FINAL TRANSCRIPT

Cascades Inc.

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PRESENTATION

Operator

[Operator's Remarks in French]

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

At this time, I would like to welcome everyone to the Cascades First Quarter 2019 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 first quarter 2019 financial results conference call. We will begin with an overview of our quarterly operational and financial results, followed by some concluding remarks, after which we will begin the question period.

Today's call will have a slightly different format from that of previous quarters, in that the speakers this morning will be limited to Mario Plourde, President and CEO, and Allan Hogg, CFO.

Charles Malo, President and COO of the Containerboard Packaging Group; Luc Langevin, President and COO of the Specialty Products Group; and Jean- David Tardif, President and COO of the Tissue Papers Group, will also be joining us on the call and will be available to answer questions at the end of the call.

Before I turn the call over to my colleagues, I would like to highlight that Reno de Medici's interim report released on April 29th can be viewed on Reno's website.

I would also note that certain statements made during this call will discuss historical and forward-looking matters. The accuracy of these statements is subject to risk factors that can have a material impact on actual results. These risks are listed in our public filings.

These statements, the investor presentation, and the press release also include data that are not measures of performance under IFRS. Please refer to our accompanying Q1 2019 Investor Presentation for details. This presentation, along with our press release, can be found in the Investors section of our website.

I would like to remind the media and internet users that they are in listen-only mode and can therefore only listen to the call. If you have any questions, please feel free to call us after the session.

I will now turn the call over. Allan?

Allan Hogg — Chief Financial Officer, Cascades Inc.

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

So before we discuss the details of our quarterly results, I will touch briefly on the impact of IFRS 16, the new accounting standard on leases that came into effect on January 1, 2019.

Slide 3 provides an overview of the impact. And as you can see, the new standard impacted all of our business segments. The new standard increased our debt by 99 million as of January 1st, and our EBITDA by 30 million on an annualized basis. There is no impact on our cash flow profile, and I would also note that financial figures were not restated historically, as allowed by the standard.

I will now pass the call over to Mario, who will provide an overview of our first quarter results. Mario?

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

Thank you, Allan, and good morning, everyone. Overall, we are pleased with first quarter results, with all four of our business segments generating good results that were in line or above expectation.

Specifically, our Containerboard and European Boxboard segment benefitted from lower recycled fibre prices and a more favourable sales mix, while results in Europe also reflect the recent business acquisition.

Specialty products similarly benefitted from the recent business acquisition, as well as generating improved results in the packaging subsegment. Combined, these benefits offset the negative impact of lower recycled fibre pricing on the recovery subsegment.

Finally, we are pleased with the sequential performance of our Tissue Papers segment, where stronger results reflect higher selling prices, lower raw material prices, and lower cost production costs, and improved performance of our St. Helens mills.

I will provide more colour about the driving factors behind each of the segment's results later in the call.

On an adjusted per-share basis, we generated $0.14 in the first quarter. This compared to earnings per share of $0.13 in the first quarter of 2018 and breakeven in the previous quarter. Again, on an adjusted basis, EBITDA of 135 million increased 29 percent over the last year and 19 percent from the fourth quarter. On a consolidated basis, our adjusted EBITDA margin reached 11 percent in Q1.

On the raw materials side, the average Q1 index price for OCC brown paper grade was down by a significant 34 percent, year over year, and was down 10 percent compared to Q4. The average Q1 price for white recycled paper grade, which makes up for the large part of the raw material used in Tissue, decreased by 10 percent compared to Q4 levels but remained 15 percent above prior-year levels.

On the virgin pulp side, both hardwood and softwood pulp prices were 3 percent below Q4 levels but remained 10 to 12 percent higher than last year.

Allan will now discuss the main highlights of our first quarter financial performance, after which I will discuss our business segments. Allan?

Allan Hogg

Yes. Thank you, Mario. We'll start with a quick overview of our key KPIs on Slide 9.

