FINAL TRANSCRIPT

Cascades Inc.

First Quarter Results

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PRESENTATION

Operator

[Operator Remarks in French]

Good morning. My name is Sylvie (phon) and I will be your conference Operator today. At this time, I would like to welcome everyone to Cascades' First Quarter 2024 Financial Results Conference Call. At this time, all lines are currently in the 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. Madame Aitken, you may begin.

Jennifer Aitken — Director, Investor Relations, Cascades Inc.

Thank you, Sylvie. Good morning, everyone, and thank you for joining our first quarter 2024 conference call. We will begin with an overview of our operational and financial results, followed by some concluding remarks, after which we will begin the question period.

Today's speakers will be Mario Plourde, President and CEO, and Allan Hogg, CFO. Also joining us for the question period at the end of the call are 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 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 2024 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 free to contact us after the session.

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

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

Thank you, Jennifer, and good morning, everyone. Let me begin with a quick overview of our consolidated result.

First quarter sales levels decreased by roughly 2.5 percent sequentially and year over year. This performance was in line with our expectations. Softer selling prices in all of our businesses were the main headwinds year over year, the effect of which were partially offset by a better sales mix in tissue, a stronger volume in our packaging businesses. Sequentially, sales mix, volume, and less favourable exchange rate were the main factor behind the lower sales.

Consolidated EBITDA of $103 million decreased 23 percent from the prior year and 16 percent from Q4. This performance was in line with expectation given recent index pricing movement, the impact of which was most prominent for our Containerboard business.

To this end, lower pricing and higher raw material costs were the main drivers of our lower performance year over year and fully offset beneficial volume and mix in packaging, lower raw material costs in tissue, and lower operational costs on a consolidated basis.

Sequentially, the combined impact of higher operational costs and less favourable volume and sales mix far outweighted (sic) slightly stronger pricing.

On the raw materials side, highlighted on Slides 5 and 6, the Q1 average index price for OCC increased 206 percent year over year and 22 percent from Q4. The OCC market saw consistent strong demand, including growing amount needed for new recycled containerboard mill being ramped up and lower seasonal generation levels which put upward pressure on pricing. We have no problem supplying the needs of our operation with good inventory management.

Average Q1 index prices for white recycled paper grade increased 2 percent sequentially but were 36 percent below prior-year levels.

The market was relatively balanced with index prices not being significantly impacted by virgin pulp pricing movement. Pulp pricing was higher sequentially, up 10 percent in the case of softwood and 13 percent for hardwood. Year over year, however, prices for both softwood and hardwood pulp remain lower, down 14 percent and 20 percent respectively.

Market conditions were impacted by a multiple factor including downtime and permanent closure in North America, a port strike, and unplanned mill downtime in Finland and reduced traffic in key shipping routes. Notwithstanding these, the market conditions, the material has been readily available for our mills.

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

Beginning with containerboard, sequential sales decreased by a marginal 1 percent in Q1. This reflected lower selling prices following index change in November 2023 and a less favourable sales mix and exchange rate.

These were partially offset by higher volumes with the 9 percent sequential increase in parent roll shipments and 3 percent decrease in converted product shipments, both related to seasonality.

As previously announced, we took 19,800 short tons of maintenance and inventory management related downtime in the quarter.

Sequentially, converting shipment decreased 3 percent in Canada, below the 1.7 percent decrease in the Canadian market. US converting shipment decreased 3.7 percent, below the 2.3 percent in the US market decrease.

Q1 adjusted EBITDA of $50 million, or 9 percent on a margin basis, was 25 percent below Q4 levels and was in line with expectations. The decrease reflects the impact from higher operating energy and raw material costs. The Trenton paper mill closure announced in February also had a negative impact on our first-quarter result.

Year-over-year sales also decreased by 1 percent, with the impact of lower selling prices largely offset by higher volumes.

EBITDA level decreased by 60 percent, a reflection of the combined impact from lower pricing and higher raw material, and operational costs, including costs associated with Bear Island. These were partially offset by improved volume and a more favourable sales mix.

Year-over-year shipment increased by 8 percent in Q1, largely related by the new Bear Island volume. Converting shipment increased by 7.4 percent in Canada, outperforming the 2.3 percent increase in the Canadian market. US converting shipment increased 16.8 percent, once again significantly outperforming the 1.1 percent US market decrease.

Continuing with our Packaging business. Q1 sales levels in our Specialty Products segment were stable sequentially, as slightly lower volume and the impact from a less favourable exchange rate were offset by a better sales mix in the Moulded Pulp business.

