the line of Paul Quinn of RBC Capital Markets. Please go ahead.

Paul Quinn – Analyst, RBC Capital Markets

Yes, thanks very much. Good morning.

Mario Plourde – President and Chief Executive Officer, Cascades Inc.

Good morning.

Paul Quinn – Analyst, RBC Capital Markets

I just had a couple of questions, one on Containerboard, just if you could give us an idea of how you've been operating in January and what that rate has been.

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

As I mentioned, the start of 2018, in January and February, we did have some issues in our paper mills, two of our paper mills, one with a major electrical breakdown, which will bring our operating rate about the same level of the Q4, including our shutdown. So, we're going to be around 92 percent.

Paul Quinn – Analyst, RBC Capital Markets

Okay. Then, in terms of the conversations you've been having with your customers on the March 5 price increase, can you give us some colour around how that's going?

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

I'm not going to comment on too much detail, but what I can tell you is we made the announcement. As you know, we made $50 on liners, $60 on the medium. We also made an announcement of 8 percent on our converted product. As we speak, we're still focusing on making that happen.

Paul Quinn – Analyst, RBC Capital Markets

Okay, and then maybe we can switch over to recovered paper, and I guess the overall forecast on Chinese recovered paper imports in 2018, what you've seen for the Q1 import permits versus what you expect for the balance of the year and how that's going to affect pricing, a pretty easy question overall?

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

Yes, I wish I would have had a crystal ball to answer your question. I think something that is clear—actually, the real start date of the application of the new regulation today was today, March 1. Speaking with my team, we're very anxious to see what's going to happen over the next two months, to see exactly how the China authorities will applying the new rules for contaminants. As you're aware, the actual percentage that are put in these are extremely low, very difficult to achieve even in almost ideal conditions. So, we're very anxious to see what exactly will be happening over the next two months.

With regards to—as I said in my earlier presentation, I haven't seen yet the import licences for the second quarter. As you're aware, the first quarter was 26 percent below last year. Are they going to keep the same trend? Honestly, I don't have the answer for that. What we do see, though, is that it's for sure higher quality OCC will be something that will become more desirable for this type of export. The average OCC coming from MRF will likely not going to be able to do the job and it's going to be very difficult for that volume to move to China with the quality out of the lines now. So, it's likely going to be more domestic volume.

Paul Quinn – Analyst, RBC Capital Markets

Okay. So, it sounds like you might have a split in the market between the really super high quality stuff that can get to China and the domestic stuff.

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

This is also the perceptions we have at this moment. I don't know how this is going to translate into market conditions and pricing, but this is definitely something that we see coming.

Paul Quinn – Analyst, RBC Capital Markets

Okay, and then just flipping back to your use of OCC, are you to the most extent domestic or do you use quite a bit of the higher premium OCC?

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

Well, we're using both, actually. A large part of our supply is coming from our own Recovery operation.

Paul Quinn – Analyst, RBC Capital Markets

Right, okay. I think—oh, yes, one question just on Tissue. It sounded like you had $50 million in losses from Oregon in 2017, and stated significantly reversing this. Do you expect to get back that $50 million in 2018, or is that going to be even more positive than that, as you fill up the mill?

Jean Jobin – President and Chief Operating Officer, Tissue Papers Group, Cascades Inc.

Well, obviously, it will go, Paul, at the rhythm that we're going to be able to bring sales in, but we don't expect to reverse it all this year, only partial of that. Our volume in 2018 is about twice what we expect to have, of what we had as a run rate by the year end. So, it's going to help a lot, but still have a lot of room before getting to profitability over there.

Mario Plourde – President and Chief Executive Officer, Cascades Inc.

Paul, just to be clear, the $50 million we stated includes also the impact on the paper mill, St. Helen's, because we had to adapt—modernize and adapt the product there, and we said that the trend should be reversing by the end of the year. So, on a trend basis, yes, we'll be positive, but overall, not positive again this year.

Paul Quinn – Analyst, RBC Capital Markets

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

Mario Plourde – President and Chief Executive Officer, Cascades Inc.

