FINAL TRANSCRIPT

Cascades Inc.

Third Quarter 2024 Financial Results Conference Call

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PRESENTATION

Operator

[French] Good morning, my name is Joël and I will be your conference Operator today. At this time, I would like to welcome everyone to the Cascade's third quarter 2024 financial results conference call.

All lines are currently in listen-only mode. After the speakers' remarks, there will be a question-and-answer session.

I will now pass the call to Jennifer Aitken, Director of Investor Relations for Cascades. Ms. Aitken, you may begin your conference.

Jennifer Aitken — Director, Investor Relations, Cascades Inc.

Thank you, Operator. Good morning, everyone, and thank you for joining our third quarter 2024 conference call.

We will begin with an overview of our operational and financial results, followed by some concluding remarks, after which, we will begin the question period.

Today's speakers will be Hugues Simon, President and CEO; and Allan Hogg, CFO. Also joining us for the question period at the end of the call are Charles Malo, President and COO of Containerboard Packaging; Jérôme Porlier, President and COO of Specialty Products; Jean-David Tardif, President and COO of Tissue Papers; and Luc Langevin, Senior VP of Corporate Services.

Before I turn the call over to my colleagues, I would like to highlight that certain statements made during this call will discuss both 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 Q3 2024 investor presentation for details. This presentation, along with our third quarter press release, can be found in the Investors section of our website. If you have any questions, please feel free to contact us after the session.

I will now turn the call over to our CEO, Hugues Simon, who will begin with a review of our Q3 performance. Hugues?

Hugues Simon — President and Chief Executive Officer, Cascades Inc.

Thank you, Jennifer, and good morning, everyone.

We're satisfied with the trend of our third quarter performance. Third quarter sales levels increased 2 percent from Q2, and were stable year over year. Volume and pricing drove a sequential improvement, while pricing, favourable sales mix, and exchange rate, offset softer volume year over year.

Consolidated EBITDA of $140 million increased 25 percent from Q2, reflecting stronger pricing and lower production costs, partially offset by higher raw material costs. Year-over-year consolidated EBITDA decreased 13 percent as impacts from higher raw material costs and less favourable volume and sales mix were only partially offset by higher selling price in Containerboard.

On the raw material side, highlighted on Slides 5 and 6, the Q3 average index price for OCC decreased 2 percent from Q2, but remained 83 percent higher year over year.

Fibre availability was solid, with good seasonal generation and low export activity, leading to a $20 reduction in October and a further $5 to $10 reduction in November. We expect continued favourable market conditions in the coming months.

Average Q3 index prices for white recycled paper grades decreased 3 percent from Q2 and 11 percent from last year. The market remained balanced, with readily available volumes of fibres translating into small decrease in pricing in the quarter. We have also seen small price decreases in both October and November, and expect continued favourable conditions.

Pulp prices were slightly higher sequentially, up 4 percent in the case of softwood, and 2 percent for hardwood. Year-over-year prices remained higher, up 36 percent and 43 percent, respectively. Market conditions improved in Q3 for hardwood and eucalyptus, with new capacity coming online, and we expect favourable market conditions for these grades in coming months.

Softwood grades also saw a price decrease at the end of Q3. We expect essentially stable market dynamics for softwood in the coming months, given the announced downtime in Europe and capacity curtailments in British Columbia.

Moving now to the results of each of our business segments, as highlighted on Page 7 through 12 of the presentation. Beginning with Containerboard, third quarter sales increased by 4 percent sequentially. This reflected higher selling prices in volume, partially offset by less favourable sales mix and exchange rates.

Sequentially, shipments increased 1 percent from Q2. This reflects a 3 percent increase on the parent roll side and stable shipment levels on converted products. Converting shipments decreased 1.5 percent in Canada, below the 2.1 percent increase in the Canadian market, largely due to capacity allocation to support the growth of our US customer base. US converting shipments increased 0.8 percent, slightly above the 0.4 percent US market increase.

EBITDA in the third quarter was $90 million, or 15 percent on a margin basis. This represents a 50 percent increase from Q2 and is the third consecutive sequential EBITDA improvement.

Results benefitted from recent market price increases, lower production and transportation costs. The benefits were partially offset by higher raw material prices.

Year-over-year sales increased by 3 percent, with benefits from higher selling prices and more favourable sales mix and exchange rate, offsetting lower volumes.

EBITDA levels decreased by 11 percent, largely due to higher raw material costs.