Our first quarter shipments increased by 1.5 percent from Q4. This increase was driven by Boxboard Europe, where shipments were up 14 percent sequentially due to its acquisition of the Barcelona Neolex last October. Shipment levels decreased in our North American operations, which is in line with usual seasonal changes in demand.

Our first quarter capacity utilization rate of 91 percent increased by a marginal 1 percent sequentially and was 3 percent below last year.

On an LTM basis, working capital came in at 10.4 percent of sales, while consolidated return on assets stood at 11 percent.

Moving now to sales on Slide 10 and 11. On a year-over-year basis, first quarter sales increased by 132 million or 12 percent. This reflects the contribution from recent business acquisitions in Boxboard Europe and Specialty Products segments, in addition to improvements in pricing and sales mix, and favourable exchange rates for our North American operations. Offsetting these benefits were lower volumes for all segments.

Sequentially, Q1 sales increased by a modest 34 million, or 3 percent, as the benefits of recent acquisitions and favourable sales mix in North America were offset by lower Containerboard and Tissue volumes.

Moving now to operating income and adjusted EBITDA on Slide 12.

Q1 adjusted EBITDA of 135 million increased 30 million from prior-year levels. Results benefitted from a stronger performance from our Containerboard and Specialty Products segments. Mario will provide more detail regarding these performances in a few minutes.

Sequentially, Q1 adjusted EBITDA increased by 22 million, as shown on Slide 13. This was largely the result of improved Tissue Papers and European Boxboard segments' performances, which more than offset a lower contribution from Containerboard activities.

Slide 27 and 28 of the presentation provide details regarding operating income and EBITDA results for each segment on a year-over-year and sequential basis.

Slide 14 and 15 illustrate the year-over-year and sequential variance of our Q1 earnings per share, and their reconciliation with the specific items that affected our results. As reported, earnings per share were $0.26 in the first quarter of 2019 compared to reported earnings per share of $0.65 last year. Both periods included specific items.

On an adjusted basis, earnings per share increased by $0.01 over last-year results. Higher operating results were offset by higher depreciation and financing expenses. The change in depreciation expense reflects 2018 business acquisitions and capital projects put in operations, and the adoption of IFRS 16 standard for leases.

In addition, interest on other liabilities increased, due to the put value of one of the partners in Greenpac, as explained on Page 14 and 15.

Slide 16 and 17 illustrate the specific items recorded during the quarter. Our first quarter results include a 10 million gain from the reversal of liabilities following White Birch' termination of its lease on the Bear Island, Virginia facility, and a combined 9 million gain on financial instruments and FX impact on long-term debt level. We also recorded a total of 9 million of impairment charges and restructuring costs. Last year, we reported a 66 million gain related to the sale of the building and land of our New York Containerboard facility.

First quarter adjusted cash flow from operations increased by 16 million, year over year, to 85 million. Adjusted free cash flow was below prior-year levels, as a result of the higher net CapEx paid in the current period and higher dividends paid to minority shareholders in Greenpac. Remember that Q1 2018 adjusted free cash flow included the proceeds from the sales of our New York facility.

Moving now to our debt reconciliation. Our net debt increased sequentially by 6 percent or 109 million in Q1. This reflects, once again, the impact of the adoption of IFRS 16 in the amount of 99 million. Change in working capital was negative, as usual, in Q1 but was offset by the currency impact on our US-denominated debt.

On a pro forma basis, to include our recent business acquisitions and the annualized impact of IFRS 16, our net debt leverage ratio stood at 3.4 at the end of the first quarter, compared to 3.5 at the end of 2018. This, along with other financial ratios and information about maturities, are detailed on Slide 20.

On Slide 21, we have detailed our capital investments during the first quarter on a segment-by-segment basis. Our expected CapEx plans for 2019 are also detailed on the slide and are still between 330 million and 400 million. As we have noted previously, the amount may vary depending market conditions, the final approval of the Bear Island conversion project, and the overall financial performance.

I will now hand the call back to Mario, who'll discuss the highlights from each of our segments. You can find an analysis of the factors impacting performance in each of these segments on Slide 23 through 26 of the presentation. And near-term business considerations are shown on Slide 30.

