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Cascades, Inc. (CAS.CA)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: [Foreign Language] (00:00:02-00:00:18) Good morning. My name is Sylvie, and I will be your conference operator today. At this time, I would like to welcome everyone to Cascades' Fourth 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. Ms. Aitken, you may begin the conference.

Jennifer Aitken

Director-Investor Relations, Cascades, Inc.

Thank you, Sylvie. Good morning, everyone, and thank you for joining our fourth 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 Luc Langevin, President and COO of Specialty Products; Charles Malo, President and COO of Containerboard Packaging; 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 Q4 2022 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, Chief Executive Officer & Director, Cascades, Inc.

Thank you, Jennifer. And good morning, everyone. We are pleased with our Q4 performance. On a consolidated basis, results met expectation and demonstrate continued improvement at the EBITDA level. Before discussing the fourth quarter performance, I wanted to briefly touch on our full year results. Our operation faced with more than CAD 475 million of cost headwinds with the last 12 months alone. These were wide ranging and include inflationary pressure on raw materials supply, freight, energy and labor costs. We have made significant progress in mitigating their impact over the course of the year, and these strategic actions, combined with favorable industry pricing, successfully offset CAD 467 million of these headwinds annually.

Moving now to our Q4 financial results on a consolidated basis. Fourth quarter sales increased 10% year-over-year, while adjusted EBITDA of CAD 116 million almost doubled from last year. In both cases, pricing and foreign exchange were beneficial, while volume and sales mix had a negative impact. Profitability levels were also impacted by higher production, freight and energy costs and a lower contribution from our recovery recycling operation due to lower recovered paper prices. Sequentially, sales decreased CAD 39 million, driven by lower volumes in all business segments. These more than offset positive impact from sales mix and foreign exchange.

Adjusted EBIDTA increased 5% sequentially, reflecting raw material pricing tailwinds, benefits from pricing momentum in our Tissue business and a slightly more favorable foreign exchange and freight costs.

On the raw materials side, highlighted on slide 5 and 6, the Q4 average index price for OCC decreased 79% year-over-year and 68% from Q3. The OCC market faced unusual conditions in the last months of 2022. The combination of usual elevated 1seasonal generation of OCC, low export activity levels and extended Containerboard industry mill downtime resulted in materials supply levels far outpacing demand in the period. Giving this, prices have been at historic lows in regions where we are present. We expect these conditions to normalize in the coming weeks with usual lower material generation levels, but we do not expect this to lead to any material pricing movement in the short-term giving the slow export levels and current macroeconomic environment. Average index prices for white recycled paper grades begins to stabilize in Q4, and while they were up a 40% year-over-year, they decreased by 1% from Q3. As we have highlighted in the past, these unrelenting costs headwind had a significant impact in our Tissue results throughout 2022 and we are encouraged to see a stabilizing market. Similar trends were seen in the virgin pulp. The hardwood pulp index decreased 1% sequentially, but was 27% higher year-over-year, while softwood pulp index prices decreased 3% from Q3 and were up a more moderate 19% year-over-year. Conditions at ease for virgin pulp and will provide some cost relief in our Tissue segment. Material is available and our mills are adequately supplied.

Moving now to results of each of our business segment, as highlighted on Page 7 through 14 of the presentation. Beginning with the sequential performance, sales in Containerboard decreased 5% in Q4. This was driven by lower volumes, as had been expected and lower US dollar selling prices for both parent rolls and converted products. The 7% volume decrease reflects a 13% decrease in shipments of parent rolls and slightly lower converted product shipments.

As we have highlighted, with our Q3 result, we took an additional 31,000 ton of market downtime in the fourth quarter, compared to 18,000 ton in the previous quarter. Sequentially, converting shipments decreased by 1% in Canada, outperforming the 2.7% decrease in the Canadian market. US converting shipments increased 4%, well above the 4.5% US market decrease.

