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Cascades Canada ULC

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CORPORATE PARTICIPANTS

Jennifer Aitken
Cascades Canada ULC — Director, Investor Relations

Mario Plourde
Cascades Canada ULC — President and Chief Executive Officer

Allan Hogg
Cascades Canada ULC — Chief Financial Officer

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

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

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

CONFERENCE CALL PARTICIPANTS

Sean Steuart
TD Securities — Analyst

Anojja Shah
BMO Capital Markets — Analyst

Hamir Patel
CIBC Capital Markets — Analyst

Zachary Evershed
National Bank Financial — Analyst

Paul Quinn
RBC Capital Markets — Analyst

PRESENTATION

Operator

[Operator Remarks in French]

Good morning. My name is Simon, and I will be your conference Operator today.

At this time, I would like to welcome everyone to the Cascades First Quarter 2021 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 Canada ULC

Thank you, Simon. Good morning, everyone, and thank you for joining our first quarter 2021 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. The speakers on today's call will be Mario Plourde, President and CEO, and Allan Hogg, CFO.

Also joining us on the call are the Presidents of Cascades' business segments, namely 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. They will all be available for the question-and-answer period 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 Q1 2021 investor presentation for details. This presentation, along with our first quarter press release, can be found in the Investors section of our website. If you have any questions, please feel 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.

Before beginning, I would like to thank our employees for their continued hard work and resiliency, our customers, suppliers, and the communities in which we operate for their strong partnership, as well as our shareholders for their ongoing support.

Our results for the first few months of the year speak directly to today's dynamic business environment. By far, the most important driver of our performance this quarter was demand contraction in retail and away-from-home tissue volume. Higher raw material prices and transportation cost inflation also limited the first quarter performance of our Containerboard and Boxboard Europe segments.

Solid results from our North American packaging segment, driven by higher demand and sales prices and Containerboard offsetting slightly lower volumes, and the Specialty Products segment, good sequential margins improvement helped counter these headwinds.

On a consolidated basis, first quarter sales levels decreased 5 percent from Q4 and 7 percent from a year ago, while adjusted EBITDA decreased by 13 percent and 10 percent respectively.

Slides 4 and 5 provide details of each of our business segments. I will provide additional details about the performance of each of our business segments in a few minutes.

On the raw materials side, highlighted on Slide 6, the Q1 average index price for OCC increased 97 percent year over year and was 9 percent higher than Q4. This reflects the high domestic demand levels for this fibre, as Containerboard production levels have responded to pandemic buying patterns and export activity. Average prices for white recycled paper grades were stable year over year in Q1 and decreased 16 percent from Q4 levels.

On the virgin pulp side, hardwood and softwood pulp prices both increased, year over year and sequentially in Q1. Hardwood pulp registered an increase of 17 percent year over year and 19 percent sequentially, while softwood pulp prices rose 16 percent and 14 percent respectively. It is important to note that the higher transportation costs and the less favourable exchange rate are also factors affecting the cost of our raw materials.

Moving now to some brief comments on the performance of each of our business segments, highlighted on Pages 8 through 11 of the presentation.

The Containerboard segment generated a slight 1 percent increase in sales sequentially, driven by a higher average selling price and improved mix. These benefits were offset by the less favourable exchange rate and a 2 percent decrease in shipments, which reflected usual seasonality and planned 11,700 short tonnes of downtime taken during the period. Jumbo roll shipments decreased 3 percent, as capacity utilization remained stable, and we increased our integration rate by 2 percent.

On the converting side, shipments decreased by 1 percent sequentially in millions of square feet, outperforming the 11 percent decrease in the Canadian market and the 3 percent decrease registered in the US market for the period. When compared to Q1 of last year, shipments of converted product increased 10 percent. This outperformed both Canadian and US markets, which increased 8 percent and 4 percent respectively. I would also add that shipment levels in the first three months of the year attained a new record level for Q1.

Q1 adjusted EBITDA of $108 million, or 21.5 percent on a margin basis, was $2 million or 2 percent below Q4 levels. Results benefitted from solid sales and a higher average selling price. However, these were offset by higher raw material and transportation costs, and lower volume related to seasonality and planned downtime that I just mentioned.

Year over year, sales increased 10 percent, driven by better volume, improved sales mix, and higher average selling prices, partially offset by the impact of a less favourable FX. Adjusted EBITDA increased 9 percent year over year.