Mario?

Mario Plourde

Thank you, Allan. The Containerboard segment generated first quarter EBITDA of 104 million, representing a margin of 23.6 percent. This compares to margins of 23.5 in Q4 and 18.3 percent last year.

On a sequential basis, EBITDA decreased. This was largely driven by lower volumes, which was partially offset by lower OCC costs and higher average selling prices.

Our Canadian average selling price increased $10 per short ton from Q4 levels. This reflects stable pricing in Containerboard and a $25-per-short-ton increase in the average selling price of the converted product, which reflects a favourable sales mix in the quarter and a 1 percent depreciation in the Canadian dollar.

Our Q1 operating rate was 88 percent, down 5 percent sequentially, with paper shipments decreasing 26,000 short tons to 342,000 short tons, reflecting the same trend as Q1 last year.

External shipments decreased 12,000 short tons, which increased our integration rate by 1 percent, to 59 percent. Including sales to associated companies, integration decreased slightly to 71 percent from 73 in the previous quarter.

Shipment of converted product decreased 7 percent sequentially in millions of square feet, underperforming both Canadian and US markets by approximately 3 percent. I would note, however, that we outperformed the market in Q4, making our sequential performance lower.

In the first quarter, we took approximately 7,000 short tons of scheduled maintenance downtime. We are cautiously optimistic for this segment in the near term, as more favourable OCC pricing and higher seasonal demand trends should help moderate the industry-wide demands and pricing headwinds.

On Slide 23, we have updated our downtime plan for 2019. The change reflects 3,000 short tons of downtime taken in the beginning of April to rebalance inventory.

Finally, the Bear Island project is advancing well, and we will provide details once plans have been finalized this summer.

The European Boxboard operation generated solid results in Q1, reflecting good efficiencies in our operations. Sales increased 13 percent compared to the last year. This reflects the acquisition of Barcelona Cartonboard, the benefits of which were partially offset by lower sales volume in the same-plant basis, and the 3 percent appreciation of the Canadian dollar.

On a year-over-year basis, the average Q1 selling price in recycled boxboard decreased by €2 or 1 percent, and the average selling price of virgin boxboard increased by €45 or 6 percent. EBITDA increased 4 percent from prior-year levels, driven by lower raw material costs and the contribution of Barcelona. A lower average selling price and the appreciation of the Canadian dollar partially offset these benefits.

On a sequential basis, the 14 percent sales increase largely reflects the addition of the mill in Spain and the usual evolution following seasonal softness in December.

Adjusted EBITDA increased by 9 million or 45 percent from Q4 levels, primarily as a result of better volumes, lower raw material costs, and the energy credit received during the period.

Looking forward, synergy from our mill acquisition in Spain and stable raw material prices support a cautiously optimistic outlook, given uncertainty in regards to volume.

First quarter sales in the Specialty Products were 196 million, 14 percent above Q4, largely driven by the December 2018 acquisition in the consumer product market. Higher volumes in our packaging activities during the period were offset by lower sales in our recovery segment, due to lower prices and volume.

Q1 EBITDA of 12 million was 20 percent above Q4 2018 levels, with half of this increase driven by recent acquisitions. The remainder of the increase reflects improved performance in packaging subsegment, which more than offset reduced profitability in the recovered paper activity due to price erosion.

The continued decline of the recovered paper prices has significantly impacted this business unit's profitability. Needless to say, these lower prices are very positive for Cascades' other operations.

Regarding the near-term outlook, the recent OCC price decrease continued to impact recovery results in April, and we are following the situation very closely as generation increases with seasonality.

Market conditions for white grades remain positive for buyers. We are managing inventory to meet our fibre needs and to prepare for the lower generation season common in late Q2.

Overall, near-term performance of the recovery segment is expected to continue to be negatively impacted by declines of recovered paper prices. Stronger seasonal volume and spread in packaging activity should help offset this impact. We, therefore, expect improved year-over-year results from this group.

