FINAL TRANSCRIPT

Cascades Inc.

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PRESENTATION

Operator

[Operator Remarks in French]

Good afternoon. My name is Sylvie, and I will be your conference Operator today. At this time, I would like to welcome everyone to the Cascades Second Quarter 2022 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.

Miss Aitken, you may begin the conference.

Jennifer Aitken — Director, Investor Relations, Cascades Inc.

Thank you. Good afternoon, everyone, and thank you for joining our second quarter 2022 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; Luc Langevin, President and COO of Specialty Products; and Jean-David Tardif, President and COO of Tissue Papers.

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

These statements, the investor presentation, and the press release also include data that are not measures of performance under IFRS. Please refer to our Q2 2022 investor presentation for details.

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

If you have any questions, please feel free to call 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 afternoon, everyone.

Before discussing each of our business segments, let me begin by saying that we are pleased with our improved sequential performance. The price increases we have put in place mitigated the impact of persistently higher costs. We provide a breakdown of the factors impacting our EBITDA levels on Slide 3.

As these numbers highlight, we are operating in a rapidly changing and challenging cost environment in which energy, logistic, production supplies, and certain raw material cost continue to increase.

Year to date, our initiatives do not fully offset the significant cost headwind our operation has been facing. But we'll continue to close the gap as important benefits are realized in the second half of the year, the most prominent of which are expected in our Tissue segment.

Moving now to our financial results. On a consolidated basis, second quarter sales increased 17 percent year over year and 8 percent from Q1, while adjusted EBITDA decreased 7 percent from last year levels, but improved 57 percent sequentially, reflecting the sales price increases implemented in all of our business segments.

On the raw materials side, highlighted on Slide 5 and 6, the Q1 average index price for OCC increased 34 percent year over year and decreased by 2 percent from Q1. Increases in all generation of OCC and lower export demand supported availability, resulting in a slightly lower pricing trend sequentially. Our mills are well supplied and the market was generally stable in Q2.

Average index prices for white recycled paper grade continued to increase in Q2, increasing 94 percent year over year and 14 percent from Q1. These cost headwinds are clearly reflected in our Tissue results. This is also the case on the virgin pulp side. The hardwood pulp index increased 16 percent sequentially, while softwood pulp index price rose 14 percent.

Year over year, these index increased by 17 percent and 9 percent, respectively. Notwithstanding the fact that the market remains challenging for white fibre grade, with price remaining high, our mills are adequately supplied.

Moving now to the results of each of our business segments, as highlighted on Page 7 through 14 of the presentation.

Beginning with the sequential performance, sales in the Containerboard increased 7 percent in Q2. This was largely driven by higher selling prices and volume. The 2 percent volume increase reflects a 2 percent increase in shipments of both converted product and parent roll. Sequentially, converting shipments increased by 1.3 percent in millions of square feet, outperforming the flat performance in the Canadian market and the 0.5 percent increase in the US market.

On a quarterly basis, our converting shipment increased by 5.2 percent sequentially following softer Q1 performance. This outperformed the decrease of 0.1 percent in the Canadian market and 2.1 percent increase in the US market.

Q2 adjusted EBITDA of $99 million, or 17.4 percent on a margin basis was $19 million, or 24 percent above the Q1 levels. This reflects $36 million of higher selling prices and volume benefit and lower raw material cost, which successfully offset a $17 million impact from higher production and freight cost in the quarter.

Year over year, sales increased by 14 percent while adjusted EBITDA decreased by a marginal 1 percent. In this case, a more favourable exchange rate and $71 million of benefit derived from selling price and mix improvement were offset by $74 million of higher raw material, production, freight, and energy cost.

Year over year, converting shipment decreased by 3.1 percent in millions of square feet. This underperformed the 0.3 percent increase in the Canadian market and the 2.4 percent decrease in the US market. On a quarterly basis, converting shipment were down 3.3 percent below the 0.5 percent increase and the 2.4 percent decrease in the Canadian and US market, respectively.

Lower year-over-year volume reflects a return to normalized level following elevated demand in the year-ago period. I would highlight that the converting shipments are 4 percent above second quarter 2020 levels.

Let me now provide you an update on the Bear Island project. As we highlighted in our press release, cost inflation continue. Constraint and labour and logistic for certain construction material has meant that our team has had to be extremely adaptable day to day. The rising cost environment has increased total project cost to a range of US$470 million to US$485 million from US$425 million to US$450 million previously.

