FINAL TRANSCRIPT

Cascades Inc.

Fourth Quarter 2023 Financial Results Conference Call

Event Date/Time: February 22, 2024 — 9:00 a.m. E.T.

Length: 38 minutes

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PRESENTATION

Operator

[French]

Good morning. My name is Julie (phon), and I will be your conference Operator today.

At this time, I would like to welcome everyone to the Cascades Fourth Quarter 2023 Financial Results Conference Call.

All lines are currently in a listen-only mode.

After the speakers' remarks, there will be a question-and-answer session.

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

Jennifer Aitken — Director, Investor Relations, Cascades Inc.

Thank you, Julie. Good morning, everyone, and thank you for joining our fourth 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. Joining us for the question period at the end of the call will be Charles Malo, President and COO of Containerboard Packaging; Jérôme Porlier, President and COO of Specialty Products; Jean-David Tardif, President and COO of Tissue Papers; and Luc Langevin, 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 Q4 2023 investor presentation for details.

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

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

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

Mario Plourde — President and CEO, Cascades Inc.

Thank you, Jennifer, and good morning, everyone. Let me begin with a quick overview of our full year 2023 results.

We’ve increased sales and EBITDA by 4 percent and 48 percent respectively from 2022 levels.

We are pleased with this solid performance and the turnaround in our Tissue business in particular, where favourable market conditions and our wide-ranging profitability initiatives successfully repositioned this business operation and equipped it to generate an EBITDA of $182 million in the year.

We finished the year with slightly lower net debt levels, notwithstanding the significant investment made throughout the year in the Bear Island facility; and improved our leverage to 3.4 times from 5.2 times last year.

Moving now to our Q4 results.

On a consolidated basis, sales were stable year over year, while adjusted EBITDA of $122 million rose 5 percent from the prior year.

Pricing was a headwind for top-line performance, the effects of which were offset by stronger volume.

Year-over-year EBITDA levels were also impacted by lower pricing, but this was mitigated by lower raw material production, energy and freight cost, and better volume in our Packaging businesses.

Sequentially, sales decreased 5 percent, impacted by lower pricing in addition to lower volume, the effect of which more than offset benefit of a more favourable exchange rate.

EBITDA decreased 24 percent from Q3 due to our Containerboard performance, which was impacted by lower selling prices and volume and higher raw material cost.

On the raw materials side, highlighted on Slides 5 and 6, the Q4 average index price for OCC increased 127 percent, 37 percent year over year, and 41 percent from Q3.

The OCC market saw consistent strong demand and lower seasonal generation levels, which resulted in tighter market dynamics and put upward pressure on pricing.

We had no problems supplying the needs of our operations with good inventory management.

Average Q4 index prices for white recycled paper grades decreased 5 percent sequentially and 44 percent from the prior-year levels.

We began to see less favourable market dynamics over the quarter, with index prices continuing to broadly mirror virgin pulp. Pricing for these fibres were slightly higher sequentially, with price increase starting late in 2023. Year over year, however, prices for both hardwood and softwood pulp remained lower, down 33 percent and 25 percent respectively.

Market conditions reflect lower softwood pulp supply, following downtime and permanent closures in North America and uncertainty around short-term Asian demand levels and potential effect from the conflict in the Red Sea. Notwithstanding these market conditions, the material has been readily available for our mills.

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

Beginning with Containerboard, sequential sales decreased 5 percent in Q4. This reflects lower volume, driven by a 13 percent sequential decrease in parent roll shipments and the lower average selling prices.

As previously announced, we took 19,000 short tons of maintenance downtime in the quarter and an additional 30,000 short tons of downtime, given seasonality and softer end-of-year market conditions.

Sequentially, converting shipments increased 0.6 percent in Canada, slightly below the 0.9 percent increase in the Canadian market.

US converting shipments increased 5.6 percent, well above the 0.2 percent US market decrease.

Q4 adjusted EBITDA of $67 million, or 12 percent on a margin basis, was 35 percent below Q3 levels, reflecting the impact from lower average selling prices and volume and higher raw material and production costs.