Thank you.

Operator

Your next question comes from the line of Keith Howlett of Desjardin Securities. Please go ahead.

Keith Howlett – Analyst, Desjardins Securities

Yes, I was wondering if you can provide a breakdown by the segments on the capital spending of $250 million and $300 million plus the proceeds of the land sale?

Mario Plourde – President and Chief Executive Officer, Cascades Inc.

No, Keith, honestly we can't provide this detail at this moment, but later during the year, we might be in a better position to give you more clarity around it, but you can see the projects that we highlighted on the slide, that you can have an appreciation, but in terms of dollar amount, we still have some work to finalize.

Keith Howlett – Analyst, Desjardins Securities

Perhaps just specifically on the Tissue Division, would your focus there be on additional converting capacity or is it modernization of some of your parent roll mills?

Mario Plourde – President and Chief Executive Officer, Cascades Inc.

The majority of what we'll do in the CapEx in the Tissue Group will be towards converting facility, modernizing lines that we already have. So, shutdown lines that are older lines and bringing in new lines more efficient, that will provide us—will give us more ability to give good quality.

Keith Howlett – Analyst, Desjardins Securities

Will that be—

Mario Plourde – President and Chief Executive Officer, Cascades Inc.

To answer your question, we're just replacing capacity with newer equipment.

Keith Howlett – Analyst, Desjardins Securities

Will that be both in your converting capacity in U.S. and Canada?

Mario Plourde – President and Chief Executive Officer, Cascades Inc.

Yes.

Keith Howlett – Desjardins Securities

Great. Thanks very much.

Operator

Your next question comes from the line of Sean Steuart of TD Securities. Please go ahead.

Sean Steuart – Analyst, TD Securities

Thanks. Good morning, everyone. I have a couple questions. It sounds like your ERP program is wrapped up. Will Q4 corporate costs be typical of what we can expect going forward?

Allan Hogg – Vice President and Chief Financial Officer, Cascades Inc.

Well, in the corporate costs, Sean, there's FX gain in that number of about $5 million resulting from the cash movement we had when we sold the Boralex investment. However, as we said, the costs related to everything we did is starting to ramp down starting in Q1, so it should come back not a level that we saw maybe in Q2 and Q3, but closer to what we see in Q4, and a bit lower once the costs are all removed.

Sean Steuart – Analyst, TD Securities

Okay, all right, that helps, and just a question on your blended tax rate. You mentioned your U.S. tax rate goes to 25 from 38. How should we think about your blended effective tax rate for the whole company, and appreciating it depends on the relative contribution from each region; and can you also review the NOLs you have available across your regions, as well?

Allan Hogg – Vice President and Chief Financial Officer, Cascades Inc.

Well, the overall tax rate in Canada is about 27, so 25 in the U.S., so it will be around the 26, 27, 28 percent, depending on the mix. The NOLs, we have a few in the U.S., but today, on the U.S. side, we don't expect to pay tax until 2021. This might change depending on the level of CapEx we'll do in the U.S. In Canada, we expect, at the current trend, to use our NOLs in the next two/three years, and after that—so no significant cash tax in the coming two/three years.

Sean Steuart – Analyst, TD Securities

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

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 the line of Hamir Patel of CIBC Capital Markets. Please go ahead.

Hamir Patel – Analyst, CIBC Capital Markets

Hi, thanks. I just had a couple follow-ups. Charles, on the Containerboard side, you referenced that you guys had announced a converted—I guess a box price hike. It seemed, at least in Pulp & Paper Week, I think maybe a week ago, that only IP had announced. Have we seen other—like, have the other major integrateds announced box hikes, as well, yet?

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

Hamir, I'm not going to comment what the others are doing, but what I can tell you is once we announce a containerboard price increase, as a converter, we are going to work in increasing also the converted product. So, that's our focus and we're going to make that a priority in the next quarter.

Hamir Patel – Analyst, CIBC Capital Markets

Charles, typically, the box price hike, that usually follows 30 days—the announce follows sort of 30 days after the parent rolls, and then what's—can you remind us the timing of how you'd expect that to flow through, realizing the full increase down to the box?