Delivery constrain for certain construction materials have also delayed progress of certain construction milestones, which may delay the start-up to the first quarter of 2023. Our team is working with our contractor in order to make the mid-December 2022 planned start-up date.

Despite this, we are pleased with the performance of the Containerboard business this quarter, which benefitted from good demand and our ability to drive commercial initiatives.

Specialty Products continue to generate solid results sequentially, with Q2 sales up 7 percent from the prior quarter. This reflects the implementation of price increases in response to cost inflation and favourable product mix in the Plastic and the Cardboard segment.

Adjusted EBITDA increased $3 million, or 14 percent sequentially, as higher prices and volume offset the impact of higher operating and transportation cost. When compared to the prior year, Q2 sales increased by $34 million, or 28 percent, and adjusted EBITDA level increased by $7 million, or 39 percent, as higher realized spread and increased volume offset higher transportation and operating cost.

We are pleased with the performance of the Specialty Product business this quarter, the third consecutive quarter of increased EBITDA levels on both a year over year and a sequential basis. EBITDA has grown at a faster pace than sales, highlighting the progress being made to deliver a margin range of 17 percent to 19 percent by 2024.

Moving now to our Tissue business. Sales increased 7 percent sequentially in Q2, while adjusted EBITDA levels improved $9 million to a loss of $8 million. Top line growth was driven by higher volume and pricing in sales mix initiatives, while sequential EBITDA improvement reflected $21 million of benefit generated by improved selling price, upset by inflationary headwinds on the production and raw material costs side.

Year over year, sales level rose 15 percent and adjusted EBITDA decreased $9 million. This reflects the $44 million positive contributions for higher average selling price and the impact that persistent increases on the cost side have had on EBITDA.

Pricing and other cost-saving initiatives continue to be implemented, and we have stated in the past these efforts are expected to generate positive upside that is heavily weighted to the second half of 2022.

To this end, we have provided an update on our profitability plan initiatives in our Tissue Papers segment on Slide 14.

Given the normal lag between current unprecedented cost inflation and the timing that benefits are realized from the implementation of pricing initiatives, we are now expecting of the Tissue segment to generate $25 million to $40 million of EBITDA in the calendar year 2022.

This amortization is largely due to timing. The impact of cost inflation is almost immediate, whereas pricing implementation takes time to be rolled our. Added to this, our sales volumes are lower than anticipated due to lower production output. Both of these area are being addressed by extensive initiatives currently underway, and I continue to be encouraged by the progress we are making in our profitability plan.

To this end, we continue to expect that these initiatives will allow the Tissue segment to meet its 2024 target of $150 million of adjusted EBITDA.

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

Allan Hogg — Chief Financial Officer, Cascades Inc.

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

So Slide 15 and 16 illustrate a specific item recorded during the quarter. The main items that impacted operating income before depreciation were a $4 million gain on settlement of a supply agreement in our Tissue segment and a $3 million FX loss on long-term debt and financial instruments.

Slide 17 and 18 illustrate the year over year in sequential volumes of our Q2 adjusted earnings per share and the reconciliation with specific items that affected our quarterly results.

As reported, net earnings per share were $0.10 in the second quarter. This compared to net earnings per share of $0.02 last year and a net loss per share of $0.15 in Q1.

On an adjusted basis, net earnings per share were also $0.10 in the current quarter. This compared to a net loss per share of $0.15 in the first quarter of 2022 and net earnings per share of $0.07 in last year's result.

Highlighted on Slide 19, second quarter adjusted cash flow from operations decreased by $8 million year over year to $81 million and adjusted free cash flow levels decreased by $59 million year over year. This reflects lower operating results and higher net CapEx paid in the current period, largely associated with our Bear Island conversion project.

Sequentially, second quarter adjusted cash flow from operations increased by $55 million and adjusted free cash flow level increased by $36 million. This reflects improved operating results and lower net financing expenses paid, offset by higher net CapEx in the current period, driven again by our Bear Island project.

Slide 20 provides details about our capital investments. Capital expenditures paid during the quarter totalled $160 million and totalled $212 million for the first six months. Of this amount, $145 million was for Bear Island.