Year over year, sales decreased by $6 million with the impact of lower selling prices, offset by higher volume.

EBITDA level decreased by 44 percent, with the impact from the lower pricing and higher raw material and operational costs more than offsetting improved volume and lower energy costs.

Year over year, shipments increased by 10 percent in Q4, largely related to the new Bear Island volume.

Converting shipments increased by 7.4 percent in Canada, outperforming the 4.6 percent increase in the Canadian market.

US converting shipments increased 11.2 percent, once again significantly outperforming the 0.4 percent US market increase.

Before moving on to the Specialty Products segment, I would like to add some colour regarding the sequential performance of our Containerboard segment.

As we stated in our press release, fourth quarter results were below expectations. Converted product shipments remained solid, but usual seasonality and softer demand in parent rolls impacted results. Our low integration rate also impacted us this quarter, following decrease in index pricing. OCC costs also continued to increase in the quarter, which, when coupled with the lower selling prices, put pressure on margin.

With Bear Island ramping up and recent investment in our converting facility, our operating platform is more agile, more competitive, and better positioned regardless of the economic backdrop, and we are focused on generating benefits from its increased agility and market responsiveness.

This contributes to our decision to permanently close three of our facilities, given their future capital investment requirements, current market dynamics, and their higher level of operating costs due to the age of its equipment.

Continuing with our packaging businesses, Q4 sales levels in our Specialty Products segment increased by 2 percent sequentially, reflecting higher volume in the Moulded Pulp business and a more favourable exchange rate.

EBITDA decreased by $2 million sequentially, driven by lower volume in some subsegments and higher year-end maintenance costs.

Operating costs were slightly higher, and realized spreads were stable.

When compared to the prior year, Q4 sales were stable, decreasing $1 million, as the impact from lower selling prices was offset by benefit from higher volume.

EBITDA level decreased by $1 million year over year to $19 million in Q4, as the impact from lower selling prices and higher production costs were partially offset by lower raw material costs and beneficial volume and mix.

Moving now to our Tissue business, which generated a strong quarterly EBITDA margin of 15.6 percent. This performance was driven by better spreads, but it's also a testament to the benefits being realized from the wide-ranging initiatives implemented over the recent quarters that involved repositioning of its operational platform, including closure of several facilities.

To this end, sales decreased 8 percent sequentially. This reflects a 10 percent reduction in shipment levels, which was driven by a 3 percent decrease in shipments on the converting side and a 60 percent decrease in parent roll shipments that itself reflects the closure of our St. Helens mill and higher integration rate of 94 percent in Q4.

Shipments of converted away-from-home and retail products decreased 7 percent and 1 percent respectively from Q3, both of which are an outcome of volumes sold in Q3 from facilities that were recently closed.

The average selling price increased by 3 percent, driven by the lower proportion of parent rolls in the sales mix and a favourable exchange rate. These benefits were partially offset by a slightly lower average selling price of converted products due to the contracted pricing model agreement.

Q4 EBITDA of $61 million, or 15.6 percent on a margin basis, was stable with Q3 levels. This is the outcome of benefits related to lower fixed cost levels, following the plant closure, fully offsetting impact from the net negative volume and sales mix effects.

Year over year, sales rose 2 percent, with sales mix initiatives offsetting the impact from lower pricing and volume.

EBITDA increased $53 million from the prior-year period. This was driven by lower production, raw material, freight, and energy costs.

Allan will now discuss the main highlights of our financial performance. Allan?

Allan Hogg — CFO, Cascades Inc.

Yes. Thank you, Mario, and good morning, everyone.

So, Slides 13 and 14 illustrate the specific items recorded during the quarter.

The main items that impacted EBITDA were $61 million of charges related to the Containerboard announcement last week and other restructuring costs, mainly in Tissue, related to closure of plants in the US.

Slides 15 and 16 illustrate the year-over-year and sequential variance of our Q4 adjusted earnings per share and the reconciliation with the specific items that affected our quarterly results.

