

## Cascades Canada ULC

### Second Quarter 2023 Financial Results Conference Call

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## PRESENTATION

### Operator

Mesdames et messieurs, bienvenue à la téléconférence des résultats financiers du deuxième trimestre 2023 de Cascades. Je m'appelle Joël et je serai votre opératrice aujourd'hui.

Toutes les lignes sont présentement en mode écoute seulement. Suite au commentaire des dirigeants, il y aura une période de questions.

Good morning, my name is Joël and I will be your conference Operator today. At this time, I would like to welcome everyone to the Cascades Second Quarter 2023 Financial Results Conference Call.

All lines are currently in listen-only mode. After the speaker's remarks, there will be a question-and-answer session.

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

**Jennifer Aitken** — Director, Investor Relations, Cascades Canada ULC

Thank you, Joël. Good morning, everyone, and thank you for joining our second quarter 2023 conference call.

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

Today's speakers will be Mario Plourde, President and CEO, and Allan Hogg, CFO. Also joining us for the question period at the end of the call will be Charles Malo, President and COO of Containerboard Packaging; Jérôme Porlier, newly appointed President and COO of the Specialty Product Segment; Jean-David Tardif, President and COO of Tissue Papers; and Luc Langevin, in his new role as Senior VP of Corporate Services.

Before I turn the call over to my colleagues, I would like to highlight that certain statements made during this call will discuss historical and forward-looking matters. The accuracy of these statements is subject to risk factors that can have a material impact on actual results. These risks are listed in our public filings.

These statements, the investor presentation, and the press release also include data that are not measures of performance under IFRS. Please refer to our Q2 2023 investor presentation for details.

This presentation, along with our second quarter press release, can be found in the Investors section of our website.

Finally, I would like to mention that Cascade will be hosting an Investor Day and Mill Tour of our new Recycled Containerboard Bear Island Facility in Virginia on September 14, 2023.

If you have any questions regarding this, please feel free to contact us after the session.

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

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

Thank you, Jennifer, and good morning, everyone.

We are pleased with our Q2 consolidated result and with the performance of each of our business segments.

On a consolidated basis, sales increased 4 percent year over year, while adjusted EBITDA of \$141 million rose 55 percent from the prior year. In both cases, results were driven by a stronger performance from our Tissue Papers segment that reflected pricing and strategic initiative put in place over the past several quarters.

More broadly, year over year, top line growth benefitted from a more favourable exchange rate for all of our businesses, higher volumes in containerboard, and higher selling prices in tissue and specialty

packaging. These were partially offset by lower selling prices in containerboard following the decrease in index prices.

Year over year, EBITDA improved was also driven by stronger tissue results.

Sequentially, sales increased 3 percent. This was driven by higher volumes in all of our business segments, most notably tissue and a better sales mix in containerboard.

FX was slightly negative for our business sequentially, and the impact of lower index prices on the top-line performance of our Packaging segment more than offset the benefit from higher pricing in tissue paper.

EBITDA increased 5 percent sequentially. This was driven by improved volume and mix in all business segments, and lower transportation, energy costs in the Tissue and Containerboard segments.

Raw material costs and selling prices were headwinds for our Packaging businesses, but were tailwinds for our Tissue operation.

Production costs were higher sequentially, mainly in Containerboard, reflecting the commissioning and start-up of the Bear Island Mill in the second quarter.

On the raw material side highlighted on Slide 5 and 6, the Q2 average index price for OCC decreased 66 percent year over year but increased 42 percent from Q1. The OCC market was relatively stable in the second quarter, with limited export activity and favourable seasonal fibre generation, albeit at a slower pace than recent year.

Transportation costs have also continued to ease. We are not expecting any significant evolution in the market condition in the short term and our operations are well supplied.

Average index prices for white recycled paper grades decreased 17 percent sequentially in Q2 and 22 percent from the prior-year levels. We saw favourable market dynamics over the quarter and important (phon) index price reduction.