Year-over-year shipments decreased by 2 percent in Q3. This reflects a 4 percent decrease in parent roll shipments, mostly driven by the closure of our Trenton mill, and a 1 percent increase in shipments of converted products.

Converting shipments increased by 1.8 percent in Canada, below the 7.6 percent increase in the Canadian market. US converting shipments increased 0.4 percent, in line with the 0.6 percent US market increase.

On a year-to-date basis, converting shipments increased 6 percent in Canada, above the 5 percent industry. In the US, year-to-date shipments are up 5 percent, outperforming stable shipments for the industry.

Continuing with our Packaging business, our Specialty Product division continued to deliver solid results. Q3 sales increased 1 percent from Q2, on improved selling price and sales mix, partially offset by lower shipments in certain products.

EBITDA was up 4 percent, or 1 million, from Q2, driven by higher realized spreads.

This business's Q3 margin of 16 percent remained solid, improving slightly from the second quarter.

Year-over-year sales increased 8 percent in Q2, with exchange rates and higher selling prices in certain products driving this growth. EBITDA improved by 29 percent, or $6 million, on higher realized spreads.

Moving to our Tissue business. Third quarter sales decreased 2 percent sequentially, due to lower average selling prices and volume related to sales mix. Converted product shipments increased 1 percent in away-from-home and decreased 2 percent in the retail market.

EBITDA of $43 million decreased 20 percent from Q2, in line with our expectations, driven by higher raw material and transportation cost, and slightly lower sales.

Sales decreased 8 percent year over year. This reflected lower shipment levels and selling prices, offset by a positive sales mix impact.

Shipments decreased 9 percent from the prior-year quarter. This was largely driven by a 10 percent decrease in parent roll shipments following plant closures and higher internal consumption, as highlighted by the integration rate increasing to 94 percent from 87 percent year over year.

On the converting side, shipments decreased by 2 percent, the result of a 1 percent increase in retail and 6 percent decrease in away-from-home. The average selling price increased by 2 percent, driven by sales mix and the beneficial exchange rate.

Year-over-year EBITDA decreased by $18 million, or 30 percent. This is the outcome of our raw material costs, lower selling price, and a net negative volume and sales mix impact. These were partially offset by lower energy, transportation, and production costs, the last of which reflects the beneficial impact from recent plant closures.

I will now pass the call to Allan, who will briefly discuss some of the financial highlights. Allan?

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

Yes, thank you, Hugues, and good morning, everyone.

So, Slides 13 and 14 illustrate the specific items recorded during the quarter. The main items that impacted EBITDA were $29 million of restructuring costs and other costs related to the closure of plants in Containerboard in 2024, and $7 million of impairment charges in Tissue and Specialty Products, resulting from discontinued production of some product lines.

Slides 15 and 16 illustrate the year-over-year and sequential variance of our Q3 adjusted earnings per share and the reconciliation with the specific items that affected our quarterly results.

As reported, Q3 net earnings per share was $0.01. This compared to net earnings per share of $0.34 last year and $0.01 in Q2. On an adjusted basis, net earnings per share were $0.27 in the current quarter. This compared to net earnings per share of $0.44 in last year's results and $0.08 in the second quarter.

Year-over-year, the variance mainly reflects lower EBITDA, while sequential variance reflects higher EBITDA levels.

On Slide 17, third quarter adjusted cash flow from operations was $86 million, down from $106 million in the year-ago period, and from $95 million in Q2.

Adjusted cash flow generated in the third quarter improved year over year, largely reflecting the higher levels of capital investment associated with Bear Island in the year-ago period. Sequentially, adjusted cash flow generated from operations was stable.

Slide 18 provides detail of our capital investments. New investments, net of disposal in the third quarter, totalled $34 million. For 2024, our planned investment will be approximately $160 million. This does not include any proceeds from asset disposals.

Moving now to our net debt reconciliation, as detailed on Slide 19. Sequentially, our net debt decreased by $54 million in the third quarter. This reflects positive impacts from cash flow from operations, the exchange rate, and working capital variances, partially offset by lease renewals and paid capital investments.

However, lower levels of net debt and EBITDA on a LTM basis, slightly increased leverage to 4.3 times at the end of Q3 from 4.2 times at the end of Q2.

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

I will now pass the call back to Hugues, who will conclude with some brief comments, and our near-term outlook before we begin the question period. Hugues?