As reported, Q4 net loss per share was $0.57. This compared to a net loss per share of $0.27 last year and net earnings per share of $0.34 in Q3 of this year.

On an adjusted basis, net earnings per share were $0.05 in the current quarter. This compared to net earnings per share of $0.22 in last year's results and net earnings per share of $0.44 in Q3.

Year over year, this variance mainly reflects improved EBITDA, offset by higher financing and depreciation expenses and income tax variances, while sequential variance reflects lower EBITDA levels and income taxes variance.

As highlighted on Slide 17, fourth quarter adjusted cash flow from operations was stable year over year at $103 million, and adjusted cash flow improved by $106 million from Q4 last year. This was driven by lower net CapEx paid in the current quarter, following the completion of the Bear Island project investments.

Sequentially, fourth quarter adjusted cash flow from operations was stable, and adjusted cash flow improved by $28 million from Q3, reflecting lower CapEx and dividends paid.

Slide 18 provides details about our capital investments.

New investments this year totalled $289 million, and paid capital expenditures, net of disposals and accounts payable variation, totalled $343 million, of which $46 million was in Q4.

For 2024, our planned capital investments of $175 million have not changed.

Moving now to our net debt reconciliation.

As detailed on Slide 19, our net debt decreased by $206 million in the fourth quarter, reflecting a stronger cash flow, a more favourable exchange rate, and a positive working capital variance.

For the full year, as detailed on Slide 20, net debt levels are down $84 million, with benefits from our stronger cash flow and a positive working capital variance, which was reduced by CapEx associated with the Bear Island investment and dividends paid in 2023.

Note that in the fourth quarter, we entered into a nonrecourse monthly receivables monetization facility. At the end of the year, we had $53 million used on the facility, and the receivables were de-recognized from the balance sheet and reduced our net debt for the same amount.

Our leverage ratio of 3.4 times is down from 5.2 times at the end of 2022, driven by our stronger annual EBITDA levels and factors that I just mentioned.

Financial ratios and information about maturities are detailed on Slide 21, and other information and analysis can be found on Slides 24 through 31 of the deck.

Mario will now conclude the call with some brief comments and 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 22 of the presentation. As a reminder, this outlook is based on current forecasts and expectations and may change.

Starting with Containerboard segment, we are expecting a Q1 result to be lower both sequentially and year over year. This reflects higher raw material costs and lower selling prices, both of which are linked to index, as you know. Energy prices will also be a headwind sequentially.

Our production costs will be higher in Q1, as we expect to take approximately 18,000 short tons of downtime in the first quarter for maintenance and inventory management, following the softer demand in Q4 of last year.

In addition, the closure of our Trenton mill will remove approximately 36,000 short tons of capacity in Q1.

Given our current contract agreements, we do not expect benefits from pricing initiatives and recent index changes to be reflected in our Q1 results. These will begin in Q2 and be fully implemented by Q4, adding approximately $50 million to EBITDA levels in 2024.

Results from the Specialty Products segment are expected to be slightly stronger sequentially, reflecting stable selling prices trend and raw material costs and efficiency improvement in several subsegments. Year-over-year results are expected to be slightly softer.

Our outlook for Tissue is for first quarter results to be slightly softer, sequentially, reflecting usual seasonality and higher raw material costs. These will be offset by ongoing benefits from profitability initiatives. Results are forecast to be significantly above prior-year levels, driven by this segment's improved performance since the second half of 2022.

To preempt questions that I am sure you all have about our 2024 objectives, we are pleased that we have successfully achieved the main business objectives set out in the plan, namely, delivering significant profitability improvement in the Tissue Papers segment and the successful start-up of the Bear Island containerboard facility. We will not be providing any additional detailed financial update going forward.

However, regarding these objectives and given existing market conditions, most notably in containerboard, we currently expect to fall short of our $5 billion consolidated sales objective and attain the lower end of the target range for EBITDA and free cash flow. Given this, our leverage ratio at the end of 2024 is forecasted to be slightly higher than our target of between 2.5 to 3 times.