Similar trends were seen with virgin pulp. There, our dual pulp index decreased 16 percent sequentially and year over year, while softwood pulp index prices decreased 10 percent from Q1 and 13 percent year over year.

Conditions have improved for virgin pulp following lower demands from Asia, improved logistics and new capacity, the latter of which should largely offset any potential impact from recent forest fires, announced market-related downtime in the industry, and wood chip shortage. Material is available and our mills are adequately supplied.

I would remind you that changes in index prices take a few weeks before the impact flows to our result as it relates to level of inventory.

Moving now to the result of each of our business segments as highlighted on Page 7 through 12 of the presentation.

Beginning with the sequential performance, sales in Containerboard were stable in Q2. This reflects higher volumes and beneficial sales mix, offset by the impacts from lower average selling prices following the decrease in index pricing and the less favourable exchange rate.

The 4 percent volume increase reflects a 1 percent increase in shipment of parent rolls and a 7 percent increase in converted product shipments. Sequentially, converting shipments increased by 5.5 percent in Canada, outperforming the 2.7 percent increase in the Canadian market. US converting shipments increased 13.8 percent, outperforming the 1.2 percent US market increase.

Q2 adjusted EBITDA of \$96 million, or 17 percent on a margin basis, was below the Q1 levels, which, as a reminder, include the final \$7 million insurance settlements from water effluent treatment issued in mid-2021 at our Niagara Falls complex.

Sequential Q2 EBITDA performance reflect lower selling prices and higher raw material costs following announced index price changes. These were partially offset by a more favourable sales mix and lower transportation and energy cost.

I would also note that result also reflect that the Bear Island facility was a negative contributor to our performance given the mill is in ramping up.

Year-over-year sales decreased marginally, and EBITDA decreased by \$3 million, with lower selling prices and higher production costs offsetting the beneficial impact from lower raw material, freight, and energy costs.

Year-over-year shipment increased by 5 percent in Q2, reflecting a 10 percent increase in external parent rolls shipment and a 1 percent increase in converting shipments mainly driven by higher volume in the US market. Specifically, converting shipment decreased by 0.6 percent in Canada year over year, outperforming the 2.8 percent decrease in the Canadian market. US converting shipment increased 9.6 percent, above the 7.9 percent US market decrease.

Continuing with our Packaging business, Q2 sales levels in our Specialty Products segment increased by 2 percent sequentially. This reflect higher volume in the cardboard and plastic subsegment, partially offset by lower selling prices in our business and lower Moulded Pulp volume.

EBITDA decreased by \$3 million sequentially as higher overall volume benefits were more than offset by lower realized spread in all subsegment.

When compared to the prior year, Q2 sales decreased by \$4 million or 2 percent, driven by softer volume in all business subsegment and lower selling prices in cardboard product related to the decrease in index pricing. These were partially mitigated by a more favourable exchange rate and higher selling prices in the food packaging business.

EBITDA level decreased by a marginal \$1 million to \$24 million in Q2 as benefit from higher realized spread were more than upset by the impact related to the lower volume and higher production costs.

Moving now to our Tissue business, which had its strongest performance since Q2 2020 that reflected benefits from commercial, operational, and strategic initiatives. The repositioning of our tissue paper platform announced at the end of April progressed as planned in the second quarter, with the closure completed as scheduled in June and July.

We anticipate that these decisions, combined with the ongoing productivity optimization initiative, which are also progressing as expected, will continue to strengthen the performance of our Tissue Paper business going forward.

Sales increased 7 percent sequentially, driven by higher selling prices and stronger volume, which reflected ongoing profitability and optimization initiative.

Shipment increased 8 percent from Q1, reflecting a 7 percent increase in shipment of converted product and a 10 percent increase in parent roll shipments.

Sequentially, EBITDA improvement was driven by benefit from higher volumes, lower raw material, freight and energy costs, and improvement in selling prices.

