

## Cascades Canada ULC

### Fourth Quarter 2019 Financial Results Conference Call

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## PRESENTATION

### Operator

Mesdames et Messieurs, bienvenue à la téléconférence des résultats financiers du quatrième trimestre 2019 de Cascades. Je m'appelle Takan et je serai votre opérateur aujourd'hui. Toutes les lignes sont présentement en mode écoute seulement. Suite aux commentaires des dirigeants il y aura une période de questions.

Good morning. My name is Taka, and I will be your conference operator today. At this time, I would like to welcome everyone to the Cascades Fourth Quarter 2019 Financial Results Conference Call. All lines are currently in a listen-only mode. After the speakers' remarks, there will be a question-and-answer.

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, Operator. Good morning, everyone, and thank you for joining our Fourth Quarter And Full Year 2019 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 today's call are the presidents of Cascade's 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 February 14 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 Q4 2019 investor presentation for details.

This presentation, along with our fourth quarter press release, can be found in the Investors section of our website. If you have any questions, please feel free to call 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.

We are very pleased with the solid 2019 result that we are presenting to you today. Our operation generated record annual Adjusted EBITDA level for the second consecutive year. Annual Adjusted EBITDA surpassed the \$600 million mark for the first time in Cascades' history. All of our segments executed well in 2019. We are particularly encouraged by the operation improvement in Tissue as the point to benefit being built from our ongoing modernization and optimization Initiative.

On a consolidated basis, in addition to the above, tailwind for our businesses in 2019 include lower raw material and energy prices, sales mix and pricing improvement in the recent business acquisition. These were partially offset by higher production costs per ton largely due to the greater proportion of sales coming from converting activity and a slightly lower volume.

Q4 sequential results reflect a usual softer seasonal demand and less favourable pricing and sales mix in all business segments. Net earnings for the quarter were a loss of \$26 million or \$0.27 per share. This compared to earnings of \$0.42 in Q3 and a loss of \$0.71 last year. On an adjusted basis, we generated \$0.30 per share in Q4. This was stable with the third quarter and above the break-even level in the fourth quarter of 2018. Again, on an adjusted basis, EBITDA of \$162 million increased 35 percent over last year and decreased 6 percent when compared to Q3. On a consolidated basis, our Adjusted EBITDA margin reached 12.4 percent in Q4.

On the raw material side, the Q4 average index price for OCC was down 56 percent year-over-year and 9 percent from Q3. For the full year, the average OCC price was 45 percent below the 2018 levels. White recycled paper grades used in our Tissue segment decreased by 53 percent in Q4 year-over-year and 13 percent from Q3. Annually, the price for white grade paper decreased 34 percent from 2018 levels. On the virgin pulp side, hardwood and softwood pulp prices decreased sequentially and year-over-year in Q4, and were also down for the full year. Pricing for raw material remain favourable for our operation outlook.

I will now briefly discuss the sequential fourth quarter performance for each of our business segment highlighted on Page 8 to 11 on the presentation.

The Containerboard segment generated Q4 Adjusted EBITDA of \$106 million, down 10 percent sequentially and 5 percent year-over-year. The sequential decrease reflect lower average selling price, following the industry decreases announced in 2019. And lower seasonal volume and a slight market softness. Q4 margin remained very healthy at 23.5 percent, but were down slightly from the 24.9 percent in Q3 and were flat with last year.

We are pleased with this overall performance given the slight market softness. In Q4, operating rate was 92 percent, down 2 percent sequentially with paper shipment to external customer decreasing 8,000 short tons reflecting seasonal trends and timing of the holiday season in 2019. Shipments of converted product decreased 1 percent sequentially in millions of square feet outperforming the 4 percent decrease in the Canadian market and in line with the 1 percent decrease in the U.S. market. We took 18,000 tons of scheduled maintenance and CAPEX downtime in Q4, in line with announced plan.

Slide 8 provides our downtime plan for 2020. We expect to take between 45,000 to 50,000 tons of maintenance CAPEX and all of these on time throughout the year. This compared to 61,000 tons in 2019.

Moving now to Tissue Paper, this segment posted stronger results both sequentially and compared to last year, highlighting the successes we are generating from our turnaround initiative and good operational execution. Performance benefited from lower raw material prices, higher volume, more stable transportation costs, price increases in all markets announced in 2018 and a net positive contribution for Orchids.