Our Tissue business had a difficult first quarter on a comparative basis. Sales decreased 23 percent sequentially. As I mentioned earlier, this was driven by lower volume and was also impacted by weather-related production loss in one of our Southern US tissue plants and continued lower volume in the away-from-home side. Less favourable FX and realized pricing in the sales mix also impacted sales sequentially.

Adjusted Q1 EBITDA decreased 50 percent from these same reasons. However, lower production cost was a positive contributor to results. On a year-over-year basis, the factors driving Tissue performance were similar, with volume contraction being the most important factor behind both the sales and adjusted EBITDA decrease.

Q1 sales from the European Boxboard increased 13 percent sequentially, reflecting better volume and sale prices and the beneficial impact of a more favourable exchange rate. Adjusted EBITDA decreased $4 million from Q4 levels, reflecting higher raw material prices and energy costs. Year over year, sales increased 7 percent, driven by volume and better pricing and mix. Conversely, adjusted EBITDA decreased by $7 million from prior-year levels, as the beneficial impact on sales were more than mitigated by higher raw material prices and higher energy and production costs.

The Specialty Products segment generated solid Q1 results, sequentially and year over year. Sequentially, Q1 sales were stable, decreasing by $1 million, and adjusted EBITDA increased $3 million. In both cases, better pricing and sales mix drove these results.

When compared to the prior year, Q1 sales increased by $9 million, driven by a stronger volume and better pricing and mix, the benefit of which more than offset a less favourable exchange rate. Adjusted EBITDA levels increased by 50 percent or $6 million year over year, with higher volume, better pricing and mix, and lower production costs more than offsetting the impact of higher raw material costs and less favourable exchange rate.

I will now pass the call to Allan, who will discuss the main highlights of our financial performance, and I will be back after Allan.

Allan Hogg — Chief Financial Officer, Cascades Canada ULC

Thank you, Mario, and good morning, everyone.

So before discussing our financial results, I would like to highlight that following the European Boxboard segment’s announcement to sell its virgin hybrid manufacturing mill in France, that these operations are now presented as discontinued with retrospective adjustments.

We provide relevant details regarding the changes to the financial consolidated results on Slide 13. Note that this transaction closed last Friday, April 30th.

Looking now at an overview of our key KPIs on Slide 14, our first quarter shipments increased by 6,000 short tonnes or 1 percent from Q4. This was driven by a 16 percent increase in Boxboard Europe, offset by a decrease of 19 percent in Tissue and a slight 2 percent decrease in Containerboard.

First quarter capacity utilization rate of 91 percent decreased 1 percent compared to the prior year and increased 3 percent from the fourth quarter levels. Average working capital came in at 9.5 percent of sales, down from 9.6 percent in Q4, while consolidated return on assets stood at 13 percent, down slightly from 13.1 percent in Q4.

Moving now to sales as detailed on Slides 15 and 16. Year over year, Q1 sales decreased by $83 million or 7 percent. As we have already highlighted during this call, this was driven by the important volume decrease in Tissue in the period, with unfavourable exchange rate also impacting sales level of our North American business segments.

Volumes in all of our other businesses were up year over year, and pricing and sales mix were beneficial factors for our North American operations. On a sequential basis, first quarter sales decreased by $60 million or 5 percent, largely reflecting lower volumes in Tissue and less favourable exchange rate. These were partially offset by higher shipments in Europe and better pricing and mix in Containerboard.

Moving now to operating income and adjusted EBITDA on Slide 17. Q1 adjusted EBITDA of $141 million decreased $16 million from the prior-year level. The decrease was largely due to the lower results from the Tissue segment as a result of lower demand. Boxboard Europe also decreased, year over year, as a result of higher raw material costs. And North American packaging segments both generated stronger results compared to the prior-year period.

Sequentially, Q1 adjusted EBITDA decreased by $21 million or 13 percent, as shown on Slide 18. This was driven by the weaker Tissue performance, with Containerboard and Boxboard Europe also seeing softer results sequentially due to raw material price inflation. Specialty Products and Corporate Activities both generated improved results in the period.

Our quarterly results continue to benefit from our margin improvement initiatives, as we move towards our objective of improving our EBITDA margin by 1 percent for the second consecutive year when compared to our baseline year of 2019.