EBITDA increased by $6 million sequentially, driven by higher spread in the plastic business and lower operational costs. These were partially offset by higher raw material costs in the cardboard segment. On a margin basis, the business Q1 margin was 15.6 percent.

When compared to the prior year, Q1 sales were stable as the impact from lower selling prices in the cardboard subsegment was offset by benefit from higher volumes in the plastic business.

EBITDA levels decreased by $2 million year over year to $25 million in Q1 as the impact from lower selling prices in cardboard and higher recycled fibre were partially offset by benefits from lower resin and better volume in our plastic packaging activity.

Moving now to our Tissue business. First quarter sales in the segment decreased 6 percent sequentially, reflecting a 14 percent decrease in volume in the away-from-home market that is attributable to usual seasonality and the impact from a less favourable exchange rate.

First quarter EBITDA of $50 million decreased from Q4 levels, reflecting lower average selling prices due to contractual mechanism, higher raw material and maintenance costs, and lower volume in the away-from-home. Q1 margin of 13.6 percent remained solid but were below the 15.6 percent in the previous period.

Sales decreased by 5 percent year over year. This reflects a 7 percent reduction in shipment levels, which was driven by a 65 percent decrease in shipments of parent rolls following mill closure and higher internal consumption, as highlighted by this business integration rate increasing to 94 percent from 84 percent a year-ago period.

On the converting side, shipment decreased by 3 percent, the result of a 5 percent decrease in the away-from-home following plant closure, offset by an 8 percent increase in retail.

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

Year over year, EBITDA was well above prior-year levels. This is the outcome of lower raw material, energy, transportation, and production costs, the last of which reflects benefits related to lower fixed costs level following plant closure. These tailwinds were partially offset by lower selling prices and a net negative volume and sales mix effect.

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

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

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

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

The main items that impacted EBITDA were $28 million of restructuring costs related to the closure of plants, mainly in containerboard and tissue, that occurred over the last 12 months.

Slide 15 and 16 illustrate the year-over-year and sequential variance of our Q1 adjusted earnings per share and the reconciliation with specific items that affected our results.

As reported, Q1 net loss per share was $0.20. This compared to a net loss per share of $0.75 last year and $0.57 in Q4 of 2023.

On an adjusted basis, net results per share were zero in the current quarter. This compared to net earnings per share of $0.32 in last year’s results and net earnings per share of $0.05 in the second quarter in Q4. Year-over-year, this variance mainly reflects lower EBITDA and higher financing and depreciation expenses, while sequential variance reflects lower EBITDA levels.

As highlighted on Slide 17, first quarter adjusted cash flow from operations was $46 million, down from $90 million in the year-ago period and $103 million sequentially.

Adjusted cash flow used in the first quarter improved year over year, largely reflecting last year's lower capital investment associated with the Bear Island project.

Sequentially, adjusted cash flow from operations decreased due to lower EBITDA and higher net financing expenses paid in the first quarter.

Slide 18 provides detail about our capital investments. New investment in the first quarter totalled $25 million. For 2024, our planned capital investment of $175 million have not changed.

Moving now to our net debt reconciliation. Sequentially, our net debt increased by $138 million in the first quarter, reflecting a lower cash flow from operations; a $38 million negative impact from a less favourable exchange rate; $41 million in paid capital investments; and a negative working capital variance, which is usual in the first quarter.

Our leverage stands at 3.8 times at the end of Q1, from 3.4 times at the end of 2023.

In mid-April, the Company entered into a $175 million unsecured delayed draw term loan facility to manage upcoming maturities, notably the January 2025 Canadian-dollar senior notes. In the event it is drawn upon, the new facility will mature on December 31, 2026, and will bear interest at a variable rate.

Financial ratios and information about maturities are detailed on Slide 20, and other information and analysis can be found on Slides 23 through 30 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 21 of the presentation.

I would remind you that this outlook is based on current index pricing and our forecast and expectation as of today. Actual results may differ from this outlook in the event of movements in the index pricing, both in terms of raw material costs and selling prices.

We have modified how we present our outlook to provide greater clarity.

Starting with Containerboard segment, we are expecting Q2 results to be stronger sequentially. This reflects higher selling prices, as the benefit from index pricing movement begins to flow through results and good volume giving stronger seasonal trends.

Raw material costs remain elevated and will continue to be a headwind for the business.

We are also planning approximately 27,000 short tons of maintenance downtime in the quarter. This includes 11,000 short tons at Greenpac to align with major maintenance that is occurring at our steam supplier.

To offset higher operational and raw material costs, which continue to rise and have not been fully mitigated by the partial recognition of the last increase, we have announced a $60-per-ton increase for liner and an $80-per-ton increase for medium effective June 3rd.