On a per day basis, our total converting shipments increased 4% sequentially. This outperformed the increase of 3% in the Canadian market and the increase of 1.9% in the US market. Q4 adjusted EBITDA of CAD 119 million or 21% on a margin basis was 16% above Q3 levels. This includes a CAD 5 million partial insurance settlement from water effluent treatment issues in mid-2021 at our Niagara Fall (sic) [Niagara Falls] (00:08:07) complex and reflects lower raw material and production costs. These were partially offset by lower US dollar selling prices and a net negative impact of lower volume. Year-over-year sales increased by 13%, driven by pricing and foreign exchange. Adjusted EBITDA increased by 70% or CAD 49 million, largely for the same reason I just mentioned in the addition to lower raw material costs.

Year-over-year shipments decreased slightly by 1%, reflecting a 2% decrease in external parent rolls and a 1% decrease in total converting shipments, mainly driven by lower volume in the Canadian market. Touching briefly on our annual results, sales in our Containerboard segment increased 13% from 2021 levels. Adjusted EBITDA for this business increased 8% in dollar terms year-over-year to $401 million, which translated into a margin of 18%.

Moving now to our Bear Island project, the startup of the machine is scheduled for the end of March. We expect the 2023 production of 235,000 short-term and adjusted EBITDA of approximately CAD 20 million, considering the delay in the startup and the continued inflation, the total project cost is now estimated to be between $515 million and $525 million. Continuing with our Packaging business, Q4 sales levels in our Specialty Products segment decreased by 4% sequentially. This reflected lower URB volumes at the end of the year in our cardboard business, partially offset by benefits from pricing and mix and a more favorable exchange rate. Adjusted EBITDA also decreased sequentially as lower volumes, higher production and transportation and labor costs more than offset the benefit from higher selling prices. When compared to the prior year, Q4 sales increased by CAD 10 million or 7% and adjusted EBITDA level were stable as higher realized spread and more favorable exchange rate more than counterbalance lower volume and higher operating costs. We are pleased with the performance of our Specialty Products business in 2022. Year-over-year sales increase 19% and annual EBITA margin improved 24% to CAD 92 million. The annual performance of this segment is a testament to our innovative, sustainable product offerings.

Moving now to our Tissue business, sales were stable sequentially in Q4, while adjusted EBITDA levels increased to CAD 8 million. Top line performance reflected pricing and sales mix initiative. Favorable exchange rate offset by lower volume. Sequential EBITDA improvement was largely driven by benefits generated by improved selling prices and lower raw material prices. Volume were down by 8%, reflecting usual softness at the end of the year, as well as the impact of the temporary shutdown of one of our paper machine at our St. Helens, Oregon Mill for the entire quarter. The paper machine resumed production on February 10. As per the previously disclosed, the Q4 EBITDA impact was approximately CAD 5 million. Year-over-year sales level rose 13% with pricing and sales mix initiative and more favorable exchange rate offsetting the impact from lower volume. Adjusted EBITDA increased CAD 14 million year-over-year.

We have provided a summary of the evolution of our Tissue Papers annual EBITDA performance year-over-year on Slide 14. What the graph highlights is the significant cost headwind that this business faced in 2022. The CAD 137 million of benefit realized from pricing, volume and sales mix initiative throughout the year, while important, did not fully mitigate the CAD 177 million of cost and exchange rate headwinds.

As the momentum of benefit being realized from our Profitability Plant Initiative continue to grow, we expect to bridge this gap in 2023. Allan will now discuss the main highlights for our financial performance. Allan?

Allan Hogg

Vice-President & Chief Financial Officer, Cascades, Inc.

Yes. Thank you, Mario, and good morning, everyone. So, on slide 15 and 16, we illustrate specific items recorded during the quarter. The main items that impacted EBITDA were CAD 75 million of impairment charges in our Tissue segment related to [ph] ex-US (00:13:34) plants and CAD 11 million in a Containerboard and Specialty Products segment. In addition, it includes a CAD 10 million gain on the sale of the land of a previous previously closed Specialty Products plant.

Slide 17 and 18 illustrate the year-over-year sequential variance of our Q4 adjusted earnings per share and the reconciliation with the specific items that affected our quarterly results. As reported, Q4 net loss per share was CAD 0.27, this compared to net earnings per share of CAD 1.04 last year and a net loss of CAD 0.02 per share in Q3.

On an adjusted basis, net earnings per share were CAD 0.22 in the current quarter, this compared to a net loss per share of CAD 0.09 last year's results and net earnings per share of CAD 0.20 in Q3. In most cases, the variance mainly reflects improved adjusted EBITDA.