For 2022, our total capital investment forecast has increased to a range of C$450 million to C$470 million, with this increase driven by updated forecasted project costs for Bear Island of between C$310 million and C$330 million, as discussed earlier by Mario.

Moving now to our net debt reconciliation on Slide 21. Our net debt increased by $163 million in Q2. This is a reflection of the combined effect of our current investment in Bear Island, higher working capital requirements, and unfavourable FX impact in the prior year.

Our leverage ratio of 5.4 times is up from 4.8 at the end of Q1 and 3.5 at the end of 2021. As we have mentioned in the past, we expect this leverage trend to reverse with improved operational performance and result in the start up of operations at the Bear Island facility. When excluding cash investment made today for Bear Island, our leverage ratio would stand at 4.3 times.

I would highlight that our bank agreements do not include a leverage ratio covenant. Financial ratios and information about maturities are detailed on Slide 22. And sequential and year-over-year sales and EBITDA performance analysis can be found on Slide 25 through to the 28 of the deck and historical index pricing on Slide 29 and 30.

Mario will now conclude 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 23 of the presentation. As always, this outlook is based on what we are seeing today and may change in the coming months.

Our near-term outlook for Containerboard is for stable sequential results. Volume is forecasted to be stable, despite some inventory rebalancing observed with certain customer. This, combined with higher production levels being achieved in our other mills, has led us to temporarily shut down Machine 2 at our Niagara Falls facility for a minimum of five weeks to manage inventory level of our corrugated medium. The plan's on time, began in July, and will total approximately 10,000 short ton over the coming months.

We are expecting continued positive momentum from the Specialty Products segment sequentially, with stable results reflecting good volume and favourable selling trend expected to offset cost inflation pressure and continue labour challenges in certain facilities.

As I mentioned earlier, we expect the profitability action plan on the way in the Tissue segment to generate growing benefit as they continue to be implemented.

We are disappointed that the unprecedented escalation in cost and timing adjustment of certain pricing initiatives have reduced expected EBITDA level for this business for the 2022 calendar years. But we have remained optimistic about the capacity to drive meaningful improvement in the financial and operational performance of our Tissue business.

To this end, result in Tissue are expected to revert to one of positive contributions beginning in Q3, and our long-term EBITDA target for 2024 for this business remain unchanged.

Let me finish by saying that in terms of our primary raw material, OCC, we are expecting positive trend on the pricing side, driven by softer export activity, lower demand level, and good availability.

We will now be happy to answer all the questions. Operator?

Q&A

Operator

[Operator Remarks in French]

Thank you. 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 *, then number 2. Again, if you have a question, please press *, then 1 on your telephone keypad.

And your first question will be from Hamir Patel at CIBC Capital Markets.

Hamir Patel — CIBC Capital Markets

Hi. Good morning. My first question is on the Containerboard side.

Mario Plourde

Hamir.

Hamir Patel

Charles, there had been some reports in the trade magazine that Cascades was planning to produce Kraft paper at Bear Island. So can you speak more to what's led to that perhaps shift in strategy? How we should think about product mix and how that would evolve? And then also how that would impact the capacity of the facility?

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

Okay. So thank you, Hamir, for the question.

I would not say a switch in strategy. Maybe we just did not at the beginning make specific on the possibility of the machine. This is a market that we see offers potential with the replacement of plastic with reusable material and recyclable. The machine because of the investment that we made will be able to produce the specific rate required to produce that.

So our work salespeople are meeting customers right now. And we're developing a product that we know that we'll be able to produce on the machine. And that's why we're starting to promote this. That will give us more flexibility and a better offering of product for our customers.

We did say that the machine primarily we built it to supply high-performance, light-weight recycled linerboard. But the machine will also be able to produce some medium and also being able to produce other products. So that's when we mention. And that's why we are looking at market opportunities.

At this point, we are not going to put a volume lag on the mix because we're still meeting the customers. And so we'll give an update in the future on that.

Hamir Patel

Okay. Thanks, Charles. Appreciate that. How would we think about—I get the mix is still in flux—but insofar as you're running a portion of it as Kraft paper, how does that dynamic affect the capacity of the mill?

Charles Malo

As I said, at this point the volume has not been determined. So you can consider that the total output of the mill would not change from what would be announced. Capacity would be 465,000 tons per year, so.