Results in the Specialty Products segment are expected to be stable sequentially, reflecting higher selling prices in some business segment and efficiency improvement. Raw material costs are also expected to be a headwind for this business sequentially.

Our outlook for Tissue is for second-quarter result to be stable, with benefits from stronger volume largely offset by lower selling prices due to the timing effect of customer pricing agreement and higher raw material costs.

Let me conclude by saying that we remain positive about the future performance of our businesses and our team continues to manage each of them with a view of driving profitability, efficiency, productivity in their competitive positioning.

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

Q&A

Operator

[Operator Remarks in French]

Thank you. Ladies and gentlemen, if you would like to ask a question, simply press *, then number 1 on your telephone keypad. And if you would like to withdraw from the question queue, please press *, followed by 2. Again, if you have a question, please press *, then number 1 on your telephone keypad.

And your first question will be from Hamir Patel at CIBC Capital Markets. Please go ahead. Please go ahead. Please unmute, Hamir. I'm sorry. Not getting a response. We will move to Sean Steuart at TD Cowen (sic) [TD Securities].

Sean Steuart — TD Securities

Thank you. Good morning, everyone. A couple of questions on containerboards.

Mario, I'm wondering if you can comment on your thoughts on tension in the market right now. It doesn't seem like inventories are too low across the system ahead of the June price increase efforts. Your thoughts on an ability to pass through price hikes when it's a cost push exercise instead of a tight market-induced initiative?

Mario Plourde

Well, considering the market, actually we saw, I would say, a slower beginning of the year this year. But as we speak, we see a pickup in demand in most of our business segments, most notably in the distribution and e-coms. So we're coming into a more active season.

With the possibility of a price increase, I would say, the increase in cost in the business in general for the last 12 months certainly justify these price increases to go through.

Especially with the last price increase has not been reflected in the index. So I would say just the cost increase would justify that increase to go through. But difficult to us to predict because we don't control this. But that's my take on that.

Sean Steuart

Okay. Thanks for those thoughts. I also wanted to ask about integration rates in your Containerboard segment.

Any updated thoughts on the best approach to raise those integration rates going forward so you're not so exposed to parent rolls? Organic versus M&A, any updated thoughts on options for your company on that front?

Charles Malo — President and Chief Operator Officer, Cascades Containerboard Packaging, Cascades Inc.

So, Sean, this is Charles. So there's a few things. The first part for us is to maximize the use of our network that we have already installed, and you can see that we're making progress on that.

As Mario mentioned, the strategic markets that we've decided to go after are paying up when you look at our growth compared to what's going on in the market, being the e-com and distribution. So this is going in the right direction. So just like that, this is the first step that we are focusing on.

The fact that we also took some of the capacity, closing down our nonefficient mill in Trenton also has an impact on our overall numbers. And yes, we are looking now and looking at opportunity for our growth. But our first move was really to make sure that we would ramp up our Bear Island facility first and then working also on extending our growth with acquisition or refill. We're looking at both.

Sean Steuart

Thanks, Charles, for that detail. That's all I have. Thanks.

Operator

Thank you. Next question will be from Matthew McKellar at RBC Capital Markets. Please go ahead.

Matthew McKellar — RBC Capital Markets

Hi. Good morning. Thanks for taking my questions.

Maybe first, operating costs are called out as a factor for containerboard and tissue in Q1. And you noted higher operational costs. And containerboard as a factor for Q2.

Could you give a bit more colour on what you're seeing and where you're seeing the most pressure on costs today?

Charles Malo

Okay. So a few points. First of all, Q1 for—this is Charles for Containerboard. In Q1, the energy due to seasonality is always one that has a bit more pressure on our costs. But the other one, which makes a lot of pressure on our overall costs right now, is the fibre, the OCC, which has a major impact on the overall for our operation.

The other thing is we now have the full impact of the cost structure of the Bear Island, and we're still in ramp up as we speak.

Jean-David Tardif — President and Chief Operating Officer, Cascades Tissue Group, Cascades Inc.

On our side, Matthew, Jean-David speaking for Tissue.

Raw material is definitely the most significant impact. Also, as you see, virgin pulp prices increases month after month. But we see a decrease in the SOP last month, so that was a good news for us.

Maintenance costs were a little bit higher on Q1, but back under control for the coming.

Matthew McKellar

Great. Thanks for that colour. Maybe next, when you first announced the Bear Island conversion project, I think you were talking about ramping up operationally to about 80 percent within a year or so. It sounds like things are going well. But if you could confirm if that's roughly where you are today, that would be helpful.