On Slide 19, fourth quarter adjusted cash flow from operations increased by CAD 52 million year-over-year to CAD 103 million, and adjusted cash flow levels decreased by CAD 8 million year-over-year. This reflects higher operating results and significantly higher net CapEx paid in the current period, largely associated with our Bear Island conversion project.

Slide 20 provides details about our capital investments. Paid capital expenditures net of disposal totaled CAD 149 million in Q4 and CAD 482 million for the full year. Of this amount, CAD 107 million was invested in the Bear Island project in the fourth quarter and CAD 335 million during the year. For 2023, our planned capital investments are CAD 325 million, which includes approximately CAD 175 million for Bear Island.

Moving now to our net debt reconciliation, as detailed on Slide 21, our net debt decreased by CAD 45 million in Q4. This is a reflection of the combined effect of our current investment in Bear Island. Stronger cash flow from operating activities, lower working capital requirements and a more favorable exchange rate in the period. Our leverage ratio of 5.2 times is down from 6.2 times at the end of Q3. As we have mentioned in the past, we expect this leverage trend to continue with improved operational performance of our Tissue segment and the startup of operation at the Bear Island facility. When excluding cash investments made today in the construction of Bear Island and its negative contribution to operating results, our leverage ratio would stand at 3.8 times. I would reiterate once again that our bank agreements do not include a leverage ratio covenant.

Financial ratios and information about maturities are detailed on slide 23. Sequential and year-over-year sales and EBITDA performance analysis can be found on slides 26 through 29 of the deck and historical index pricing on Slide 30 and 31.

Mario would conclude the call with some brief comments before we begin the question period. Mario?

Mario Plourde

President, Chief Executive Officer & Director, Cascades, Inc.

Thank you, Allan. We provide details regarding our near-term outlook on Slide 24 of the presentation. As always, we would remind you that this is based on what we are seeing today and may change in the coming weeks. Our near-term outlook for Containerboard is for results to be slightly lower sequentially when netting out the CAD 5 million partial insurance element received in the fourth quarter. This is driven by benefits from low raw material costs and slightly softer volumes and lower average selling prices. We are expecting an improved sequential performance from the Specialty Products segments. This reflects the return to normalized demands level being observed in the market and stable selling price trends and raw material costs. Our outlook for Tissue is for quarter results to improve sequentially and to be significantly above prior year levels. This stronger outlook reflects more favorable raw material prices, higher average selling prices, and good demand for the retail Tissue, partially offset by softer demand in the Away-from-Home products. More broadly, results throughout 2023 are expected to reflect growing momentum and benefits from ongoing initiatives.

Before turning the call over to further questions, I want to underscore that our near-term focus is on delivering an effective and successful startup of our Bear Island facility at the end of March. This mill will bring our Containerboard operational platform to a new level, both from a [ph] customer's (00:18:49) perspective and in terms of our ability to provide our customers with top quality lightweight, recycled solutions. On the Tissue side, we are intent on driving profitability, production efficiency levels and look forward to providing the market with an update on our 2022 to 2024 Strategic [ph] Planned (00:19:13) Initiative for the business and our Packaging segment in conjunction with our Q1 2023 results in May.

With that, we can now open the calls for questions, operator.

QUESTION AND ANSWER SECTION

Operator: Merci [Foreign Language] (00:19:29-00:19:38) Thank you. [Operator Instructions] We will pause for just a moment to compile the Q&A roster. And your first question is from Hamir Patel at CIBC. Please go ahead.

Hamir Patel
Analyst, CIBC World Markets, Inc.

Q

Hi. Good morning. Mario, it looks like the Bear Island project costs were increased by about 9%. Could you speak to what sort of project returns you would expect there now, just given the higher built cost and the recent decline in Containerboard prices?

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

A

Well, Hamir I will take this one. So, the return is slightly higher than initially disclosed. So, given the – even though there's a reduction in pricing, so there's a reduction on cost as well. So, even with the project costs, we feel that it's – the return is slightly under 15% right now as we see it. So...

Hamir Patel
Analyst, CIBC World Markets, Inc.