Fourth quarter EBITDA totaled \$35 million, representing a margin of 9 percent. This was up from \$24 million or a margin of 6 percent in Q3.

On the volume side, shipment increased by 3 percent year-over-year. This reflects a 4 percent decrease in external shipment of parent (phon) rolls due to higher integration in the closure of two paper machines in Toronto, which removes 44,000 tons annually. Converting shipment increased 5 percent reflecting higher demand in our targeted market segment.

Our average selling price increased 4 percent year-over-year in the fourth quarter. This reflects a price increase announced in the second half of 2018, a favourable sales mix and a stronger Canadian dollar. On a sequential basis, the average selling price decreased by 1 percent largely due to the lower portion of converted product in our sales mix compared to Q3.

The European Boxboard operation generated good Q4 result. Sales decreased 1 percent compared to last year and were down 5 percent from Q3. Sequential result reflected lower seasonal volume, partially offset by a slightly higher selling price, while year-over-year performance reflects the reverse. The exchange rate impact was negative in both cases.

The average Q4 selling price decreased in both Euro and Canadian dollar year-over-year. This reflects the higher portion of recycled products sold. Following the acquisition of Barcelona Cartonboard, price decreased due to market softness in recycled board and a less favourable geographical sales mix. The average Q4 selling price of recycled boxboard decreased by €24 year-over-year, while virgin boxboard increased by €22. On a sequential basis, the 5 percent decrease in sales reflects the decrease in volume related to the usual seasonality in the period.

Adjusted EBITDA decreased by \$1 million or 4 percent from Q3 levels primarily due to the usual seasonality and the energy credit received in Q3. Year-over-year EBITDA increased by \$4 million or 20 percent as the impact from the lower average selling price was offset by benefits related to lower raw material and energy costs and higher shipment levels largely related to the acquisition of Barcelona.

As for specialty products, please note that the sales and EBITDA numbers of our recovery activity has been reclassified and are now reported within the corporate activity segment. Prior year's numbers have been adjusted to reflect this change.

Fourth quarter sales in the specialty product were \$105 million, down 16 percent from the \$123 million in Q3. This was largely driven by the divestiture of our activity in France in Q3, to a lesser degree, lower seasonal volume in industrial and consumer packaging and a less favourable sales mix in the moulded pulp segment also impacted the top line performance.

Q4 EBITDA of \$9 million was \$7 million below Q3 levels. This reflected the business divestiture of our operation in France, lower overall volumes and higher fixed costs.

The September 2019 fire at the Rockingham, North Carolina moulded pulp facility also negatively impacted results during the quarter. We are very satisfied with the performance and the integration of the U.S moulded pulp assets acquired in the fourth quarter of 2018. This acquisition solidifies our position in the North American market.

For the year, EBITDA margin for the Specialty Product Group stood at 11.2 percent in 2019 compared to 9.2 percent last year. As mentioned before, corporate activity now includes the results of



our recovery operation. The recovered paper market remains difficult with quarterly average selling price continuing their decline.

While these conditions are favourable for other segments, they negatively impact the performance of the recovery activities and explain the negative variance versus 2018. We expect OCC market to remain favourable for buyers in the coming months due to the excess of material in North America.

The current low generation season in rubbers demand from domestic mill supported the recent small index adjustment published in February and the market for higher grade has recently experienced tighter conditions and is more influenced by export activities. There appears to be a consensus in the market that pricing for virgin pulp, both hardwood and softwood, has likely hit bottom.

With Canadian NBSK producer announcing price correction in the last few months, it is currently difficult to estimate any potential impact on the global market stemming from the recent global event including the Finland mill strike, drought conditions in Chile and Indonesia and a coronavirus outbreak in China.

I will now pass the call to Allan, who will discuss the main highlights for our financial performance after which I will conclude our presentation. Allan?

**Allan Hogg** – Vice President and Chief Financial Officer, Cascades Canada ULC

Thank you, Mario, and good morning everyone.