Hamir Patel

Okay. Thanks. That's helpful. And just the last question I had was, Allan, with respect to CapEx, can you give us an indication of how we should think about 2023, just given the inflation you're seeing? I imagine there's some portion of the Bear Island spend that shows up in '23 as well.

Allan Hogg

Yes. Exactly. What we see right now with Bear Island is approximately US$90 million that is planned to be paid in early 2023, the first part of the year. And for the remaining of the business, it will be kept at a minimum.

There's no major project on the go. And as we said in our strat plan update end of February, we want to limit at 4 percent of revenue, so. And it might be adjusted a bit down depending on our financial profile. So there's only Bear Island for now for next year.

Hamir Patel

Okay. Great. Thanks. That's all I had for now. I'll get back in the queue.

Operator

Thank you. Next question will be from Zachary Evershed at National Bank Financial.

Zachary Evershed — National Bank Financial

Good afternoon. Thanks for taking my questions.

I just want to kick off with if maybe you could help us quantify the risks of a delayed start-up at Bear Island what you think the probability the over-under is of going beyond schedule? And what kind of costs that could cause you to incur?

Allan Hogg

Charles, you want to take this one?

Charles Malo

Yeah. So as we mentioned, we are still working towards making the date. The December start-up is still achievable. Our team are working towards that. We have said that there are some delays in certain aspect and we mentioned them. And Mario explained that in his script. But if it slides into Q1, at this point from what we see, it would not have a major impact on the 2023 year, if that's what your question is.

Zachary Evershed

That's clear. Thanks. And then in terms of the recent industry talk about a customer inventory correction over the last few months and maybe continuing to the next quarter, can you give colour as to what you have experienced thus far? And how it's tracking into Q3 on the Containerboard side?

Charles Malo

Yes. So we have seen with some of our customers a correction on the inventory level. Our customers are seeing or having the same issues that we have, whether it's on labour, also not able to produce. So some of our customers are making adjustment also for the inventory. So we are seeing that.

And that's why when we look at our Q3 right now, our forecasting, are looking for about stable compared to our Q2. And we're following that very closely. And what we're seeing right now is maybe slower beginning of the Q3 and then picking up towards the end of Q3. And that's why we're calling for flat. And what we're expecting is that with the back to school and the prep for the holiday season, our forecast we're expecting the demand to increase towards the end of Q3.

Zachary Evershed

That's helpful. Thanks. Then just one last one for me, switching gears to Tissue here. Can you comment on any impact or possible impact from seasonality on the profitability initiatives in place? And how the price hikes might flow through for the balance of 2022?

Allan Hogg

Yeah. Good morning, Zach. We don't foresee any differences, I will say, in terms of seasonality versus the previous years. But I can say that the demand is pretty good. Right now, limitation is really our ability to produce those cases.

Right now, the demand in both market, away-from-home and retail, is pretty good. So we should see improvement in our tonnage or shipment for the next coming quarters one after the other.

Zachary Evershed

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

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 Matthew McKellar at RBC Capital Markets.

Matthew McKellar — RBC Capital Markets

Hi. Thanks for taking my question. In Tissue, it sounds like price increases should start to show up again in Q3, so you'll get something closer to a full run rate benefits in Q4. With that, you noted that you expected performance in the segment to be slightly lower year over year.

So with that, should we expect operating income before depreciation in Q3 to be materially above breakeven? And then how should we think about the progression from Q3 to Q4 in that context?

Allan Hogg

Well, I'll take that first and I'll let Jean-David speak. We have guided a bit lower than last year, but we have not specified any numbers. So last year it was $12 million, so anything close to that or slightly lower. So that's what we can expect for Q3.

So remaining cautious because price of input costs are still very volatile. So remaining cautious, but a lot of our price increase initiative and other initiative will continue to take place with having a full run rate by year-end.

So that's why we say that the second half of the year should be much better than the first one.

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

Yeah. If I can add also, price increases that we announced in retail for August we're negotiating actually. And as you may know, competitors announced also later date. So we're negotiating with our customer, but we feel that the full impact will be in Q4 more than Q3.

And as Allan said, we're prudent on the inflation level as well for the coming quarter.

Matthew McKellar

Okay. Great. Thanks. Then it sounds like you're expecting somewhat lower OCC costs sequentially in Q3. Could you talk a bit about what you see as driving that trend and maybe talk to where you expect cost to trend through the balance of the year?