Ongoing profitability improvement initiatives in all business segments and recent price increase announced in the Containerboard segment will support our 2024 financial performance.

That said, let me say the following. We are confident about the future performance of our businesses and, as our recent initiatives and announcements highlight, we will continue to manage each of them with a view of driving profitability, efficiency, productivity, and their competitive positioning. Our current strategic plan ends in December of this year, and we have begun the early process of outlining and analyzing our objectives for the year to come.

With that, we can open the call to questions, Operator.

Q&A

Operator

[French]

Thank you. If you'd like to ask a question, press the *, then the number 1 on your telephone keypad. If you'd like to withdraw your question, please press the *, then the number 2.

Again, if you have a question, please press *, 1 on your telephone keypad. We'll pause for a moment to compile the Q&A roster.

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

Hamir Patel — CIBC Capital Markets

Hi. Good morning. Mario, you referenced some figures around the Containerboard segment. How much of the $70-per-ton price increase are you assuming is implemented? I know Pulp & Paper Week reflected $40 recently.

Mario Plourde

Charles, can you take this one?

Charles Malo — President and COO, Cascades Containerboard Packaging, Cascades Inc.

So, Hamir, Charles. We're still—as you know, we announced $110 on the medium and $70 on the liner. And we are still continuing to work towards achieving this.

Now the Pulp & Paper recognized the index move by $60 on the medium and $40 on the liner. So when you look at our current parent rolls and the contracts that we have, we figured that the average is about $50, and that's why we base the impact of $50 million for this year.

Hamir Patel

Okay. Great. Thanks for that, Charles.

And if you think about where maybe run rate EBITDA in Containerboard is at the end of the year—because obviously, this sounds like the price hike, full effects will only be felt by the end of the year, and then there's the Trenton rationalization. What type of annualized EBITDA would you expect out of Containerboard by the end of '24?

Allan Hogg

Well, Hamir, this is not something we will disclose. We said that we will not be providing any more guidance for this year, so we will not disclose any number in that regards.

Hamir Patel

Okay. Fair enough, Allan.

And just a question on Bear Island. I know one of the objectives there was to be able to utilize significantly more mixed paper. How far along are you in that transition?

Charles Malo

Yeah. So maybe just a point to cover the Bear Island.

First of all, we are above our ramp-up production, so which is a very good news. Actually, we just announced that we're able to provide also to the market, high-performance recycled linerboard, 18 pound and over, so which is a very good news. This product has been qualified, and it is running well, so this is going to add up to our portfolio of products that we're able to offer to the market.

We also tested the percentage of mixed that we're including, so we went up to 30 percent, which is not the maximum that we can use, but as we speak right now, this is what we were able to achieve in the ramp-up process. You have to understand that we also want to make sure that we do it properly, making sure that we check the quality of the product and following the ramp-up also.

Hamir Patel

Thanks. And so, Charles, is your objective to eventually take that as high as 60 percent?

Charles Malo

We can do a bit higher than that. On the medium, we can go higher than that, and in the liner. But again, I don't want to give a number right now because we're still in a process to make sure that we provide good quality, and we ensure that the right ramp-up of the machine. But we have the flexibility with the investment that we made to go a bit higher than 50 percent.

Hamir Patel

Yep. Fair enough. And just the last question I had.

Mario, on the Tissue side, we've seen one of your competitors, Clearwater Paper, launch a strategic alternatives review for their tissue business. Do you think that could, perhaps, lead to more industry consolidation in the tissue sector?

And would Cascades be open to growing in tissue? Or conversely, potentially selling into somebody looking to consolidate in that space?

Mario Plourde

Well, it's opened the doors to it. I don't know who will present itself to this deal. For our part, as we said in the past, we won't be a participant in the consolidation because our focus right now was to deliver on our plan 2024 and reduce our leverage.

So we have not changed our focus. So it's a new dynamic in the market. We'll stay open and looking at what's moving on, but for the moment, we have not changed our focus, so.

Hamir Patel

Fair enough. Thanks, Mario. I'll turn it over.

Mario Plourde

Thank you.