On that basis, we have realized $40 million in the first three months. And every initiative that we have implemented are mitigating market headwinds and cost inflation and are also improving the execution of our business processes.

Slides 19 and 20 illustrate the specific items recorded during the quarter. The main items worth mentioning are $5 million of restructuring charges recorded in Containerboard and Tissue segments related to restructuring and profitability improvement initiatives, and $8 million unrealized loss on financial instruments, and a $3 million fund exchange gain on long-term debt and financial instruments.

Slides 21 and 22 illustrate the year-over-year and sequential volumes of our Q1 adjusted earnings per share and the reconciliation with the specific items that affected our quarterly results.

As reported, earnings per share were $0.22 in the first quarter. This compared to earnings per share of $0.24 last year. Both periods included specific items.

On an adjusted basis, EPS decreased by $0.13 compared to last year's results. Lower (unintelligible) results and higher depreciation expense were partially offset by lower financing expenses and the lower earnings attributable to noncontrolling interests.

On an adjusted basis, sequential first quarter EPS decreased also by $0.13 per share from Q4 2020, reflecting the same factors, in addition to a positive variance resulting from a tax asset reassessment of prior year's losses, which occurred in Q4 of last year.

As highlighted on Slide 23, the first quarter adjusted cash flow from operations decreased by $47 million year over year to $102 million. And adjusted free cash flow levels decreased by $59 million year over year. This reflected lower operating results, higher net financing expense paid, and higher CapEx incurred, including the Bear Island project, which is well underway and going as planned.

Moving now to our net debt reconciliation on Slide 24. Our net debt decreased by $25 million in the quarter, reflecting a positive exchange rate impact of $21 million as free cash flow was slightly negative. Net debt was also adjusted to reflect discontinued operations. Our leverage ratio of 2.5 is unchanged from the end of 2020.

We would also like to report that we just extended our revolving bank credit facility for two years, to July 2025, with the same terms and conditions. This, along with other financial ratios and information about maturities, are detailed on Slide 25.

Slide 26 provides details about our capital investment plans for 2021. They remain unchanged in the range of $450 million to $475 million, which includes $250 million of investment associated with our Bear Island conversion project. Capital expenditures, net of disposals, totalled $78 million in Q1.

We remain focused on prudently managing our cash flow and debt profile with the objective of keeping our leverage ratio within a range of 2.5 to 3 times, while we execute our Bear Island project.

At the end of the first quarter, we had cash and revolver availability of approximately $1 billion, stable with year-end 2020.

Mario will complete the call with some brief comments before we begin the question period. Mario?

Mario Plourde

Thank you, Allan.

We provide details regarding our near-term outlook on Slide 28 of the presentation. As a reminder, this outlook is based on what we are seeing today and may change in the coming months, given the dynamic nature of the ongoing unusual circumstances.

Our near-term outlook for Containerboard segment is good, stable sequentially, and up year over year. We continue to see solid demand in both the manufacturing and converting side. And the rollout of the announced price increase is underway as the second market price increase should be largely in place by the end of Q3. These factors are expected to offset higher raw material pricing and upward pressure on transportation side. I would highlight that we have planned maintenance downtime of approximately 15,000 short tonnes in Q2, slightly higher than the 11,700 short tonnes we took in Q1.

We are expecting steady sequential results from Specialty Products segment. This reflects stable volume and higher average selling price, offsetting higher raw material costs. Year-over-year results are expected to increase, reflecting improvement in both volume and selling price.

Near-term performance in European Boxboard is also expected to be stable sequentially, with stable volume and better pricing offsetting higher raw material costs. Year-over-year results are expected to decrease, as the impact of higher raw material costs is expected to more than mitigate volume and pricing improvement.

Our cautious near-term outlook for the Tissue segment is for stable sequential results. Volumes are expected to remain stable at lower levels on a sequential basis, with production cost structure efficiency mitigating the impact of higher raw material and transportation costs.

Year over year, Tissue results will be down from last year's strong results, driven by elevated COVID-19 demand on the retail tissue side. Pricing improvement will support results going forward as the high single-digit price increase we announced for consumer and away-from-home tissue products in North America will begin to take effect in the third quarter.

While first quarter results were disappointing for this segment, we view this underlying cause as temporary. Long term, we expect demand levels for both consumer and away-from-home tissue product to return to normalized levels as inventories are rebalanced and businesses and the economy reopen. Modernization and margin improvement initiatives have not only equipped this segment to better navigate the current challenging environment but have also positioned this business for long-term market competitiveness.