Moving now to the Tissue group, where first quarter results highlight the progress we have begun to make in addressing operational performance. This business has been facing challenging market conditions over the past 18 months. However, while both recycled and virgin white fibre remain elevated, they have begun to ease in recent months. Transportation costs have also stabilized, which has helped overall profitability.

Moreover, price increases announced in the oil market during the second half of 2018 positively impacted first quarter results, partially offsetting fibre and transportation cost increases. In addition, we have begun to see positive results from our improve (sic) [improvement] initiatives, primarily in Oregon.

First quarter results reflect these favourable trends, with EBITDA totalling 9 million or 2.6 percent on a margin basis. This compares to a loss of 8 million in Q4. That said, results remain below the $13 million EBITDA or 4 percent margin generated last year. This is mainly due to higher white fibre costs, both recycled and virgin, as well as production cost increases, which have not been fully offset by price increases announced in 2018.

On the volume side, total shipments decreased by 2 percent year over year. Shipment of converted product grew by double digits compared to last year, registering an increase of 11 percent, due to higher demands in our targeted market segment. However, external shipments of parent rolls decreased by 29 percent compared to last year, mainly due to higher integration and strategic customer realignment. Volume level remains very positive for converted product, and this is mainly due to the long-term contract agreement with key strategic customer.

As has been the case in the past, some additional subcontracting was required on a short-term basis to supply this volume, which has impacted profitability. Among other things, our capital investment plan is aimed at addressing this situation.

In terms of pricing, the average selling price increased by 11 percent year over year. This reflected the previously announced price increases, the higher proportion of converted product in our overall shipment, and the depreciation of the Canadian dollar.

On a sequential basis, our quarterly average selling price increased by 4 percent for the same reason.

We announced another price increase during the first quarter of up to 8 percent in the away-from-home segment across North America, effective June 1st.

On an operational basis, higher raw material costs remained a headwind, as did a less favourable mix of white fibre used during the quarter. This negatively impacted result by 14 million year over year. On a sequential basis, the decrease of white fibre and pulp prices positively impacted our result by 4 million on a net basis.

We closed one of our operations, paper machine, in Ontario April 15th, with the second scheduled to close May 27th. As mentioned on our previous call, these sites produced 44,000 short ton of tissue paper annually, of which half was used internally. These tons will be sourced externally going forward.

We expect near-term conditions in the Tissue to remain challenging. That said, we are pleased with the progress in our operational effectiveness and remain positive for the coming quarter.

On the demand side, we are now entering the peak season for many of our markets. In addition, recent easing of white fibre prices, combined with an improved pricing environment and better logistic execution, should certainly support profitability.

Before we open the call to questions, let me summarize by saying that we are pleased with our first quarter performance. All of our business segments generated solid results that were in line with or above expectations. The sequential improvement in Tissue is of particular note and with the new structure in place, our outlook is positive for this segment.

Slide 30 of our presentation outlines near-term trends for our operations. Overall, we expect second quarter performance to benefit from positive seasonal demand and more favourable raw material pricing. More specifically, we also anticipate that our Containerboard segment will continue to contribute strongly to our performance.

On the strategic side, we remain focused on successfully executing our capital investment plan and on continuing to improve our operational efficiency and productivity.

On that note, we will now be happy to answer your questions. Operator?

Q&A

Operator

[Operator's Remarks in French]

Thank you. If you would like to ask a question, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press the # key. And again, that was *, 1 on your telephone keypad.

Your first question comes from the line of Mark Wilde from Bank of Montreal. Please go ahead.

Mark Wilde — Bank of Montreal

Good morning.

Mario Plourde

Good morning.

Mark Wilde

I had a few questions. First, I wondered if you could just give us a little bit of colour on how you're thinking about kind of the Bear Island project right now? I know you said you'd have more details this summer. But just given the softening that we're seeing in the Containerboard market, are you kind of rethinking timing or the premise of this project?

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

Mark, this is Charles. So we're keep doing the same as what we announced on the other prior calls. We are working on the final presentation to get the board approval. We understand that there is a lot of discussion right now on the slower demand. But as we explained in the past, this is strategically a good project for Cascades. The location is well situated and for our growth and our positioning. So as we are right now, we are still on course to do the presentation before the end of June, and we'll provide more information as we go.