Year over year, sales rose 22 percent, with pricing and sales mix initiative, a more favourable exchange rate, and a slightly higher volume are contributing to the stronger performance.



Q2 EBITDA of \$44 million compared to a loss of \$8 million in the prior-year period. This year-over-year improvement was driven by higher selling prices and lower transportation costs, the benefit of which more than offset higher operating costs.

Allan will now discuss the main highlights of our financial performance, after which I will discuss our near-term outlook and conclude our presentation.

Allan?

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

Thank you, Mario, and good morning, everyone.

So on Slide 13 and 14, we illustrate the specific items that were recorded during the quarter.

The main items that impacted our EBITDA were \$8 million of impairment charges and restructuring costs in our Tissue segment related to US assets.

Slide 15 and 16 illustrate the year-over-year and sequential variance of our Q2 adjusted earnings per share and the reconciliation with the specific items that affected our quarterly results.

As reported, Q2 net earnings per share were \$0.22, this compared to net earnings per share of \$0.10 last year and a net loss of \$0.75 per share in Q1. On an adjusted basis, net earnings per share were \$0.27 in the current quarter. This compared to net earnings per share of \$0.10 in last year's results, and net earnings per share of \$0.32 in Q1.

Year over year, these variance mainly reflects improved adjusted EBITDA, while sequential variance reflects higher financing expenses, partially offset by higher adjusted EBITDA levels.

As highlighted on Slide 17, second quarter adjusted cash flow from operations increased by \$41 million year over year to \$122 million, and adjusted cash flow levels improved by \$52 million year over

year. This was driven by higher operating results and lower net CapEx paid in the second quarter of this year.

Slide 18 provides detail about our capital investments. Paid capital expenditures, net of disposal and accounts payable variation, totalled \$241 million in the first six months of 2023, and \$104 million in Q2. For 2023, our planned capital investments of \$325 million have not changed.

Moving now to our net debt reconciliation, as detailed on Slide 19, our net debt increased by \$6 million in the second quarter. This is a reflection of the combined effects of our current investment in Bear Island and usual working capital requirements slightly exceeding cash flow from operating activities and favourable exchange rates.

Our leverage ratio of 4.1 times is down from 4.6 at the end of Q1. As we have mentioned in the past, we expect this leverage trend to continue with improved operating performance of our Tissue segment and ramp-up of operations at the Bear Island facility.

Financial ratios and information about maturities are detailed on Slide 20. Sequential year-over-year sales and EBITDA performance analysis can be found on Slide 23 through 26 of the deck; cost of sales and SG&A detail on Slide 27; and historical index pricing on slides 28 and 29.

Mario will now conclude the call with some brief comments on our near-term outlook before we begin the question period. Mario?

**Mario Plourde**

Thank you, Allan. We provide details regarding our near-term outlook on Slide 21 of the presentation. As a reminder, this outlook is based on current forecasts and expectation and may change in the coming weeks.

Our near-term outlook for Containerboard is for results to be stable sequentially. This reflects the ongoing ramp-up of the production levels at the Bear Island facility, slightly higher raw material costs, lower average selling price, and slightly softer volume.

Year-over-year performance is expected to be lower with the impact from cost inflation and lower selling prices following recent index price decrease expected to offset benefit accruing from lower raw material costs and the Bear Island ramp up.

We are also expecting stable results sequentially from the Specialty Products segment. This reflects usual seasonal volume, stable selling prices trend and raw material costs, and capacity and efficiency improvement. Year-over-year results are also expected to be stable.

Our outlook for Tissue is for the third quarter result to slightly improve sequentially and to be significantly above prior-year levels. This stronger outlook reflect the more favourable raw material prices, ongoing profitability and productivity optimization initiative, and stable volume.

Before wrapping up the call, we invite you to reach out to Jennifer directly for full details of our Bear Island Mill tour and Investor Day on September 14, 2023. We look forward to seeing you then.

With that, we can now open the calls to questions, Operator.