Moving now to the raw material outlook. The recovered paper market saw increased activity in the first quarter, with usual seasonality linked to lower generation of material. Domestic demand remained robust, and export prices remained high. With limited container availability and port congestion, we maintained good inventory levels, finished the quarter well supplied, and have not had difficulty securing needed fibre. We have seen higher generation of material in the past month, and we expect similar OCC dynamics to persist for the coming months, with domestic demand remaining robust, persistent export activity, and OCC trading with a narrow range of the current level.

Conditions for the white grades were more complex and are more difficult to predict. Material has remained readily available, and we have continued to maintain good inventory levels. Lower demands for away-from-home products has eased demand.

Looking ahead, the recent increase in virgin pulp prices will likely put an indirect upward pressure on cost and recycled white grades. The virgin pulp market saw a continuation of the record surge in pricing at year-end during the first quarter. This was driven by strong demand and extended planned and unplanned downtime at the pulp mill. We should expect market conditions to ease as mill maintenance is completed and production is resumed.

Currently, our mills are supplied, and we will continue to manage our needed support by our long-term supplier relationships and good inventory management.

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

Q&A

Operator

[Operator Remarks in French]

Thank you. If you would like to ask a question, simply press the *, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press the # key. Again, if you have a question, please press *, then 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from the line of Sean Steuart with TD Securities. Your line is open.

Sean Steuart — TD Securities

Thank you. Good morning. A couple of questions. Jean-David, wondering if you can give us some context on when you expect consumer tissue destocking will work through the system? It sounds like Q2, you're expecting an ongoing overhang. Any clarity on when that situation will resolve?

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

Yes. Good morning, Sean. So just to give you some numbers to support what we believe. If you look at the total US converted shipment over last few years, the increase versus 2018 to 2019 to 2020, we see that there's about a full month of inventory that went to the system. So from 8.8 million to 9 million to 9.7 million tonnes into the market. So you can see that there's 500,000 tonnes that was shipped in 2020, maybe more than what the consumer consumed, so which equalled about a month of retail sales total.

So, if you look also at the Nielsen data, April is the first month that we see positive increase from month over month. So we believe that the consumers are pretty much done with the inventory at their level, but there's still higher inventory at the retailer or distributor and also the manufacturer's side.

So all in all, we believe that there's maybe two, three months still of unbalance, but still, we see better sales in Q2 than in Q1 on our side.

Sean Steuart

That's great detail. Thank you for that. Second question is on OCC costs. In particular, we're seeing ongoing pressure or inflation into the second quarter. Wondering if you can handicap the various factors at play here, offshore shipments, domestic consumption, as these new containerboard mills start production? Generation rates? What's driving it more so than other factors? And any visibility on when you might expect to see some relief on that front?

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

Well, what we see, obviously, now is that the Containerboard activity is there; domestic business is strong and robust. So this is obviously a significant component of the market.

The generation itself is also an important one. The first quarter of a year is always a quiet quarter for fibre generation. When you get into the March, April season, the generation increases significantly. And this is very stable. Year after year, you see the same trend in fibre generation, and 2021 makes no exception. We've seen a significant increase in generation in the last few weeks.

More recently, there's been more export activity, mainly to India. And we've seen, in the last few weeks, that this was less present for a couple of reasons. You've probably seen that the recycled brown pulp in China, there's a little bit of oversupply and softening in the pricing. And obviously, China is an important final destination for recycled pulp and linerboard. And we believe also that the current challenges that India has with the pandemic is also impacting the demand.

So what we've seen in our region, and then where we are warranted (phon), which is the Northeast US, Canada, it's definitely a significant softening in the market conditions. Yesterday, RISI proposed a stable pricing for us for the Northeast. We would have thought even a small decrease, honestly, based on our own perceptions. So this increase shows that something is—we're getting a more favourable season with fibre generation.

Another thing also that we need to consider is the challenge with logistics, with containers' availability, difficulty of booking, and the concerns that people have to export materials these days with what's going on in India.

So that's all the conditions. So first quarter is always a more sensitive quarter because of the lower generation. And this year has been fine because of the mills were—the containerboard mills have been fairly busy. So that's probably why the market was a little bit tighter than it normally is. But things have evolved more favourably for us in the last few weeks.