Mark Wilde

And Charles, is the fact that the mill is idle right now, does that pose any big issues?

Charles Malo

There is actually—we had planned for this when we did the negotiation with the White Birch group. So right now, what this is giving us is more flexibility to take our time to prepare the sites for our future conversion. So when you have more time like this, there's a lot of work that we can do like cleaning. All the testing that we had to do on the equipment were done prior to the machines being shut down, so we did work with the prior owner on that. So as we see this right now is, we can work on our schedule and have more flexibility.

The financial impact of the deal, because the way that we have structured this, will be minimal for the Cascades. There is—when we planned the acquisition, everything was built in the acquisition price.

Mark Wilde

Okay. All right. That's great. And then just toggling over to the Tissue business. There've been a couple of big developments recently, and I just like—and I wanted to get your sense of how these had impacted your business, if at all. We had the fire, which has basically taken out the Marcal tissue mill, and then we've also got the bankruptcy of Orchids, which I think many people had been anticipating for some time. So I just wondered if it's possible to talk about the impact of both of those on your Tissue business?

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

Yeah. Hello, Mark. Yeah—Jean-David. Yes. So for sure, this is creating some jumbo roll availability on the market, so right now we're looking at some opportunity. As Mario said, with the Toronto closure, there's some sourcing that we're going to do externally for Soundview. And for Orchids, we don't know what will happen at this moment, and we'll be looking at it carefully and follow the evolution of the market.

Mark Wilde

Okay. And then just lastly, I wondered, just vis-à-vis the Boxboard business, if you could give us some sense of just what you're seeing in terms of kind of volume and throughput over in Europe?

Mario Plourde

Q1 showed us a little bit the same thing as Q4. So in Q4, we saw a dip in the order intake, about seven days compared to the usual of 2018. So Q1 is at the same level right now. We're still equal to what we had in Q4, no big dip, no more than what we saw. So a stable market right now in Europe.

Mark Wilde

And how is pricing doing in Europe, just given that the recycled fibre prices have come down so much, and you've got this fairly static economy over in Europe?

Mario Plourde

The pricing of wastepaper has not come down as much as North America, so it has less of an impact on the recycle grade. On the virgin side, as I just mentioned on the call, we had a price increase of

€45, so it's beneficial on that side, so. But the dynamic is a little different in Europe than it is in North America. We have not seen as much lower price of wastepaper in Europe.

Mark Wilde

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

Mario Plourde

Thank you.

Operator

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

Hamir Patel — CIBC Capital Markets

Hi. Good morning. Charles, I just wanted to follow up on that White Birch—your White Birch comment. So what's the latest thinking, if the project does go ahead—when is the earliest it would be in production?

Charles Malo

We're sticking with the same amount at this point—same date, sorry—when we talked about 2021, end of 2021 production.

Hamir Patel

Okay. Great. That's helpful. And I was just looking at the waterfall charts, and looks like in Q1, I didn't see any reference to the benchmark price as a headwind. So was there any unusual mix in the quarter? And maybe if you could speak to what sort of sequential decline you'd expect in Q2 from pricing?

Charles Malo

I'm sorry. Can you just repeat the last part of your question?

Hamir Patel

Yeah. So I mean the benchmark obviously came off this year, but it doesn't look like that weighed on your Q1 number. So what was going on in the quarter on the mix side?

Charles Malo

We did sell more converted product than we sold outside rolls, and that's why our pricing has a benefit or a benefit impact—positive benefit impact.

Hamir Patel

Right. Okay. And then on the volume side, it looks like the US industry, box shipments were down, I think, about 0.5 percent year to date. You guys were down 3 percent. So do you think you're losing market share? Or did Canadian industry demand fare worse than the US in the first quarter?