Luc Langevin — President and Chief Operating Officer, Cascades Specialty Products Group, Cascades Inc.

Yeah. This is Luc, Matthew. We've actually seen a switch in the market environment in June, actually in early June. The beginning of the second quarter the market was more balanced, but by early June we started to see a decrease in the demand and still strong generation. And this situation has amplified obviously in the month of July. And we are in a situation now we have definitely an excess of offer in the market.

We would have expected the correction in pricing in the publication in July. It didn't show up. But I think now that the conditions we've seen in the market where we operate it clearly indicates that there'll likely going to be a correction.

Matthew McKellar

Okay. Thanks. Thanks very much. And then last one for me. Just wanted to hit on the leverage as you work to complete Bear Island. Are you content to, I guess, let leverage kind of normalize with CapEx tapering off and results improving given that you're not constrained by a debt-to-EBITDA-based covenant? Or would you consider taking any kind of action to accelerate delevering? And then maybe as a follow-on, how should we think about capital allocation overall following its completion in the context of your comments that CapEx likely to be kept at a minimum?

Allan Hogg

Yeah. Obviously, CapEx will be managed and debt profile or leverage will be managed first so to make sure that we get back to our stated target of between 2.5 times and 3 times once the Bear Island project is up and running.

So that will be the first priority in terms of capital allocation to adjust that balance sheet profile before continuing to invest in strategic projects, so.

Matthew McKellar

Okay. Thanks. I'll turn it back.

Operator

Thank you. Next question is from Frederic Tremblay at Desjardins.

Frederic Tremblay — Desjardins

Thank you. A couple questions on the Tissue segment. I was wondering if you're seeing some consumers switch to private label from branded product, if that's something that you're witnessing currently? And how that may impact your business given the product mix?

Jean-David Tardif

Yeah. Good morning, Frederic. Yes. The growth of private label just continue year after year. We achieve recently highest level ever. So I think the acceptance of consumer is really good. The quality of those private label is getting better and better. So I think we're well positioned. As you know, more than 90 percent of our business is private label in the retail.

We're also well positioned with the customer mix that we have with the mass merch and the clubs. So I think it kind of makes situation where only it can be a positive for our Tissue business.

Also, the market segment that we're playing in in the private label is also maybe positive if consumer are trading down because of financial situation.

So all in all, I think it's positive.

Frederic Tremblay

Right. Makes sense. And then you commented earlier on some customers in Containerboard drawing down inventories. Can you comment on inventory levels in the Tissue retail and away-from-home market?

Allan Hogg

Good question. I think the away-from-home business is getting better, not at the previous level, but we're in line with the market improvements. So again, as I said earlier, it's really our ability to serve those customers. Like the demand is pretty good in both market segments.

Frederic Tremblay

Okay. That's it for me. Thanks.

Operator

Thank you. Next question will be from Benoit Laprade at Scotiabank.

Benoit Laprade — Scotiabank

Thank you. Good morning, everyone. Just quick one for me. Just wanted to go back to the earlier Tissue question in terms of guidance. If I'm not mistaken, we are at minus $25 million after the first six months. You're guiding to $25 million to $40 million, which imply the second half in the $50 million to $65 million range, which means that even if you would meet the $12 million from last year, that would imply a $38 million to $52 million quarter for Q4. Am I missing something? Or is that what you're implying?

Allan Hogg

No. Benoit, I think I would—we've put a slide, I think it's Slide 14, in the deck that illustrate that. So we see that there's a lot of positive benefits that are still to come through for next year. And so there's a portion of that will come in in the last section of the year. So obviously, all the profitability initiative will kick in more than the impact of the inflation.

So you're right, it's second half of the year should be much better.

Benoit Laprade

Okay. But if I push that reasoning a little further, you're still guiding for 2024 in the $160 million range. But Q4 annualized—and typically Q4 is a weak, seasonally speaking, quarter—that kind of assumes that you would be slowing down from there while you probably have some initiatives that should be improving the performance. So I'm just trying to reconcile the Q4 '22 and the 2024 full year guidance on $150 million.

Allan Hogg

Exactly. If you do the math, you're right. But we have kept our guidance for '24 for now. It's still a long way to go. But that's why we remain confident that this target will be achieved. Maybe it will be surpassed if you do that math, as you mentioned, but we're maintaining that the target will be achieved.