Sean Steuart

Thank you for that. That's useful context. I will get back in the queue.

Operator

Your next question comes from the line of Anojja Shah with BMO Capital Markets. Your line is open.

Anojja Shah — BMO Capital Markets

Hi. Good morning. I was wondering, with your leverage at 2.5 times and containerboard markets clearly improving, can you give any thoughts around incremental capital returns to shareholders? Just what you're thinking right now?

Allan Hogg

Well, good morning. What we said when we announced Bear Island, it's a fairly significant investment, and we'd rather remain prudent during that time, and now that we see that Tissue was affected in the first quarter. So for now, our plan is maybe more to remain on the safe side until the Bear Island project is completed.

Anojja Shah

Okay. Thank you. And then, when you think about the pandemic and the impact it's had on your Tissue business, has it made you think about any potential shifts in your mix between consumer and away-from-home?

Jean-David Tardif

Hey. Good morning. Well, a few years ago, our mix was close to 50/50, away-from-home and retail. Now if we look at last quarter, it's 65/35, but for sure, the market is below. So I think we will end up, after pandemic, around 60/40, which is in line with what the market is consuming.

So we're pleased with the mix that we have now. We've invested a lot to renew our converting assets over the last few years, so we're pretty much at the right level.

Anojja Shah

Great. Thank you. And I just wanted to ask one last one about cybersecurity, given the issue faced by some of your competitors in the US and in Canada. What measures have you taken to protect yourself in this arena?

Jean-David Tardif

Well, we have our internal security group that always measures and monitors what attack we may have. We do have insurance to cover ourselves, but we also have outside supplier. If anything happens, that would recover rapidly in case of a ransomware. But so far, you saw a few in the industry, and I think it proves that our systems are quite solid. And we have improved since, because we saw that the paper industry was under a lot of pressure, so we improved this safety since then. And we will keep on improving as we move forward anyway, because it will never stop.

Something we did also is maybe to accelerate in the plan for recovery, if any situation happens in our production facilities. So this is something we accelerate, given what we saw. But we were doing a lot in the last four, five years. But again, as Mario said, it’s a continuous program. We need to improve and be really, really careful and mindful of anything. So we’re monitoring that.

Anojja Shah

Great. Thank you very much.

Operator

Your next question comes from the line of Hamir Patel with CIBC Capital Markets. Your line is open.

Hamir Patel — CIBC Capital Markets

Hi. Good morning. Charles, could you give us an update with Bear Island, where the sort of order books stands for that? And how you see—what are you targeting by the time you start up?

Charles Malo

Yeah. Hello, Hamir. So just first maybe on the Bear Island. The project is going on schedule right now, so the work on the site is progressing well. So we still are aiming to start in December 2022.

In regards to the volume, I mean, our goal at the beginning was to try to secure about 150,000 tonnes with different agreements. So I'm going to wait for the agreements to be signed officially, but we are in discussion with current and new customers also to secure that volume. So once we're going to have more formal agreements, we will inform on that, but it's going in the right direction, I can say at this point.

Hamir Patel

Okay. Thanks, Charles. That's helpful. And then just turning to containerboard demand. Can you speak to if you're noticing any differences between Canada and the US? And how has e-commerce growth been trending this year?

Charles Malo

So the demand, I would say, there is a bit of difference, depending on the seasonality between US and Canada, but nothing major. Both are very good as we speak still. Our first quarter, we were very happy with the demand and the way that things are going. And we see that, from what we see at beginning of the Q2, the demand is still very strong. So this is a good sign, and this is on both sides of the border. So this is good.

And on the e-commerce, we are seeing that there is a high demand for products that are moving on the e-commerce. We are starting to see now that some of these changes are probably going to stay for the long term, which is good, because these goods, when they travel with the supply chain on e-commerce, they need packaging and corrugated. So this is a good sign.

So we are seeing positive signs on the demand coming from the e-commerce. And the good news is, when we look at the Bear Island and the new mill that we have also, the Greenpac, offering lighter weight, so it helps reducing the weight of packaging on e-commerce, and we're well equipped to offer that to our customers. So we're very positive on that side.

Hamir Patel

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

Operator

Your next question comes from the line of Zachary Evershed with National Bank Financial. Your line is open.