Q

Great. Thanks. Thanks, Allan. And are you able to sort of share what type of annual EBITDA contribution you would expect from Bear Island once it's fully ramped up?

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

A

Yeah, it was already disclosed in the past. So, we said, I don't know – remember, maybe two quarters ago around CAD 90 million to CAD 100 million, something like that.

Hamir Patel
Analyst, CIBC World Markets, Inc.

Q

Okay. So, no change to that even with Containerboard prices having come off?

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

A

No, OCC went down as well and the spread has improved.

Hamir Patel
Analyst, CIBC World Markets, Inc.

Q

Okay.

Mario Plourde
President, Chief Executive Officer & Director, Cascades, Inc.

A

Go ahead. [indiscernible] (00:21:26) want to add something.

Charles Malo
President & Chief Operating Officer-Cascades Containerboard Packaging, Cascades, Inc.

A

Yeah. Maybe, Hamir also, when we announced and presented the project, we also had some conservative approach to the project, looking at the spread over a number of years. So, we didn't take the spread at the moment where we announced. So, this is one of the reason. The second thing also is we have built in our project the vertical ramp up. So, the amount of tons produced is accelerated with the team on how we're going to do this. So, both of these things are also contributing to positively on the compared to the original assumptions.

Hamir Patel
Analyst, CIBC World Markets, Inc.

Q

Okay. Thanks. Thanks, Charles. That's helpful. And Charles, I just wanted to ask you, there were some trade reports recently that Amazon was putting some of their packaging business out to bid, and reportedly they were going to put more weights on sustainability. So, do you see any opportunity there to gain share in e-commerce shell?

Charles Malo
President & Chief Operating Officer-Cascades Containerboard Packaging, Cascades, Inc.

A

Yeah. So, I'm not going to be specific on customers. But there is opportunity for us when we strategically decided to invest in a game changer project like Bear Island. This is exactly the reason why we're building this ecofriendly product, lightweight, and is very aligned with the new trends and demand. So, when we look at e-commerce, the trends of the market, people like Amazon or our customers like Amazon and others are looking to reduce their impact on the environment. So, you do this by weight, design. So, Bear Island and other investments that we've made are 100% aligned with that. So, if and when, for instance, Amazon is looking for or other customer to improve, we'll be better equipped to respond to that.

Hamir Patel
Analyst, CIBC World Markets, Inc.

Q

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

Charles Malo
President & Chief Operating Officer-Cascades Containerboard Packaging, Cascades, Inc.

A

Thank you.

Operator: Next question will be from Matthew McKellar at RBC Capital Markets. Please go ahead.

Matthew McKellar
Analyst, RBC Dominion Securities, Inc.

Q

Hi. Good morning and thanks for taking my question. I'd like to start with Tissue. You've previously spoken about the need to drive higher shipment volumes in that business, and it sounds like you're seeing some positive momentum on the operational side. So with that, two questions. First, now that labor constraints have improved. Can you provide some color on other initiatives to drive better production efficiency? And second, can you provide an estimate of where your run rate on cases sold would have been in the quarter if it weren't for the downtime at St. Helens or where you think your run rate on cases sold would be now that it's restarted?

A

Yes. Good morning. So for the first part of it, we have many initiative. So, for sure ramping up the productivity is the key one. We had delays on the Orchids facility [ph] especially (00:24:43), so that's what we're working on really. We have other initiative in terms of logistic as we are moving jumbo rolls across the systems and cases. So, the impact of Oregon was also impacted the rest of the system because we have to ship customers from other facilities as well. So, that's why we had the impact. So, we can see that in coming quarters this would improve as well. And in terms of the second part of your question was about.

Matthew McKellar
Analyst, RBC Dominion Securities, Inc.

Q

The number of cases that could have been higher in Q4 if St. Helens or [ph] Scappoose (00:25:20). So?

A

Yeah. So, in terms of cases production as well, the Labor was a challenge, so we hired a lot of new employee last year. So, ramping up training those employees is also something that will have benefit in Q1. We think that the trend is pretty much the same, as January is a bit softer on the Away-from-Home side. But as Mario said, the retail business is pretty good. So, we see that trend and in Q2 being probably a little bit higher than Q1 – sorry, Q1 being a little bit above Q4.