So it has to be proven because the upside, as Jean-David is mentioning that we have in Tissue after all of these initiative, is that on the volume side there's still opportunity to drive improvement in volume, in production volume, so in sales, so.

Benoit Laprade

Okay. Great. That's very helpful. Thank you very much. That's it for me. I'll turn it over.

Operator

Thank you. Next question will be from Mark Wilde at BMO. Please go ahead.

Mark Wilde — BMO

Thanks. Good morning. I wanted to just start by following on Benoit's question. I'm just curious about guidance generally. We've had a number of guidance cuts this year. Anything you can give us to increase confidence that we don't have more to come here in the second half of the year?

Allan Hogg

Well, if I can start. If you only take that Tissue guidance we did in Q1, the difference with the guidance right now is mainly driven by continued increase in raw materials, in addition to chemical and energy costs that were higher than our assumption when we did our last forecast, and also slightly lower production output than expected. So these are the main drivers why we have reduced our guidance this time in Tissue. And not in Q1, because in Q1, we had these assumption at different levels. So that's the reason between the two.

So going forward, price increases, the negotiations are being implemented, and a very high level of probability of being done or achieved. And going a bit further, as I explained, there's potential of additional production output to be delivered in Tissue. So that's why remaining confident about the 2024 target.

Mark Wilde

Okay. And if I could just add, is there any wiggle room, any kind of negative contingencies in the guidance? I mean, we could all see good things happening, but have we also have room for kind of any additional negative surprises?

Jean-David Tardif

Yeah. We still have inflation or cost, Mark, and we anticipate the raw material will continue to go higher in Q3 and probably even higher after. So that's part of the assumption that we're taking.

Allan Hogg

That's why in Tissue we have stated a range because it's continuing the risk.

Mark Wilde

Okay. All right. The second thing I wanted to ask about is just that medium inventory overhang at Niagara Falls. Can you put any colour around what drove that?

Jean-David Tardif

Yes. So—yes. It's part of our production has been pretty good in our system. What we have made, our inventory level has been higher than where we feel comfortable. And as we mentioned, we are seeing some of our customers are taking some inventory adjustment, which by ripple effect is causing us the same thing.

So we took down the machine that was the last contributing to our system and this is in Niagara Falls. And we evaluate, again, that the adjustment was about 10,000 tons. So that's the reason behind our taking it first five weeks.

Mark Wilde

Yeah. So would it be your sense now that the medium market is imbalanced at this point? Or how would you term it? Because if I go back for much of the last two years, medium has actually been the tighter side of the industry. And if you're taking inventory downtime right now, it would suggest that that's no longer the case.

Jean-David Tardif

Well, it is in a way. But as you know, we're very high on the medium when you compare to our liner. So when you look at the adjustments that were made by our customers, it seems like the medium side was a bit more affected than the liner.

Mark Wilde

Okay. And then just turning to Bear Island and the potential delay into the first quarter. Does that have any effect on preselling that you had talked about in the past on that machine?

Allan Hogg

No. At this point, we're still working towards the December starting date. Again, if it slides into Q1, from what we see right now, we are going to be okay with the ramp-up that we have and the inventory levels that were going to go into Q1. And we are working also with our customers to make sure that we'll be able to service everybody. If there is a slide in Q1, the potential is probably 10,000 tons to 15,000 tons, something like that, worst case scenario.

So on the overall scheme of things, we'll be okay.

Mark Wilde

Okay. All right. Then the last one for me, for either kind of Allan or Mario. I'm just curious, you made a significant move up just a while ago in your dividend. And with leverage going up right now, can you talk with us about how you think about the security of the dividend?

Mario Plourde

At the moment, we have not changed our position regarding the dividends. The forecast we see in terms of cash flow generation and offset of inflation in our cost doesn't guide us to move on the dividend right now. So we maintain the dividend at the same level.

Mark Wilde

Okay. And you're comfortable in your ability to maintain that dividend is really what I'm asking?

Mario Plourde

Yes. Yes. We are.

Mark Wilde

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

Operator

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

Mario Plourde

Thank you, everyone, to be on the line today, and looking forward to talk to you for our Q3 results. Have a nice weekend. Thank you.

Operator

[Operator Remarks in French]

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