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## Q&A

### Operator

Merci. Si vous voulez poser une question, veuillez s'il vous plaît composer étoile suivie de 1 sur votre clavier téléphonique. Si vous voulez retirer votre question, composez étoile 2.

Thank you. If you would like to ask a question, simply press star \*, followed by the number 1 on your telephone keypad. If you would like to withdraw your question, please press \*, 2. Again, if you have a question, please press \*, then 1 on your telephone keypad.

We'll pause for a moment to compile the Q&A roster.

Your first question comes from Hamir Patel with CIBC Capital Markets. Please go ahead.

**Hamir Patel** — CIBC Capital Markets

Hi. Good morning. Mario, are you able to give us an update as to what type of operating rate you're seeing at Bear Island today?

And when do you expect the mill to be a positive contributor?

**Mario Plourde**

The mill will probably be a positive contributor in the next quarter. So starting in August, we'll probably see breakeven or a little profitability, so Q2 and Q4 quarter will be positive contributors.

**Hamir Patel**

Okay. Great. Thanks. That's helpful. And just a question for Charles on the Containerboard side.

It looks like you've been outperforming the market. The Canadian market looks like it's been faring better than the US. What do you think is driving the outperformance in Canada?

And where do you think we stand with respect to industry destocking on both sides of the border?

**Charles Malo** — President and Chief Operating Officer, Cascades Containerboard Packaging, Cascades Canada ULC

So when I look at the market, I'll talk about the destocking first. We think that most of the destocking is done. And when I look at or compare the Canadian market and the US, we always tend to see that over quarters, they're about equal and that's historically what we've seen.

There is a bit of the difference right now, but we're going to keep our comments for maybe next quarter.

When I look at our own performance compared to the market, the reason why we've been outperforming the market is really related to the past investment that we made both in Canada and also in the US. So we did some strategic investment and now they're paying off, so this is positive for us.

**Hamir Patel**

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

**Operator**

Your next question comes from Sean Steuart with TD Securities. Please go ahead.

**Sean Steuart** — TD Securities

Thanks. Good morning, everyone. Just want to follow up on Hamir's question with respect to Bear Island. Can you tell us how much start-up costs might have been expensed in the Q2 results? So how much did the asset weigh on the EBITDA for that segment this quarter?

And is the expected ramp-up curve changed at all from the guidance you had have given us a quarter ago?

**Allan Hogg**

Well, first, Sean, I'll answer the first part of your question. We've decided not to provide the contribution specifically for that mill. So going forward we will not provide any details. But as we said in the text, it was a negative contributor in Q2 and that's how we want to pay the Bear Island start-up.

So I'll let Charles maybe answer the following question.

**Charles Malo**

So just on the ramp-up curve, I mean, we have been delayed, but since the delay or after the delay, the ramp-up is going in the right direction. As you know, when you look at a project of that size, what we're seeing or experiencing right now are a normal glimpse. Also, the learning curve for the employees but we're seeing this as a positive start-up and we are on the positive side.

We've been using internally the product that we're producing in Bear Island. The results are very good, the quality of the paper. And also, outside customers are using our paper and we're getting the same feedback.

Now the stage where we are in is to add some more products and grades to our products and we are in the course of qualifying the product to our outside customers. So I would say that the ramp-up is going in the right direction but again, the delays that we saw are affecting our total volume for the year.

**Sean Steuart**

Okay. Thanks for that detail, that's useful.

Second question's on Tissue. Congratulations on the strong rebound there. I guess I'm just trying to understand when I look at your results for the second quarter and annualized, and you're seemingly ahead of the target that you would have set for 2024. And I'm just trying to understand what you can control with respect to the restructuring initiatives, what sort of incremental contribution from that segment can we expect through the second half of this year and into 2024? I'm just trying to gauge the cadence of further gains in margins for that segment.