Matthew McKellar
Analyst, RBC Dominion Securities, Inc.

Q

Okay. Thanks for that. Shifting to the Containerboard business, your outlook talked about a continuation of slightly softer volume trends. I was wondering if you could confirm whether you'd expect shipments to increase or decrease sequentially based on what Q1 has looked like so far and maybe speak to whether you're seeing any change in the outlook for demand as we progress through the quarter based on your conversations with customers or otherwise?

Charles Malo
President & Chief Operating Officer-Cascades Containerboard Packaging, Cascades, Inc.

A

Okay. I'll start with maybe the Q4. So, as you saw, we did take some down – market downtime, but we did, though, a bit more better than we thought on the converting. So, this is in line with the investment that we made over the last two years with our new facility in Piscataway, but also in Ontario, where we also revamped our portfolio. So, this is part of the reason why we were happy with our performance in Q4. But we did see that some of our customers shut down or reduced their inventory levels. So, we saw the impact. When we look at Q1, what we see is that there is a slowdown in certain areas. So, I can say, for instance, industrial, but overall what we see at this point is we're getting back to more seasonal normal pre-COVID and I'm going to keep my comment [ph] at this (00:27:30) because we're still trying to evaluate with the context, the overall context. We see that the as we speak right now that the demand seems to be a bit more in line with normal seasonal for this time of the year.

Matthew McKellar
Analyst, RBC Dominion Securities, Inc.

Q

Okay. Thanks. And last one for me and not to get ahead of your strategic plan update in May, but as you think about the financial targets for each segment that you provided last February, are there any targets at this point that you call out in particular that either look less likely to be achievable or the targets where you still have a good degree of confidence at this point?

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

A

Well, Matthew, this is exactly why we will provide some more color on this in May. So, we'll see how the year starts and all the uncertainty out there and we will reassess everything and we'll provide you more color. So – but we see positive trend in Tissue. Specialty is also doing good and Charles just commented on Containerboard. So, we will provide you more color in Q1.

Matthew McKellar
Analyst, RBC Dominion Securities, Inc.

Q

Okay. Thanks. Fair enough. I'll turn it back. Thank you.

Operator: Next question will be from [indiscernible] (00:28:51) at TD Securities. Please go ahead.

Q

Hi, everyone. It's [indiscernible] (00:28:56) on the line. What is your assessment of where we are in the current customer destocking cycle for Containerboard?

Charles Malo
President & Chief Operating Officer-Cascades Containerboard Packaging, Cascades, Inc.

A

Yes. As I mentioned, we saw in Q4 a big adjustment. So right now, from what we see, again, I'm just using more normal for this time of the year [ph] in T1 (00:29:25) like pre-COVID. So, we see that the businesses, the destocking has done in Q4 from what we see. So, what we see right now is more normal for this time of the year.

Q

Okay. And can you comment on how your current Containerboard production mix roughly breaks down in terms of the different basis weights, if you can differentiate between the 42 pound and other lightweight grade.

Charles Malo
President & Chief Operating Officer-Cascades Containerboard Packaging, Cascades, Inc.

A

Oh, I'm sorry, I'm not sure I understand exactly the question. So, what's our mix between different basis weights?

A

That's it.

Q

That's right. Yeah.

Charles Malo
President & Chief Operating Officer-Cascades Containerboard Packaging, Cascades, Inc.

A

I'll say that if you take a look at where we stand now compared to the year 2022, it's about the same, I would say, but Bear Island would bring an average lower weight when we're ramped up because the mill will be bringing lighter weight in our portfolio.

Q

So, then what would that split be roughly, is it like a 60/40 lightweight to kind of more standard weight or something different?

Charles Malo
President & Chief Operating Officer-Cascades Containerboard Packaging, Cascades, Inc.

A

I'll answer that question when we do the update, if you don't mind, because I don't want to give the number right now out of like this.

Q

Sure. No problem. So, maybe just another take on it. What are you seeing right now in the market for a price gap between the 42 pound kraft and lightweight Containerboard grades and then also the price spread versus virgin and recycled. And maybe if you could frame that against the historical price spreads, that would be great.

Charles Malo
President & Chief Operating Officer-Cascades Containerboard Packaging, Cascades, Inc.