So I will begin on Slide 15 with an overview of our PPI's. Our fourth quarter shipments decreased by 22,000 short tons or 2.6 percent from Q3. This was driven by decreases of 3 percent and 5 percent in Containerboard and European Boxboard respectively, reflecting the usual seasonal demand trends in the last three months of the year. Shipment levels increased by 4 percent in tissue with the addition of the Orchids activities. Fourth quarter capacity utilization rate of 90 percent was stable compared to the prior year and was 3 percent below third quarter levels. For 2019, working capital came in at 10.1 percent of sales, while consolidated return on assets stood at 12 percent.

Moving now to sales as detailed on Slide 16 and 17. On a year-over-year basis, fourth quarter sales increased by \$31 million or 3 percent. This reflects the contribution from recent business acquisition in Tissue, Boxboard Europe and Specialty Products and higher sales volume in tissue and specialty products. Offsetting these benefits were less favourable selling price and sales mix in all business segments with the exception of Tissue and lower sales in recovery activities due to both lower recycled material pricing. Sequentially, Q4 sales decreased by \$37 million or 4 percent, reflecting less favourable selling price and sales volume.

Moving now to operating income and Adjusted EBITDA. As highlighted on Slide 18, Q4 Adjusted EBITDA of \$152 million increased \$39 million from the prior-year level. Results benefited from a stronger performance of the Tissue segment that were partially mitigated by lower Containerboard and recovery activities results. Sequentially, Q4 Adjusted EBITDA decreased by \$9 million. This was largely the result of softer performances in Containerboard and Specialty Products, the effect of which were more than offset by a stronger contribution from Tissue Papers.

Take note, once again that the impact of IFRS 16 accounting for leases contributed approximately \$7 million to EBITDA in the quarter and \$29 million for the full year. Please refer to Slide 32 for supplemental information.

Slide 20 and 21 illustrate the year-over-year sequential volumes of our Q4 adjusted earnings per share and a reconciliation with the specific items that affected our quarterly results. As reported, the Company reported a loss of \$0.27 in the fourth quarter, this compared to a reported loss of – per share of \$0.31 last year. Both periods included specific items.

On an adjusted basis, EPS increased by \$0.30 compared to last year's results. Higher operating results and lower financing expenses were offset by higher depreciation expenses. The change in depreciation reflects the business acquisitions and operational capital projects and the adoption of IFRS 16 standard for leases. On an adjusted basis, sequential EPS of \$0.30 were unchanged from Q3 levels.

On Slide 22 and 23, we illustrate the specific items that were recorded during the quarter. The main items include: \$64 million of impairment charge related to certain tissue and Boxboard Europe assets and to the goodwill in our recovery operations; a \$10 million loss from the sale of some equipment, restructuring costs and other charges following facility closures and the acquisition of Orchids; a \$2 million unrealized loss on financial instruments and also a \$14 million charge on the repurchase of long-term debt related to our refinancing last November.

Fourth quarter adjusted cash flow from operations increased by \$18 million year-over-year to \$107 million. Adjusted free cash flow levels increased by a smaller amount of \$1 million year-over-year.

This reflects the higher net CAPEX and dividend paid in the current period as well as higher net financing expenses in the fourth quarter of this year due to the refinancing of our unsecured notes in November.

Moving now to our net debt reconciliation. As detailed on Slide 25, our net debt decreased by \$107 million in the quarter, reflecting positive sequential cash flow from operations and changes in non-cash working capital, in addition to a favourable exchange rate.

I would highlight that net debt does not include the acquisition cost of the Caisse de dépôt's interest in our Greenpac mill, as this transaction closed in early January 2020.

Our net debt leverage ratio stood at 3.25 times at the end of the fourth quarter compared to 3.7 times at the end of Q3 and 3.6 times at the end of last year. This, along with other financial ratios and information about maturities, are detailed on Slide 26.

On Slide 27, we provide details about our capital investments for the full year on a segment-by-segment basis. Our annual CAPEX plan for 2020 will be approximately \$250 million. Based on current conditions, we are forecasting our annual 2020 cash flows to exceed our capital expenditure requirements by over \$100 million. These funds will go towards debt repayment and (audio interference) project once it is approved and finalized.

I will now pass the call back to Mario, who will wrap up the call with a brief conclusion before we begin the question period. Mario?

**Mario Plourde** – President and Chief Executive Officer, Cascades Canada ULC

Thank you, Allan.