**Jean-David Tardif** — President and Chief Operation Officer, Cascades Tissue Group, Cascades Canada ULC

Yeah, good morning, Sean. Jean-David. So we remain confident for the 2024 target and at this moment, we stay focused on the number we've committed to. There's still some uncertainty in the market when we talk about inflation, the away-from-home market, et cetera. So yes, the market conditions are better but at this moment, we're going to stay prudent on the guidance for next year.

Internally, I can tell you that things are going good. So we believe that this is sustainable. The performance that we're delivering in the second quarter is going to stay. A lot of work has been done internally in terms of cost saving, efficiency improvement, et cetera. But at this moment, we'll see a better quarter ahead but again, we remain focused on the next-year target that we committed to.

**Sean Steuart**

Okay. Thanks very much, everyone. That's all I have.

**Operator**

Your next question comes from Matthew McKellar with RBC Capital Markets. Please go ahead.

**Matthew McKellar** — RBC Capital Markets

Hi. Good morning and thanks for taking my questions. First in the Containerboard business, just building on Hamir's question, you talked about destocking being mostly done. It also sounds like you're expecting softer volumes in Q3.

Can you talk a bit about what you're seeing in the market and hearing from the customers to start the quarter and just more broadly about what's underpinning your expectations there, including any end markets that are particularly weak or strong?

**Charles Malo**

So thank you for the question. When we look at the market, we are being cautious with our numbers or the tendency that we show. I can tell you that what we're seeing at the beginning of the Q3

right now, the trend is good, but again, the economy and the uncertainty and there's also the seasonability of the mix that we have, we've been seeing a lot of weather impact, so that's why we've been cautious in the volume. But right now and when we look at the July and the beginning of August, the trend seems to be a positive cycle.

**Matthew McKellar**

Okay. Thanks. Maybe next up, in your Specialty Products business, you mentioned that Moulded Pulp results are weaker sequentially with operational challenges with some equipment. Can you provide a bit more colour on what went on there, what the impact was in the quarter, and whether any impacts will persist into Q3?

**Charles Malo**

Thank you for the question, Matthew. In fact, for the Moulded Pulp, yes, we experienced some operational issues that slowed down our shipments. However, we're seeing I would say a more positive trend in terms of Q3 and we're foreseeing to come back for Q4 in terms of volume because as we mentioned in the text, we reduce the shipment based on operational. However, we have a plan to come back to our normal impact on Q4.

**Mario Plourde**

So the demand is really there, we just have to produce and make sure we are efficient.

**Charles Malo**

Yeah, that's it.

**Matthew McKellar**

Okay. Thanks. And then last for me, I think you talked about expecting a stable market for old corrugated containers in Q3. With new recycled containerboard capacity entering the markets and



wrapping up, and assuming demand continues to trend modestly higher, do you expect stable conditions to persist beyond Q3?

And are you at all concerned about the potential for rising OCC costs over the next 12 months?

**Luc Langevin** — Senior VP, Corporate Services, Cascades Canada ULC

Hi Matthew, this is Luc. I can answer these questions. You know, currently I cannot speak for the long term what the market will be because you know it's a global market which is more impacted by sometimes imports than the domestic demand.

What I can say for now is that we are typically in a low season now and we can really easily have access to OCC at this moment and support the solid ramp-up of our Bear Island Mill in the southeast.

So we have no challenge now to get the OCC we're looking for. And so for the moment, there will be a new publication this Friday, but we don't see any change in the market conditions for the moment. It's not an issue for us for the supply side.

**Matthew McKellar**

Okay. Thanks. That's all for me. I'll turn it back.

**Operator**

Ladies and gentlemen, as a reminder should you have a question please press \*, followed by the 1.

Your next question comes from Zachary Evershed with National Bank Financial. Please go ahead.

**Zachary Evershed** — National Bank Financial

Good morning, everyone. Congrats on the quarter.

**Mario Plourde**

Thank you.

**Allan Hogg**

Thank you.

**Charles Malo**

Thank you.