Hugues Simon

Thank you, Allan. We've outlined our near-term outlook on Slide 21 of the presentation. As a reminder, actual results may differ from this outlook in the event of movements and index pricing, both in terms of raw material costs and selling prices.

Beginning with our Packaging business, we expect Q4 results to be stable sequentially in Containerboard, with benefits from lower raw material costs and incrementally higher selling prices, offset by seasonal lower volumes. We're planning approximately 20,000 short tons of maintenance and seasonal downtime in the quarter.

Results in the Specialty Product segments are also expected to be stable sequentially. This reflects benefits from lower raw material costs, offset by usual seasonal volume in certain product categories.

Finally, we expect fourth quarter results to be slightly stronger for our Tissue business. We anticipate stable to slightly higher volumes and lower raw material and fixed costs. Pricing is expected to be slightly lower.

This is the combined result of the previously announced Canadian retail increase beginning September 1, offset by less favourable sales mix. Consolidated results will reflect the aggregated impact of these factors and are expected to be stable sequentially.

Before opening the call to questions, I'd like to finish by providing an update on Bear Island. We're currently lagging on the aggressive ramp-up curve we have set for this mill. We're below our daily production target on a tonnage basis. Let me be very clear. This is not where we want or need to be.

We've added important internal resources to Bear Island to close this gap. And this expertise is beginning to deliver results.

On a positive and important note, the mill is producing quality product and all its products are meeting all of the customers' expectations. We are intently focused on accelerating the Bear Island ramp-up and attaining targeted efficiencies and profitability levels.

On this last point, seeking out and capturing incremental efficiency gains extends equally to every one of our facilities and will be a key element of our strategic focus for the next 18 to 24 months. Success on this front will drive cash flow generation and debt repayment, and create lasting value for the Company and our shareholders.

The combination of our Containerboard and Specialty Product businesses into a united packaging entity is an important strategic step in this regard. In addition to cementing the alignment throughout our operations, it will strengthen the Company's agility and accelerate execution and decision-making.

From a market perspective, a united packaging approach will not only facilitate but help increase cross-selling, positioning Cascades as a comprehensive one-stop packaging solution provider for our customers.

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

Operator?

Q&A

Operator

Merci. [French] Thank you. If you would like to ask questions, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press *,v 2. Again, if you have a question, please press *, then the 1 on your telephone keypad. We'll pause for a moment to compile the Q&A roster.

Your first question comes from Hamir Patel with CIBC. Your line is now open.

Hamir Patel — CIBC

Hi. Good morning. Hugues, on Bear Island you mentioned you're below your production targets. Can you help frame for us maybe what level of production you're at currently and where you would have expected to be at this point?

Hugues Simon

Yeah, sure. I mean, we're roughly 20 percent below our daily production target. That being said, we're seeing more and more days at target or slightly above targets. What we have to focus on and continue to work with the teams is really to narrow down the duration of our breakdown and in terms of time and also in terms of occurrence.

What we've seen over the last six to eight weeks is very encouraging where we're seeing good progress, both in terms of duration and number of occurrence.

Hamir Patel

Okay. Great. Thanks, Hugues. That's helpful. And then just assuming the ramp-up improvement you're seeing continues, how should we think about what type of productive capacity you could sell in 2025?

Hugues Simon

Yeah, I mean, we're currently, like, finalizing our plan for 2025, but our expectation is to close that gap of 20 percent in 2025 with a consistent ramp-up curve. I mean, not all happening in the first quarter, but definitely before the end of 2025.

Hamir Patel

Okay. Great. Thanks. That's helpful. And just a question for Allan. How should we think about CapEx for 2025 and any major projects that you might be contemplating?

Allan Hogg

We are assessing what will come next year, but there's no major project on the table right now, so we should expect maybe something similar of this year in the same range. But we will come back to you when it will be finalized, but nothing major next year.

Hamir Patel

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

Operator

Your next question comes from Sean Steuart with TD Cowen. Your line is now open.

Sean Steuart — TD Cowen

Thank you. Good morning, everyone. Hugues, a follow-up question on the combination of Containerboard and Specialty Packaging. It sounds like a lot of the anticipated benefits are on the marketing side. I'm wondering if you can go into a bit more detail there. And I'm not sure if you're prepared to put a synergy target around what's expected out of this combination, but should we assume it's all marketing? Are there any operating benefits you would anticipate as well? Maybe just some more context on that initiative.