In summary, we are pleased with our solid fourth quarter performance and with our record annual performance in 2019.

On the strategic side, we announced that we were exercising our option to purchase the Caisse de dépôt 20.2 percent interest in our Greenpac mill in mid December. The transaction closed in January 3, 2020, and our ownership in this facility now stands at 86.3 percent. This strategic decision will improve our available cash flow levels.

In Tissue, we continue to advance the integration of the Orchid activity in Q4 and completed the conversion of the Barnwell paper machine from QRT to conventional paper in mid-January 2020. The machine is running very well and trending above our expectations.

On the Slide 29, provides an update on the integration, which is going according to plan. We continue to finalize plan for the Bear Island project, and as such, we do not add any update to provide at this time. Once the analysis and necessary steps have been completed and the project approved, we will provide the market with an update.

Finally, we successfully refinanced our senior note in November taking advantage of favourable market pricing condition and proactively managed our debt profile.

Moving back to operation, we can find our near-term outlook for our business segment on Slide 30 of our presentation. Sequentially, we expect Q1 performance in both Tissue and Containerboard to decrease slightly. Specialty Product and Boxboard Europe are forecasted to generate slightly higher

result, and all of our business segments are expected to generate stable year-over-year results, with the exception of Tissue which should benefit from recent tailwinds.

Our annual operation outlook is positive for 2020. We believe we are well positioned to deliver strong EBITDA in 2020, primarily due to an expected positive contribution from the tissue segment. Looking ahead, we will continue to monitor the potential impact of micro factors which may impact our outlook. And as Allan mentioned, based on our current interpretation of the market conditions, we expect to both fund our CAPEX plan with available cash flow and have in excess of \$100 million to be allocated to our Bear Island conversion project and to reduce debt.

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

## Q & A

### Operator

Merci. Si vous voulez poser une question, veuillez s'il vous plaît composer l'étoile suivie du un, sur votre clavier téléphonique. Si vous voulez retirer votre question, composez le carré.

Thank you. If you'd like to ask a question, simply press star, then the number one on your telephone keypad. If you'd like to withdraw your question, press the pound key. We'll pause for just a moment to compile a Q&A roster.

Your first question comes from the line of Hamir Patel of CIBC Capital Markets. Please go ahead, your line is open.

**Hamir Patel** – Analyst, CIBC Capital Markets

Hi, good morning.

**Mario Plourde** – President and Chief Executive Officer, Cascades Canada ULC

Good morning.

**Hamir Patel** – Analyst, CIBC Capital Markets

Mario, Could you give us a sense as to how the coronavirus in Italy how that might be affecting Reynolds operation so far?

**Mario Plourde** – President and Chief Executive Officer, Cascades Canada ULC

So far it has not affected the plant, so all plants are running with the exception of Villa (phon) where we have another issue at the mills. In terms of administration, the office in Milan shut down so we ask all our employees to work from home, but we continue to do business, you know, plants are operating as usual, so we're monitoring the situation quite closely, but other than that we have nothing to present or to tell.

**Hamir Patel** – Analyst, CIBC Capital Markets

Okay. Thanks, that's helpful. And just on Bear Island. I know there's not much you can say, but do you have a sense as to when you would expect to come to a decision?

**Mario Plourde** – President and Chief Executive Officer, Cascades Canada ULC

We hope, let's say, between the next two quarter.

**Hamir Patel** – Analyst, CIBC Capital Markets

Okay. So should we assume then that the timing of the project, if it does come on, has then also been delayed and realistically if you do go forward then what does that suggest as the earliest that the machine would come up?

**Charles Malo** – President and Chief Operating Officer, Cascades Containerboard Packaging Group, Cascades Canada ULC

We still are planning to—this is Charles Malo, Hamir. We are still working on this project and this is for us long-term. This is a big, big project for Cascade. We understand also all the market dynamics and so we want to make sure that we do it right, and as Mario mentioned when we have a bit more information, we will be able to provide that for the Group. For the time being, we still have access to the site, so we're still using the time to clean up and to do all of this.

So our goal as we speak today, with the timeframe and timeline that now you talked about, the goal would be to start in the first or second quarter of 2022.