A

Yes, I know. But I'm not going to comment on pricing or comments on – we're not a big player in kraft liner board. So, I don't want to start speculating or talking about market pricing.

Q

Okay. No problem. Last one for me, the impairment charge in Tissue, you had a similar charge a year ago. What's changed over the past year in your outlook for this business that caused you to reassess the entire future cash flow expectations?

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

A

Well, it's accounting base. We remain obviously confident about the business, but sometimes to make the accounting works, we need to take impairment based on different kind of assumptions and what's going on in our operation. And you know that under IFRS if things revert back to a more positive trend, we can always reverse these impairments. So, that's mainly accounting, non-cash item. It's more, I would say more severe in IFRS than US GAAP. So, maybe that's one of the reason, but it's all linked to the operating performance as we see it right now, so.

Q

Okay. Thanks, Allan. And was there anything that you think would be worthy to call in terms of the impairment assumptions that were kind of the key driver of that assessment or nothing really?

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

A

No. There's a different way of looking at these impairments. Sometimes it's future cash flow or value of the assets on the open market. So, there's a different way of evaluating, so it's based on cash generating units. So, sometimes it goes in more detail than the business segment itself. So, that's why sometimes we need to take impairment on a more granular assets than the business segment as a whole, so.

Q

Okay. Understood. That's all I had. Thanks, everyone.

Operator: Thank you. [Operator Instructions] And your next question will be from Zachary Evershed at National Bank. Please go ahead.

Zachary Evershed
Analyst, National Bank Financial, Inc.

Q

Good morning, everyone. Thanks for taking my questions. How should we think about the timing of CapEx through the year? And do you think there's a risk of Bear Island being delayed further?

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

A

Well, I'll take the first part of the question. So, obviously the CAD 175 million we expect in Bear Island will be more in the first half of the year. And obviously, a bigger part of this will be in the first quarter, as we are finishing up the commissioning of the equipment, so. And I will let Charles on the second half of your question.

Charles Malo
President & Chief Operating Officer-Cascades Containerboard Packaging, Cascades, Inc.

A

So, for the Bear Island start up, we had announced that we would be starting in March. So, knowing where we are today, we still align for that. As Allan mentioned, the key components are all being commissioned right now. So, we have a full team focus on that. We also are working on aligning the customer and how we're going to be able to service them. So right now, all of our team on-site are focused to start up in Q1. And we're very confident at this point that we're going to meet, there's not going to be any further delays in the start-up. And again, reason why I can say this is, when I look at the what is being commissioning right now, all major components, we're turning more [ph] is on (00:35:10) the paper machine and things like that. So, we're pretty confident that – the date will be as we're mentioning today.

Zachary Evershed
Analyst, National Bank Financial, Inc.

Q

That's great color. Thanks. And could you tell us a bit more about the labor situation, both in Containerboard for the ramp up and in the Tissue segment, particularly in the US, tell us about the headwinds you're facing there.

Charles Malo
President & Chief Operating Officer-Cascades Containerboard Packaging, Cascades, Inc.

A

So maybe, [indiscernible] (00:35:36), I'll start with, for the Bear Island, we're very, very happy with the way that the team was able to bring in the people in the mill. So, right now, we are fully staffed for the startup. We are still missing a few positions, but they're normal in the ramp-up because some of the position or some of the team members we would bring towards the end, more in the logistic and shipping and area like this. So, all the key players, operators were fully staffed and also trained. So, we were – two things that are key to this is first when we decided to convert [indiscernible] (00:36:29) Bear Island, location was key. There was already also some people that were there before, paper makers and that worked in the mill before, that joined us. But in addition to that, it's a good area for good labor. So, this was done, but also we started a year ago to bring people in, in phases and we provided training. So, we're really well positioned for the startup, everybody's on board.

A

And on the Tissue side, we're fully start in US, except in Scappoose where we have that downtime so, but it's going well and we have one on one side in Québec also on the Away-from-Home side as well, that is missing some employees. But overall, the problem is not getting employee anymore. It's more about the training them and having them at the right skill level that we need, so there's a – we're putting a lot of effort in training and support from manufacturers and others to ramp up their skills and their efficiencies.