Operator

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

Matthew McKellar — RBC Capital Markets

Hi. Good morning. Thanks for taking my questions.

First, for your Containerboard outlook for Q1, could you maybe delineate between your expectations for shipments versus production levels, given the desire to manage inventories you called out?

And maybe speak to your expectations for converted product shipments versus parent roll shipments quarter over quarter?

Allan Hogg

Well, Matthew, I can go high level. Our volume will be higher in Q1 than Q4, but as we said in the press release, we'll produce a bit less to manage inventory. So that will incur some additional costs, but sales volume will be higher than Q4.

Matthew McKellar

Okay. Thanks. And—

Allan Hogg

We don't give that—we don't give the split of boxes or parent rolls, but box—Charles, you can complete—but box demand is still good. It's—

Charles Malo

Yeah. So on the converting side, the demand is still solid. So the growth that we've been experiencing, we're still seeing the same trend right now. So this is good news for—following the investment that we made, both in the new facility and also in the Ontario region, we're still ramping up and keep developing new business.

Matthew McKellar

Great. Thanks for that colour. Maybe to stick with Containerboard, I know you're not going to provide any financial guidance here, but can you give us a sense of the magnitude of the benefits you should see from the closures of Trenton and the two converting facilities you announced earlier in February?

Allan Hogg

Well, Matthew, we have not disclosed that number, so it will be gradually in 2024. But as we mentioned, if volume that will be transferred in other facilities at a lower cost, so that should bring benefit, but we have not, and we do not want to quantify the benefit of that.

But you can imagine that there's a higher fixed-cost structure in the mills we close, so that's an immediate benefit on each ton that will be produced elsewhere, so.

Charles Malo

So there's a—this is Charles. So fixed cost is one of the benefits, more efficient. We're going to produce product in more efficient facilities than where they're produced right now. And we're also looking at improving the overall network and logistic aspect. So these are the three things that we're really focusing on right now on the benefits of the announced closures.

Matthew McKellar

Okay. Thanks very much. Last one for me, just switching over to the Tissue business.

You noted the continuing benefits from profitability initiatives as part of the outlook for Q1. Can you remind us or give us a sense of how significant you expect the incremental benefits from these initiatives to be as we progress through 2024?

Jean-David Tardif — President and COO, Cascades Tissue Group, Cascades Inc.

Right. It's a little early to say, Matthew. Jean-David speaking. I think we just don't know what will happen with the raw material, what will happen with the pulp, what will happen with the recycled fibre prices. So it's difficult to predict the impact of the cost structure, so, and to guide a little bit more precisely 2024.

But overall, I can tell you that we have still many initiatives on the table to continue to improve the bottom line and to compensate for those pressures from the open market.

We have the four converting lines from Oregon that we are actually removing or reinstalling into our network. That should give us a few million cases of additional capacity throughout the year, so that should also help us to compensate.

So we're really confident to be above last year. That's it. Don't know if I've answered your question, then.

Matthew McKellar

That's helpful. Thanks very much. That's all from me. I'll turn it back.

Operator

Your next question comes from Kasia Kopytek from TD. Please go ahead.

Kasia Kopytek — TD

Hi. Good morning, everyone. A question on the containerboard price hikes. And notwithstanding that this is a cost-led initiative to begin with, as you're going through your discussions with customers, is this one proving to be a little bit more difficult to implement versus prior rounds, just given some of the de-consolidation that we're seeing in the containerboard industry right now?

Charles Malo

So a price increase is always a discussion between our customers and us. So we've done quite a few over the years, so I would say that, every time, we need to spend the time for them. You mentioned that this one—and you saw the input cost, the inflation, which our customers are seeing the same thing also. So this is the level of discussion we're having with them, that in order to be a supplier for the long term and being able to reinvest in the business, that's why we're pushing for the increase.

So we're working on implementing, and that's the line that we're using. Costs are going up for everybody, and we're talking about energy, chemicals, transportation. Though the inflation has slowed down a bit, they're still there compared to two years ago. So this is the level of conversation we're having with our customers.