Charles Malo

No. If you look—if you look from, first of all, year over year, our overall is about 1 percent lower from year over year. So I mean this is, for us, not significant at this point. When we look at from Q4 to Q1, we did have a lower than the average, when you look at the—compared to our peers, but we did have a very good Q4, so which explains a bit of the gap that we have compared to the market. So we had—when we look at Q4, we had about 3 percent more than the average of the market.

Hamir Patel

Okay. And Charles, can you update us, what's your thinking on OCC for the balance of 2019?

Charles Malo

I will let that question to Luc for the OCC.

Luc Langevin — President and Chief Operating Officer, Cascades Specialty Products Group, Cascades Canada ULC

Well, good morning, Hamir. The market now is pretty much the same it was since the beginning of the year; meaning by this, we have a very high supply, way above the demand. So we don't see any significant change in the price of OCC for the rest of the year with the current conditions that prevail.

Hamir Patel

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

Operator

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

Sean Steuart — TD Securities

Thanks. Good morning. Congratulations on a better result. First question on Tissue. The 5 percent sequential improvement in price realizations, how much of that was the various second half of 2018 price increase initiatives? And how much of it was the better mix with higher integration rates and lower percentage of parent rolls? And following on that, how should we think about price realizations trending into the second and third quarters of the year?

Luc Langevin

It's tough to evaluate precisely, but I think it's probably half and half.

Sean Steuart

Okay. And then beyond—

Luc Langevin

Well—

Sean Steuart

—beyond the away from home hike in June, could you just give us a rundown of where things stand for price increases on the retail side?

Charles Malo

Well, the announcement was on away-from-home June 1st. And there is no—Jean-David—

Jean-David Tardif

Correct—

Charles Malo

—there's no new price increases—

Jean-David Tardif

There's no new price increase on the consumer product side.

Sean Steuart

But I guess from the previous price increases, are those fully baked into the Q1 realizations? Or would you expect some follow-through in the second quarter?

Charles Malo

There's still some follow-through to come in Q2.

Sean Steuart

Okay. And second question on Bear Island—and I appreciate you'll have more to say in a few months probably. The initial budget that you gave to everyone, I suppose it was last July, in light of steel cost inflation, presumably just a lot of general capital cost inflation, are you still comfortable with that budget for the project going ahead?

Charles Malo

Yes. At this point, we're still in line. As we said at that point, we went with a high-level budget that we presented, but we did give ourself some margin of maneuver in the amount that we said, so we're still in line with what we presented.

Sean Steuart

Okay. That's all I have for now. Thank you very much.

Operator

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

Zachary Evershed — National Bank Financial

Thank you. Great quarter, guys. Luc, with OCC costs at pretty much decade lows, maybe you could talk about how you view the Specialty Recovery segment's breakeven point? And how or whether you plan to manage collection curtailment?

Luc Langevin

Well, first of all, the price of OCC is actually very low, but the entire industry of recovery now is reviewing the business practices and rules that used to govern the industry. So what we see now—and the Cascades is no different than the rest of the industry—is that people are coming with a service fee surcharge to the generator for the service they provide.

So the revenues that are not coming from the selling of the OCC, of the fibre, will obviously have to come from somebody else, and that's going to be the generator. We need to understand that if this product is not going to the recovery facility, it's going to the landfill, and there will be a charge. And in certain states and provinces, it's actually forbidden to send OCC to the landfill.

So what's going on now is a different way of approaching that business. Obviously, it's fairly recent because, as you understand, we have seen—we have observed a 40 percent decrease in pricing since the beginning of the year. So the industry now is making the right moves.

And so our objective is to get back to profitability with our recover operation and the packaging segment is doing well. And we're getting into favourable quarters, so I would think that by probably the third quarter, we're going to be back on track with recovery. It's going to take a quarter to implement what we have to implement, at least.

Zachary Evershed

Thank you. That's helpful. And with OCC costs as low as they are, are you seeing pressure from customers looking for discounts versus say virgin linerboard prices?

Luc Langevin

Charles?

Charles Malo

We have in our product, and we've been mentioning that the product that we have is a high-quality product. So right now, we're selling our product with the same characteristics or almost as virgin. So we're still setting (phon) ourself for the characteristic that we're selling.