Zachary Evershed — National Bank Financial

Thank you. Good morning, everyone. Could you give us a little more detail on the Tissue modernization push wrapping up? And where you think that leaves the segment in a more normalized environment margin-wise?

Jean-David Tardif

Good morning, Zachary. So we've done a lot over the last two years. So as you know, we've shut 7 sites, we installed 13 new converting lines. About one-third was for retail; two-thirds was for away-from-home. But we curtailed or we retired a lot of assets at the same time. So all in all, the capacity increased by about 13 percent—converting capacity, I mean. So this is where we're at right now.

So all the efforts that we've put in helped us last year to generate still 11 percent, with the away-from-home market being really low. And still, we will have more capacity on the retail side next year than we had last year. So all in all, when the market on the away-from-home side will come back, we believe that we'll be in a strong position to well execute.

So we still have a target of 15 percent EBITDA margin. Without that retail slowdown, unexpected slowdown, I will say we were targeting at 12 percent this year. So for sure, there's input-capped (phon) inflation. But we're still committed to deliver. Because everything we've done I think is really a nice improvement over the fundamentals of the group. And so we're in much better shape than we were 2019 or 2018.

Zachary Evershed

That's helpful. Thanks. And then for Specialty Products, very strong quarter. Can you dive into the structural improvements that drove that? And then, how much is more transitory in nature?

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

Yes. So, Zachary, actually, the result we had this quarter included no extraordinary results. I mean, it's normal results from the current operations we have. So we have better product mix. Mario explained earlier that we spent quite a lot of efforts in margin improvement. We were very involved in that process, and we're starting to see the benefits of these efforts.

And the last thing also, obviously, we made investments over the last couple of years to go more about the food-packaging business, fresh food-packaging business. I think it was a good decision, good orientation. And with the solid demand in fresh food-packaging business that we see now, we're also benefitting from that.

Zachary Evershed

Excellent. Thank you. I'll turn it over.

Operator

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

Your next question comes from the line of Paul Quinn with RBC Capital Markets. Your line is open.

Paul Quinn — RBC Capital Markets

Yeah. Thanks very much. Good morning, gentlemen. Just a couple questions, starting on, I guess, Containerboard. Just wondering how the November price increase was implemented, and whether you see any change for the March/April price increase.

Charles Malo

Yes, Paul. So we were successful in implementing the November price increase. So when I look at the realization of the increase, we did very well. So I can say that at the end of Q1, it's mainly fully implemented. There may be some small exception because of contracts or things like that, but we can say that this is well done on our side.

The impact right now that we can see is about, on a sequential basis, about $25 million of impact on our Cascades, so which is good. And we are deploying right now the second price increase, which is going well. We did announce, both on the Box side and also on the Containerboard at the same time, so we are deploying as we speak, and we see that things are progressing well right now.

So with the demand that is happening right now and our low inventory level, we are focusing on making this happen. And we're working also at the same time with our customers to minimize also the impact for them. But we're fully aligned for realization of the increase.

Paul Quinn

Okay. So then when I can relate that back to that Slide 28, the near-term factors, where you see essentially flat results sequentially, just—and I recognize the increased maintenance downtime in Q2 here—but I would have thought the implementation of the second price increase would have pushed—and just seasonality in the business would have pushed that more positive than flat.

Charles Malo

Yeah. There is a major annual shutdown, that we have provided in our guidance, that we show there. The maintenance is on our Niagara Falls complex, so we have three of our paper machines that will be affected. We also have been, cautiously, with the increase of the OCC, and that's what we factored in in our numbers.

Paul Quinn

Okay. And then maybe just over on the Tissue side. I mean, you guys are probably seeing some significant cost increases on the pulp and recycled fibre side. Just wondering how the price increases are being implemented, whether you're confident that you'll be able to offset that cost inflation.

Jean-David Tardif

As you know, Paul, the price increase acceptance will follow the market dynamics. So we believe that there's good fundamentals to support those price increases at this moment. And we're not alone thinking this, also, in the market. So we're going to work really hard to get as much as we can out of those price increases for July and August. So it's hard to say for now, but we'll work really hard on it.

Paul Quinn

All righty. That's all I had. Best of luck, guys. Thanks.

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 line this morning. And we are looking forward to meet you on the Q2 results. Have a good day, everyone.

Operator

[Operator Remarks in French]

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