**Zachary Evershed**

So for Bear Island, can you tell us a bit about the quality of the paper coming out of that? You did say that you're happy with it. So does that mean that it's completely up to spec now?

And what end markets is that feeding into?

**Charles Malo**

Okay. So thank you, Zachary, for the question and thank you, by the way, for congratulations on the quarter. We're pretty happy about it. So the product right now is responding very well. So quality is as expected when we designed the mill.

I mentioned that we are still in the qualification mode because when we start up, we start with higher basis weight, easier product to do, like medium (unintelligible) I'm going to use that.

So, basically, what we're doing right now in our ramp-up mode, we're moving more the mix towards higher-performance grades like XP, high performance, lighter weight.

So we are in that process right now, but the response for the quality of the product is very, very good. The finish of the sheet also is good.

And when I look at where it is going, strategically, we have decided to build that paper mill to supply the new trends on the market, so meaning distribution, e-commerce, and the demand for customers that are looking also for high-performance paper but lower basis weight and being able to provide some more performance paper.

So, really, we build that for the new trends and what we're seeing right now is it's going in that direction. So our focus now, qualifying product and this is really what we're doing right now, working with our customers to improve or increase the number of grades available, but this is normal again in a ramp-up mode for a paper mill.

**Zachary Evershed**

That's great colour. Thanks. And then in terms of the overall market, you're not the only new capacity ramping up. What's the bidding environment like for placing paper in boxes?

**Charles Malo**

I'm sorry, can you just precise a bit more of the question?

**Zachary Evershed**

Yeah. Are you running into a high level of competition when you're trying to secure? I mean you guys did pre-sell a lot of the Bear Island volumes, but are you seeing in the rest of the network a lot of competition on price?

**Charles Malo**

So I'm not going to comment on price but just on the network that we have, because we can offer—yes, Bear Island is a part of the overall that we have. So what we're doing right now, we invested in Bear Island to be better equipped to compete. So again, we have a lighter weight, we have high performance both in medium, also in liner. So when we look at the market, we're positioning ourselves to provide some product that are helping customers to be more competitive. So that's basically the approach that we have.

We think that the more equipped we're going to be, better we can offer to our customers and better we're going to be able to compete and create value. So that's our goal.

**Zachary Evershed**

Thank you for that. And then just one last one for me. What are you hearing from your Containerboard customers in terms of demand recovery post-destocking?

**Charles Malo**

So our own customers are pretty much balanced when you look at the inventory and it reflects what we're seeing overall. So I think that from the information we get, that people are pretty much balanced right now and we should be past the destocking phase that we saw in end of the 2022 and the beginning of 2023.

**Zachary Evershed**

Thank you very much. I'll turn it over.

**Operator**

Your next question comes from Frederic Tremblay with Desjardins. Please go ahead.

**Frederic Tremblay — Desjardins**

Thanks. Good morning. Questions on Tissue.

What's your view on the outlook for selling prices and promotional activity in Tissue? The reason for the question is essentially, because I'm wondering if the decrease in pulp pricing that we've seen will eventually make its way into lower tissue prices or more aggressive promotional activity in the market.

**Jean-David Tardif**

Yeah, good morning, Frederic. I won't comment on what will happen with pricing in the coming quarter for sure, but what I can tell you is that overall, the market that we're playing with in terms of the private label and the assignment that we're playing it within the private label and also the customer mix

that we have, I think we're well positioned to be in good shape for the coming quarters in terms of pricing and volume.

Overall, we'll see how things will go, but we're working with customer, we're close to our customer, we have a good customer base. We'll adjust this. We'll see where the market will go.

**Frederic Tremblay**

Okay. That's all I had. Thank you.

**Operator**

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

**Mario Plourde**

Thank you, everyone, for being on the call today and we're looking forward to see you at our Investor Day in Bear Island on September 14.

In the meantime, I wish you a very good summer. Thank you everyone.

**Allan Hogg**

Thank you.

**Operator**

[Operator Remarks in French]

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