**Hamir Patel** – Analyst, CIBC Capital Markets

Okay. Great. Thanks, Charles. And just another question I had on Containerboard. These new Pulp&Paper Week recycle benchmarks have been around now for a couple of months as your box



contracts renewals have played out. Have you started to see customers want to switch the underlying index to away from kraftliner?

**Mario Plourde** – President and Chief Executive Officer, Cascades Canada ULC

I'm not going to be—as you know this sensitive, so I'm not going to disclose how we vary our customers' prices with our contract, but one thing I can mention is that the index is an index, so it's used to make price variation. So the index is pretty new right now. So the customer will have to look at what it does really. So as we speak right now, if a customer wants to have or use this mechanism, we are open to look at both options. But at this point it's too soon to give what would be a trend in the market or what customers would like to use as a mechanism.

**Hamir Patel** – Analyst, CIBC Capital Markets

Okay, fair enough. And just a final one from me for Jean-David. In Tissue with the Barnwell QRT, I mean you've converted to conventional, is the expectation down the line that you could run that on the higher grades, and what's the thinking as to the flexibility of how you'd, as that ramps up, how you'd maybe move that up the quality curve?

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

Yes. We expect to continue to produce QRT, so we will swing the machine back to QRT for a certain period of time in March, so we already have a good customer for the QRT products. So the goal is to be able to get as many done as possible from that machine while working with strategic customer. So

that's why we are in need of conventional parent rolls, so we're getting those rolls as we speak from conventional and the machine is running well. It's a nice well equipped machine, so it's producing good quality product.

So eventually as the market will evolve and we will evolve with our customers, we will be able to maximize the portfolio and get the most out of it either in QRT or in conventional.

**Hamir Patel** – Analyst, CIBC Capital Markets

And where do you think the QRT sits in the quality spectrum when we think about TAD and NTT and conventional?

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

It's difficult. I would say it's pretty close to TAD but it's not that TAD so it's something similar with Atmos. We've got the same, same story or same experience with the hybrid technology where it doesn't match 100 percent the national brand, but with certain specific customer, we believe that there is, there is a good opportunity, especially on the sustainable product side, so QRT can develop really high quality product based on 100 percent recycled material which TAD cannot.

So we believe there is a niche market for sustainable product with the QRT being really close to TAD but with the more eco-friendly materials.

**Hamir Patel** – Analyst, CIBC Capital Markets

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

**Operator**

Your next question comes from the line of Sean Stewart of TD Securities. Your line is open.

**Sean Stewart** — Analyst, TD Securities

Thanks. Good morning. A couple of questions. I want to dig a bit more into the Tissue results this quarter, which were quite strong relative to our expectations. And when you reported your Q3 results in November, there was a suggestion that you expected at that point sequential pressure on tissue EBITDA and I guess some of that variance is ongoing fibre cost relief through the quarter, but I'm wondering if you could give a little bit more context on what surprised you to the upside through the remainder of Q4 and how those trends might be continuing into 2020?

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

Hi, Sean. It's Jean-David. So, we've got great results first from our Oregon facilities. You know last year 2018 it was really difficult for us until early 2019 but with good operational excellence there I think we've been able to turn around that facility. So we've got a good positive contribution from the Oregon facilities in Q4, which was not the case in Q3. So it's going in the right direction. We also got some positive contribution from (inaudible) as you said, from freight, and Orchids was also better than expected on Q4.

**Sean Stewart** — Analyst, TD Securities

Okay. Thanks for that. And maybe you can answer this, maybe not, but if Bear Island is approved at some point over the first half of the year, how much CAPEX this year could you envision adding on to the, the guidance you've given of \$250 million ex-Bear Island?

**Allan Hogg** – Vice President and Chief Financial Officer, Cascades Canada ULC

Sean, it's Allan speaking. It depends also how we structure this project so depending on if we do a similar structure than Greenpac obviously it may just be equity investment, if not it will be on the full balance sheet. So this is still to be decided and structured so it's difficult for us to answer, but the total project we know it's a big amount over the next 24 months. So that's what we can say at this time.

**Sean Stewart** — Analyst, TD Securities

Okay. And then last question for me, you guys are not planning any market downtime in Containerboard for 2020 and should I view that as recycled fibre costs are low enough that even if prices weaken and they are a little wobbly to start the year, your margins are strong enough that you don't envision having to take downtime or is this something you'll play by ear quarter-to-quarter and can maybe change as the year progresses?