And then if you could give us a sense, too, I mean, where financial contribution is in terms of where you ultimately intend to end up, that would be helpful. I know you talked about being breakeven last quarter. Any sense of where you are today would be great. Thanks.

Allan Hogg

Well, Matthew, we won't comment on specific contribution now, but you can imagine with the market condition, there's some impact on Bear Island. But I'll let Charles comment on the productivity and the volume side of it.

Charles Malo

Yeah. So we're still in line with our ramp-up towards the end of the year. Like you mentioned, the percentage is still aligned with that. Actually, we're getting closer to this as we speak. That's why right now what we're doing is really, as you know, when we have a start-up like this, at the beginning, to qualify product, qualify to customers.

And now we're in the stage of making sure that we optimize. So working on our consumables, looking at how can we improve our cost structures. So this is really what we are working on as we speak. Because the ramp-up on the productivity and the quality of the product is really going according to what we had planned.

Matthew McKellar

Great. Thanks. And last one for me. Your sequential, even the reconciliations for the last two quarters, each noted lower results from recovery operations. Can you give us just a bit more detail on why results were lower each of the last couple quarters?

Allan Hogg

Why the results are up, you mean?

Matthew McKellar

Possibly I misunderstood, but on Slide 27, I think I noted lower results from recovery operations.

Allan Hogg

Yeah. Luc, do you want to comment on the overall condition in the recovery operations?

Luc Langevin — Senior VP of Corporate Services, Cascades Inc.

Yeah. Well, the overall through the year of 2023, the situation improved because the margins improved in the recovery business. We're still slightly impacted by the volume as now. You know, as the generation has been slightly softer than it used to be in the first quarter of 2024 versus the previous years, representing pretty much what the economy is currently. I don't know if it answers your questions.

Allan Hogg

So, Matthew, we improved year over year, but it was slightly lower—

Luc Langevin

Exactly.

Allan Hogg

—sequentially.

Matthew McKellar

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

Allan Hogg

Thank you.

Operator

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

And your next question will be from Zachary Evershed at National Bank. Please go ahead.

Zachary Evershed — National Bank Financial

Thank you. Good morning, everyone, and congrats on the quarter.

Mario Plourde

Morning.

Allan Hogg

Morning.

Zachary Evershed

I was hoping you could give us a bit more detail on the customer pricing model in tissue, because it does look like pulp costs are increasing sequentially over the last two quarters, but you're getting some lower selling prices. So, are those tied to SOP?

Jean-David Tardif

Yeah, they play to multiple index into this. It's SOP, virgin pulp, freight, energy. Depending on the customers, there's different components, but most of the time, it's on six-month basis. So, that's why there's a lag between increase, decrease, or adjustment. So, that's why we saw that effect lagging behind, I would say, the index prices.

Zachary Evershed

Gotcha. Thanks.

Mario Plourde

And maybe we could add it. How much of the percentage we said in the past? So is it—

Jean-David Tardif

Right now, we are talking about 25 percent of the volume being tied to—

Mario Plourde

Of the retail?

Jean-David Tardif

Of the retail.

Mario Plourde

Mainly in retail?

Jean-David Tardif

Yeah. And with the price change mechanics (phon).

Mario Plourde

Okay.

Zachary Evershed

Gotcha. Thanks. And would you say your plans for the fibre mix at Bear Island have changed, given movements in OCC and mixed costs?

Charles Malo

I'm sorry, I missed the beginning of the question.

Jean-David Tardif

The recipe in Bear Island.

Mario Plourde

If the plan has changed?

Charles Malo

Yeah. So, we are in ramp up. So, what we're doing right now, our first step was to produce the paper. So, that's what we did, I would say, towards the end of the year in Q4. But beginning of this year, in 2024, we are increasing the content of the mixed product at the mill. But we are cautious also in making sure that we produce the good quality, and we have control on our product.

But yes, the goal is to use the investment that we made at the mill. As you know, we can go up to an average of 60 percent, depending on what we produce in mixed weight. So, we're not at that stage right now. But we are going month after month, increasing the percentage to benefit. Because right now, it does bring a benefit to the mill.

Zachary Evershed

That's great. Thanks. Good colour. I'll turn it over.

Operator

Thank you. At this time, there appears we have no further questions. Monsieur Plourde, please continue.

Mario Plourde

Yeah. Thank you, everyone, for being on the call this morning. We wish you a nice rest of the week and hope to see you on the next call. Thank you very much.

Allan Hogg

Thank you.

Charles Malo

Thank you.

Operator

[Operator Remarks in French]

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