Zachary Evershed
Analyst, National Bank Financial, Inc.

Q

Thank you very much. That's great. I'll turn it over.

Operator: Next question is from Mike Roxland of Truist Securities. Please go ahead.

Michael Roxland
Analyst, Truist Securities, Inc.

Q

Hi. Thanks for taking my questions. I just wanted to quickly follow up on your US shipments. You mentioned that shipments are up 6% year-over-year in 4Q versus the US market down 8.4%. You cited Ontario and Piscataway. Can you talk more about what drove that volume growth in the US in a declining market? Was there price a factor in terms of encouraging [indiscernible] (00:38:16)? But just trying to get a sense of how you're able to grow in the US despite the fact that shipments were down so notably overall.

Charles Malo
President & Chief Operating Officer-Cascades Containerboard Packaging, Cascades, Inc.

A

Yeah, it's a good question. So, when you look at when we made the investment in a key region with our Piscataway, we ramped up the facility with customers that we worked on specifically in markets where we saw that there was a lot of potential. So, there is a lot of distribution in the area where we invested in the Piscataway. So, this is a big part of the explanation. And you saw also that we made an announcement for a new investment in that region, because we still have some capacity in that facility and we want to be able to tap on, again, on a growth potential in that region. So, that's why we're – it's in line with our strategic plan, both on the market that we wanted to go after and also the – supported by the investment that we made.

Michael Roxland
Analyst, Truist Securities, Inc.

Q

Got it. So, it sounds like you grew with existing customers in that region. Would it be fair to say?

Charles Malo
President & Chief Operating Officer-Cascades Containerboard Packaging, Cascades, Inc.

A

Both, I would say yes, existing, existing, but also with the investment that we made. It also opened in the distribution, namely we were able to – so when I say distribution, it's the e-commerce and other distribution, but gave us the tools to be able to grow in that market.

Michael Roxland
Analyst, Truist Securities, Inc.

Q

Got it. And then just on Bear Island, you mentioned that you are 100% contracted for 2023, 75% contracted for 2024-2025. How much of the volume of Bear Island is integrated in those years 2023, 2024 and 2025? And the purpose of Bear Island to supply existing customers in the US market that you may be supplying elsewhere. Just trying to get a sense of how the volume shakes out with Bear Island. Is it basically existing customers, you want grow with new customers? How much is domestic versus international then? How much is integrated?

Charles Malo
President & Chief Operating Officer-Cascades Containerboard Packaging, Cascades, Inc.

A

Yeah. So, I'm not going to give you too much specific, but I would say that it's a combination. So, when we start the paper mill, we developed some current customers that are growing with us. So, this is one. The second part is we did add up some new customers to our customer list that we developed over the last three years that we've been working with them to benefit from the product, lightweight and recycled that we were providing, that we're looking for this. So, this is the second part, but also we are looking at increasing volume in our own converting system. So for example, the investment that we made, that we announced that will be starting in Q2, will contribute to that. So, but at the beginning [indiscernible] (00:41:38) at the beginning for sure, when we're going to start the mill, our integration rate will go a bit lower just because of the fact that there is going to be more external sales. But I don't know if that answered your question, [indiscernible] (00:41:53).

Michael Roxland
Analyst, Truist Securities, Inc.

Q

No, it does. And just one quick follow-up before turning over. Just the external sales, do you expect that too, is that mainly domestic or external, are those sales going to be offshore?

Charles Malo
President & Chief Operating Officer-Cascades Containerboard Packaging, Cascades, Inc.

A

At this point, we're focusing on the domestic and depending on the market condition, we'll adjust as needed, but our model right now is developing with current and future customers on the domestic market.

Michael Roxland
Analyst, Truist Securities, Inc.

Q

Great. Thanks very much.

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

Mario Plourde
President, Chief Executive Officer & Director, Cascades, Inc.

Thank you, everyone, for being on the call with us. And we're looking forward for the next quarter to update you on our situation. Thank you very much. Have a good day, everyone.

Unverified Participant

Thank you.

Operator: Merci. [Foreign Language] (00:42:50-00:42:54) Thank you. Ladies and gentlemen, this does conclude today's conference now. You may now disconnect your lines.