Kasia Kopytek

Okay. Thanks for that. And just turning over to Bear Island, you provided a bit of commentary there already.

Are you able to quantify the EBITDA contributions from Bear Island in Q4 and how that's trending now in 2024? And how you expect that to trend going forward?

Charles Malo

So we're not going to disclose any numbers. The only thing we can say is that in Q4, it did achieve a break-even, so for the quarter, fourth quarter. And we expect that the mill will start contributing in 2024.

Kasia Kopytek

Okay. Thank you. Last one for me. Last quarter, I believe you touched on possible tissue price hike pressure just due to government incentives.

Is that something that went away? Or you saw more of that this quarter? Or maybe just commentary around tissue price hikes—or tissue prices, rather.

Jean-David Tardif

It went away, I will say, because of the inflation that continued and the pricing on the pulp and recycled fibre that continued to increase. So honestly, we don't foresee a major price concession in the future, and I believe we can even see price increase at some point if things continue to go that way. The thing is, we're going to continue to follow the market carefully, as we want to protect our margin (unintelligible).

Kasia Kopytek

Yeah. Great. Thanks. I am going to sneak one final one in here just on recycled fibre prices. Do you have a midterm view of where they're heading?

And what is your inventory situation like right now?

Jean-David Tardif

Well, our inventories are pretty good, actually. We obviously managed the closure of the mills and moved the tons around our network of mills.

And we have to understand that this season is a typical low-generation season, so it's not unusual to be in the conditions we are now with the low generation and a consistence of demand. (phon)

And so we do expect that over the next few weeks, typically in March, the generation will pick up, and the market dynamic will move positively in terms of price of fibres.

But we're currently in a situation where the demand is consistent, the domestic demand is consistent. We are in a low-generation season, and export is not currently a factor influencing the market at this moment—for OCC, I'm talking here.

Kasia Kopytek

Okay. Merci, tout le monde.

Mario Plourde

Merci.

Charles Malo

Merci.

Jean-David Tardif

Thank you.

Operator

Again, if you'd like to ask a question, please press the *, and then the number 1 on your telephone keypad.

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

Zachary Evershed — National Bank Financial

Good morning, everyone.

Mario Plourde

Good morning.

Zachary Evershed

It’s been a bit of an issue in the past at times, but can you comment on any discrepancies between what you’re seeing in terms of pricing in the market versus what RISI is reporting for either linerboard or medium?

Charles Malo

I’m not going to comment on publication or market. The only thing, as I mentioned, we’re working with our customers on our pricing, but I’m not going to comment on the specific of index compared to what the market is, the actual, or. I’m not going to go there.

Zachary Evershed

Gotcha. And given your mix of integration and shipments, can you remind us of how the timing of how your contracts and containerboard interact with changes in the benchmark? And how much of that business is adjusted automatically?

Charles Malo

Yeah. So with the contracts—and we’re talking, right now, what has the publication index moved. As I mentioned, we’re still working on initiatives to implement what we have announced, which is higher than what the index has recognized.

So in our system with the contracts, it’s on a period of six months, so fully implemented by Q4 of 2024; parent rolls being faster within the two months, and then the rest of the contracts that we have would take until the end of the year with the impact, as we mentioned, of approximately $50 million during that period.

Zachary Evershed

Thank you. And then it looks like your CapEx for the year came in below guidance. Can you give us any commentary on what’s driving that?

And will there be a catch-up later?

Allan Hogg

Well, we manage our cash flow carefully. We were slightly above what we said last year due to the accounts payable variations. On a cash basis, we're slightly higher, but lower on a gross basis. But to answer your question, no, there's no significant catch-up. We still have the envelope of $175 million for 2024.

Zachary Evershed

Thanks very much. I'll turn it over.

Allan Hogg

Yeah.

Operator

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

Mario Plourde

All right. Thank you, everyone, for being on the call this morning and looking forward to talk to you on the next quarter. Have a good day, everyone. Thank you.

Allan Hogg

Thank you.

Operator

[French]

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