**Charles Malo** – President and Chief Operating Officer, Cascades Containerboard Packaging Group, Cascades Canada ULC

This is Charles. The way that we see with the customer base that we have, also the JV that we have and we do our forecasting, we don't see any market trends or anything like that would tell us that market downtime would have to be made. And we also have with the Greenpac all the products that we are producing right now are well in demand. So it's still a high value product, (inaudible), so we foresee that we're going to be able to compete and not have to take any downtime as we speak.

**Sean Stewart** — Analyst, TD Securities

Okay. Thanks, very much. That's all I have.

**Operator**

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

**Paul Quinn** – Analyst, RBC Capital Markets

Yes. Thank you very much. And maybe just to start on Containerboard and just your outlook for input prices on OCC and pulp on the Tissue side as well?

**Luc Langevin** – President and Chief Operating Officer, Cascades Canada ULC

This is to Luc Langevin. I speak for that one. More recently on the OCC price, we have seen over the last few weeks slightly tighter market but we need to understand that we are in the low generation season. And as Charles has just mentioned, the demand, the domestic demand is quite robust for the beginning of the year. So this condition has created, I would say, for a temporary tighter market

conditions, but we expect that with the generation of fibres that will start to increase again by the end of March, that we will get back to a favourable market for OCC for buyers.

With regards to the raw material on the Tissue side, it's very difficult to predict for the moment. We all know that the prices are quite low. You have seen the decrease over last year, which are significant on both the virgin fibres and the white grade, recycled white rates.

So on the softwood, there has been an attempt to increase price. Obviously a few circumstances has helped this. The strike, Mario mentioned that, the strike in Finland, some fibre shortage in BC, some drought conditions in South America and the closure of the fixed (phon) mill in Nova Scotia.

But this being said, we have no challenge now getting supply with both hardwood and softwood. So we are following this very closely.

We are also monitoring the situation in China with the coronavirus and how this will be impacting the global demand, but for the time being we don't see any significant price increase in the market on both sides. But again, there are so many variables going on, especially on the white grade and the virgin pulp that would be prudent for the long term.

**Paul Quinn** – Analyst, RBC Capital Markets

Okay. Thanks for that. And then I guess maybe just on European Boxboard, you guys described it as slight market softness. I'm just wondering if that carries through 2020. I mean it looks like it's tightening up on the Containerboard side and a number of people are expecting a price increase there. Just wondering whether that will move over to Boxboard side.

**Mario Plourde** – President and Chief Executive Officer, Cascades Canada ULC

We think so, with the beginning of the year, the improvement in terms of recycle grade. So the year ended up being softer, but the beginning of the year surprises in terms of order inflow and backlog, both on virgin and recycled. So we think it could move up there and we could see a good 2020 in Europe as well.

**Paul Quinn** – Analyst, RBC Capital Markets

Thanks for the extra colour on Barnwell. But overall on Orchids, the acquisition, what are the main takeaways so far that you've seen especially on the integration side?

**Luc Langevin** – President and Chief Operating Officer, Cascades Canada ULC

It's positive, it's going according to the plan that we made last year. I think that we have positive response from the employees, people are really engaged in achieving the plans with us, so it's great to see this. We don't have many surprises other than maintenance. I would say for sure equipments were not well maintained over the last few years. So this is mainly our issues right now, but all in all it's great.

**Paul Quinn** – Analyst, RBC Capital Markets

Okay and then just lastly on CAPEX, you guided that \$250 million. It looks like \$45 million is coming on the corporate side. What is that for?

**Allan Hogg** – Vice President and Chief Financial Officer, Cascades Canada ULC

There is IT and also there is a recycling activities there now that we present the refurbishing or maintenance CAPEX in recovery.

**Paul Quinn** – Analyst, RBC Capital Markets

Okay. That's all I have.

**Allan Hogg** – Vice President and Chief Financial Officer, Cascades Canada ULC

And there's always other services that we need to...

**Mario Plourde** – President and Chief Executive Officer, Cascades Canada ULC

(Multiple speakers).