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

Yes, I'm going to try to—first, the 30 days after is the start of the price increase on the converting product, for the main part, but as I mentioned in the past, it takes about four or five months to get to the full benefit of the price increases, due to contracts and the sequence of the price increases. That's usually the time that it takes to get the full benefit.

Hamir Patel – Analyst, CIBC Capital Markets

Okay, great, thanks, that's helpful, and just a final question I had for Jean on the Tissue side, and I appreciate the comments about Scappoose. I'm just curious, when you look at EBITDA for the Tissue segment for the year, sort of just under $95 million, just given how weak Q4 was, should we be bracing for 2018 to be down year-over-year in Tissue?

Jean Jobin – President and Chief Operating Officer, Tissue Papers Group, Cascades Inc.

It's a good question and I don't want to speculate on a lot of things that are moving right now. One thing for sure, we are affected by the full price (inaudible) drastically. So, depending on this—this is for us the main driver. We are finding solutions for the volume part, so the volume part will get better. It's really tough for me to answer that, but my answer would be look at the raw material price and that's going to be the main driver for us this year.

Mario Plourde – President and Chief Executive Officer, Cascades Inc.

So, Jean, maybe we can add that productivity is good, volume is all positive, we are making inroads, so it's a matter of input costs that is the main driver, maybe, for profitability next year.

Jean Jobin – President and Chief Operating Officer, Tissue Papers Group, Cascades Inc.

Yes.

Hamir Patel – Analyst, CIBC Capital Markets

Okay, and maybe just a question for Mario on the Investor slides. I think in the past, you've started a longer term EBITDA margin of sort of 15 percent. Do you still see that as sort of the line of sight and how long do you think it takes to get there?

Mario Plourde – President and Chief Executive Officer, Cascades Inc.

Well, you know, when we presented this to market, we give ourselves five years, it's a five-year plan, and, yes, we keep on the same objectives, and the investments we're making today, to name Piscataway or Scappoose, will benefit the Company long term, no doubt. So, no, we have not changed our objective of 15 percent and the target is still in five years, by 2022.

Hamir Patel – Analyst, CIBC Capital Markets

Great, thanks. That's all I had.

Operator

Your next question comes from the line of Keith Howlett of Desjardins Securities. Please go ahead.

Keith Howlett – Analyst, Desjardins Securities

Yes, I just wondered if you could explain the interrelationship between the away-from-home tissue market and the retail tissue market? Do they sort of price independently, or if there's overcapacity issues in retail, does that sort of flow over to away-from-home, and can you introduce away-from-home prices increases if the retail segment is not experiencing any price increase?

Jean Jobin – President and Chief Operating Officer, Tissue Papers Group, Cascades Inc.

Well, that's a very good question, Keith. Normally, the two sectors are totally different, because you will see more virgin on the retail side than the away-from-home side. So, normally, they are very independent, and they're not necessarily using the same raw materials, a lot more OCC in away-from-home, and in retail there's basically none. That's one of the first things.

The relationship between the two is—as you know, there's so much capacity addition in terms of the retail U.S. producers on the jumbo roll side, that those guys right now have nothing to do with their jumbo rolls. So, what do they do with that? They sell it to away-from-home converters, and they sell it at a good price because they have too much capacity, right, they don't want to stop their machines. So, based on that, it is tough to increase prices in the away-from-home market, because the converters are not having price increase in their input costs. It is the producers that have the input costs that is going up.

That's the relationship that we feel that we see, and in our case, it's the hand towel that is our biggest problem, but, in general, that's what is happening, retail producers are selling bath napkin, towel to converters, that maintain their prices at the same level. So, that's what we see right now. That's the worst timing for us, with the pulp (inaudible) very high, and having a hard time to push pricing increases in the market.

Keith Howlett – Analyst, Desjardins Securities

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 Inc.

Thank you, everyone, have a good day, and we're looking forward to see you on the next call. Have a good day.

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 all disconnect.