The second article that came—or published, did mention that they are right now spud deals, that there are some recycle that are being sold at different levels. But as we speak, we have long-term relations with our customers, and we're providing the service and the quality. So at this time, we're selling our high-value product on the market. So we're not seeing higher pressure for one type or the other product as we speak.

Zachary Evershed

Thank you very much for clarifying. Last one from me. Given your reiterated capital expenditure budget, maybe you could talk a little bit about your other capital allocation priorities versus the NCIB and debt repayment?

Allan Hogg

Well, as we always said, we always aim to have a free cash flow remaining after CapEx to reduce debt or to do some tuck-in acquisition as we did last year. So debt is the priority, along with our capital plans, so.

Zachary Evershed

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

Operator

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

Paul Quinn — RBC Capital Markets

Yeah. Thanks very much, and sorry if I repeat some questions here. I'm bouncing around—it's been a busy morning. But just decent turnaround in Tissue. Just wondering if the operational issues are behind you? Or how you'd characterize that?

Jean-David Tardif

There's still some for sure that we need to challenge and then work on, but we've made some changes in management in quite a few places in the group. And we're really positive about the trend right now and what's being accomplished as we speak, but there's still, for sure, more challenge to overcome.

Paul Quinn

Okay. And then just flipping over to Containerboard here. We've got a couple of the major guys taking market-related downtime, and some of it's significant right now. Are you guys able to run—just because you're a smaller percentage of the market—are you able to run flat through any kind of weakness going forward here?

Charles Malo

We are seeing, like the rest of the industry, slower pickup for seasonal demand. So we have—in the second quarter of the month of April, we have taken some downtime, about 3,000 tons as we speak. So we will make the necessary decision to balance our inventory level and also our demand as we go. So we are seeing a slower demand or pickup, seasonal demand, like the rest of the market is seeing right now.

Paul Quinn

Okay. So you're basically following the market trends?

Charles Malo

We're managing. Yes, we're managing our own inventory levels and our demand. So yes, we are seeing about the same trend as the rest of the industry.

Paul Quinn

Okay. And then just maybe a question to Luc on the recovery side. Yeah. My understanding is that the recovery industry is really changing here. What is best practices that you guys see? Is that—I mean obviously in BC here, we've got a different model than you've got in Quebec, and it seems to change by province, and I have no idea what happens in the States. So maybe you could just outline what you'd like to see? And whether we're moving towards that?

Luc Langevin

Well, we benefitted for numbers of years from the fact that a lot of the recovered material was going to Asia. And no significant effort in quality was done to improve the quality of what is collected and what is recovered. I think the best practices that will have to be implemented is the effort of all the parties in the supply chain to improve quality because there's so much that could be done at the sorting, but each individual, each citizen will have to do his part to improve the efficiency of the supply chain and encourage the recovery of the material.

Cascades is a company that's always been promoting sustainability, and we still believe that's the way to go. We cannot just spoil material that is readily available. We will encourage recovery and as the corporate citizen, we're going to help—I know there are discussions with different parts of governments and associations, and we will be participating to these discussions to improve the efficiency of the supply chain. I think that's the biggest challenge we have in front of us.

Paul Quinn

All right. That's all I had. Decent quarter. Thanks, guys. Good luck.

Luc Langevin

Thank you.

Operator

If there are any additional questions at this time, please press *, followed by the number 1 on your telephone keypad.

Your next question comes from the line of Mark Wilde from Bank of Montreal. Please go ahead.

Mark Wilde

Yeah. I just wanted to come back to a couple things, one on the OCC side. Do you guys have a ballpark estimate for what it costs to recover and process OCC?

Luc Langevin

It's very difficult to say that because it really depends of where you pick up the material. Obviously, if you go and get full truckloads of OCC in the back of a DC centre, the price of handling that material will be very low. If you have to pick up two bales in the back of a retailer, it's another cost.