**Allan Hogg** – Vice President and Chief Financial Officer, Cascades Canada ULC

(Inaudible) transportation is in the corporate activities, so few trucks, IT and our recovery operation that we are operating.

**Paul Quinn** – Analyst, RBC Capital Markets

All right. Best of luck. Thanks.

**Allan Hogg** – Vice President and Chief Financial Officer, Cascades Canada ULC

Thanks, Paul.



## **Operator**

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

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

**Zachary Evershed** — Analyst, National Bank Financial

Good morning everyone. Congrats on the quarter.

**Allan Hogg** – Vice President and Chief Financial Officer, Cascades Canada ULC

Thank you.

**Zachary Evershed** — Analyst, National Bank Financial

So following the reclassification of the recovery segment, is it fair to expect a lot more volatility in your corporate EBITDA?

**Allan Hogg** – Vice President and Chief Financial Officer, Cascades Canada ULC

For sure that for that portion—as it was in Specialty in the past, yes, it will now be in corporate. But it's really bottomed right now. So we can expect that it will go higher but with the price being so low. So yes volatility will be there for now. Yes.

**Zachary Evershed** — Analyst, National Bank Financial

Thanks for that. And with the remaining industrial packaging sub segment in Specialty Products, can you give us an idea of what the seasonality is like for that?

**Luc Langevin** - President and Chief Operating Officer, Cascades Specialty Papers Group

Well, typically our best quarter for our business has always been Q2 and Q3. So, this will not change. We do expect though a better Q1 as we expected. We've been impacted last quarter by a fire in our moulded pulp which obviously impacted us in both on our fixed costs and on maintenance costs.

So it's not going to be different than it has been in the previous year, so we should see better results for the next two to three quarters.

**Zachary Evershed** — Analyst, National Bank Financial

Thanks, that's helpful. Any update on the Boxboard Europe mill in Villa Santa Lucia?

**Mario Plourde** – President and Chief Executive Officer, Cascades Canada ULC

We have no other news. You probably saw the communication in Europe. So we are down now because of the subcontractor not being able to service us with the water treatment, so we're waiting for our call on the judge to reopen. So timing now for us would be probably another week but we don't know. We have to follow the legal system and we are anxiously looking at it and hopefully we can restart the mill quite rapidly because this mill is a good mill for us.

**Charles Malo** – President and Chief Operating Officer, Cascades Containerboard Packaging Group

But Mario, is it fair to say that we are redeploying some volume for the mills? And yes, to a certain degree customers...

**Mario Plourde** – President and Chief Executive Officer, Cascades Canada ULC

To a certain degree we are, we have the capacity now to move that down to other mills, but obviously we want this mill to go back in operation as soon as possible.

**Zachary Evershed** — Analyst, National Bank Financial

Understood. And then last one from me. In terms of your CAPEX budgets for the various segments, are you able to further break that down into what is maintenance and what is efficiency improvements or perhaps capacity additions?

**Mario Plourde** – President and Chief Executive Officer, Cascades Canada ULC

Well, we always said in the past that minimum maintenance was in the \$70 million range, so we'll leave it at this, but for sure the difference is always cost improvement and replacement and modernization with quick payback. So that always has been our objective, but you see that the biggest chunk of our CAPEX is in tissue, is to finish what has been started the last two years and the modernization of the converting side of our Tissue business.

So that's where we are—it's according to our plan we were under—we undertook in tissue the last few years. Yes.

**Zachary Evershed** — Analyst, National Bank Financial

And so fair to say that in that \$250 million budget, there is no real capacity increases.

**Mario Plourde** – President and Chief Executive Officer, Cascades Canada ULC

In terms of paper mills, no, it's mainly on the converting side.

**Zachary Evershed** — Analyst, National Bank Financial

Okay, thanks so much. I'll turn it over.

**Operator**

There are no further questions at this time, Mr. Plourde. Please go ahead.

**Mario Plourde** – President and Chief Executive Officer, Cascades Canada ULC

Thank you everyone for being on the call this quarter and we are looking forward to see you on the next quarter. Have a good day. Thank you.

**Operator**

Merci. Mesdames et Messieurs, cela met fin à la conférence d'aujourd'hui. Vous pouvez maintenant raccrocher.

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