And that's exactly the things we're looking at now, is trying to improve the logistics of hauling the material, reviewing the raw things, putting in place some business rules about minimum quantity, frequency of pickups, so we can reduce that cost of collecting the material. But it can vary significantly, from 10 bucks to 55, 60 bucks a ton to handle that.

Mark Wilde

Okay. And I'm just curious, are you seeing any reduction in collection because of the way prices dropped?

Luc Langevin

Not yet—

Mark Wilde

Or is the fact that tippage rates at a landfill are so high, is that kind of continuing to push stuff into the recycling stream?

Luc Langevin

Well, I think there's a part of that, that is you have you pay anyway to send it to the landfill. A lot of companies also have a sustainable program—a sustainability program in their company, so they cannot just throw this recovered material in the—at the landfill. And I think it's a little bit early now, but we haven't seen any significant drop yet on the volume we collect.

Mark Wilde

Okay. And just—

Luc Langevin

Actually, the supply's been very good in recent months.

Mark Wilde

Yeah. And does this create, like an opportunity for you right now, as you think about Bear Island? I mean, you're in the middle of a big population centre there, near Washington D.C., very close to Richmond. Would you be able to get some kind of favourable terms on kind of long-term offtake agreements from municipalities that are trying to figure out what they're going to do with all this waste?

Luc Langevin

Yeah. You're about right. I think, thanks to the infrastructure that Cascades has in place, we think we will be opportunistic in the current difficult market conditions. And yes, we think it's a plus for Cascades overall if we do the right things.

Mark Wilde

Yeah. And I just—finally on this with recycling and Bear Island—any thoughts about fibre mix? Because it seems like a lot of companies in the Containerboard industry—you know, I think about Pratt or maybe Kruger up at Three Rivers—are using more and more mixed wasted in the fibre mix. And is that part of your game plan at Bear Island?

Luc Langevin

So it's a very good question. Thank you. Part of our planning right now is we did sent a team to visit a lot of paper mills. There is a new—we had the luxury of starting our stock prep from scratch. As you know, we will have to add this up to the project. So in the planning, we have an option to maximize the use of different grades.

So this is one of the big advantages of this project, long term, is we're going to have the flexibility to run with a lot higher mixed waste than what we're using right now in some of our older facilities, due to the fact that we're in the design mode right now, and we can use the new design for the future.

Mark Wilde

Okay. All right. Very good. I'll turn it over.

Operator

Your next question comes from the line of Hanbo Xiao from Desjardins. Please go ahead.

Hanbo Xiao — Desjardins

Hi. Good morning. It's Hanbo on for Keith. Thanks for taking my questions. First one, just on a high level, wanted to get your thoughts on what the potential impact from tariffs and the ongoing trade wars between the US and China—what that—how that impacts your business on a high level?

Mario Plourde

Well, so far, the only area where we see impact is when we're acquiring equipment coming from overseas. So obviously, this has put pressure on the costs of the equipment we acquired because steel is not—or aluminum is not made in North America. For the rest of the business, the way we're set—and you know that we have plants in Canada and the US, and we're quite balanced in the volume we trade between the two. So it has a minimal impact on our trading with the US. It's mostly with the equipment we acquire from abroad.

Hanbo Xiao

Okay. Thanks very much. And just on the Containerboard outlook for second quarter '19, you're guiding for higher volumes year over year in 2Q. Just given the reduction in capacity utilization across the industry, what gives you confidence in that, volumes would increase year over year?

Charles Malo

We have two reasons to believe: first of all, our converting or internal demand trend that we're seeing right now; and also, as I mentioned, we're seeing a bit delayed and in the seasonal pick up, so that's why we're seeing like this.

And in addition also, as you know, we have our new facility that we have in New Jersey, which is going to bring—which is going to bring some better input for us. But we're cautiously on the uptake. So we did put the arrow up, but it's cautiously up.

Hanbo Xiao

Okay. Thanks very much.

Operator

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

Mario Plourde

Thank you, Operator. Thank you, everyone, for making the calls. And looking forward to meet you on the Q2 results. Thank you very much. Have a good day.

Operator

[Operator's Remarks in French]

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