Hugues Simon

Yeah, thank you for the question. Definitely, we expect benefits from both operation and marketing. If I start with marketing, like with the product offering that we have in our Specialty business and Packaging regular, I mean, we have customers that use both product lines. We want to make it easier for our customer base to deal with Cascades, so we totally expect some cross-selling improvements there.

From a production standpoint, we operate east to west in Canada, and I mean mostly in the east but north-south in the US. We have synergies from regional standpoint, best practices, and also like equipments. So, as far as a target, we're diligently working on the target, and that will be part of our updates in the strategic development early next year. We'll have a target for you guys then.

Sean Steuart

Okay. Thanks for that. And then just to follow up on Hamir's question around Bear Island, can you give us an idea of what the issue has been at the mill in achieving target operating rates? Is it one specific element of the operation that's a bottleneck? Any details you can provide on that front?

Hugues Simon

Yeah, I mean, we're still in ramp-up. I mean, we did set something pretty aggressive, if you look a few years back when we decided to do this project. It's nothing to me that's out of the ordinary. I mean, with coming out of COVID, lots of turnover, you're making new with existing equipment. So, you look at the layout, the quality of the equipment that was installed, there's nothing to be concerned about. I think we feel pretty good about that.

It's the learning process of really getting the machine to a 90 percent efficiency rate. We've done that in the past. I mean, we have other operations that are running at those levels. So, to me, it's a question of taking a bit more time, but to make sure it's sustainable and we have a solid foundation so that it remains for the long term.

So, I mean, my expectation is really we'll continue to provide all of the expertise that we have within the organization, but also outside.

The key challenge right now, to be a bit more specific on your question, is really uptime. So when the machine runs, it's running well, but we need to get the uptime to a higher level. When the machine runs, you're spending less money and you're getting tons out and all those tons are sold. So, we feel pretty good about the output when we'll have it available. But really, it's to get the uptime to a level. And that's the part that's tough in any start-up. But I feel we've got the right team to get it done.

Allan Hogg

And as you said, the good news is that we reach these levels on a few days.

Hugues Simon

Yeah, I mean, if you look on an even weekly basis, we're beating those levels. It just needs to be more consistent. I mean, one way to say it is we're taking good pictures on when it's running well to make sure that all of the setups that we have in the operations, we know what they are. We know where we need to be. And we know how the machine behaves.

So, steady progress, slower than what we want, but in acceleration over the last six to eight weeks.

Sean Steuart

That’s useful detail. Just one clarification, though. When you say you’re 20 percent below the daily production target, is that 20 percent below a 90 percent operating rate target? I’m just trying to frame that reference.

Hugues Simon

I’ll let Charles answer this one.

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

Yeah, the 20 percent that we’re talking about, and I want to reiterate what Hugues mentioned, is when we set the program is we call it the vertical start-up, so we had a pretty aggressive curve. And when we talk about the 20 percent, that’s exactly what we’re talking about, is we’re 20 percent lower than the curve that we had set two years ago.

Sean Steuart

Understood. Okay. That’s all I have for now. Thank you.

Operator

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

Zachary Evershed — National Bank Financial

Good morning. Congrats on the quarter.

Allan Hogg

Thank you.

Hugues Simon

Thank you.

Zachary Evershed

Do you think there was any pull-forward in box volumes as retailers maybe tried to ship products in anticipation of the Canadian rail strike or the port strike?

Hugues Simon

Charles, you want to answer?

Charles Malo

So, if I understand right, was there any impact on volume due to the potential strike? And is that what you're looking for?

Zachary Evershed

Yes, please.

Charles Malo

Okay. So we all knew that there was a potential strike. Duration, we didn't know. So, our teams worked with our customers. So, there was no real significant impact that impacted the results of the quarter.

Zachary Evershed

Gotcha. Thanks. And then, can you run us through the broad strokes of the rationale for the executive shuffle?

Hugues Simon

Yeah, for sure. I mean, as we announced last week, we have three businesses and we're always looking at better ways to serve our customer base and position ourselves for the future. And when we look at where we are today, the maturity of the organization, we thought it was a good time to really refocus, make sure that Cascades doesn't run as kind of three entities but as one company, capture all the synergies.

So we decided that we have to organize ourselves in such a way that we're positioned for the future and we're faster to make decisions. We're better to put synergies together.

When you look at the potential of efficiency gains throughout all the operations that we have, I mean, Bear Island is a start-up. So that's kind of a high profile one and it's normal to have it. But across all of the other mills, we have good potentials. We have products that will sell if we produce. So, for me, it's very healthy for an organization to take your leaders and to move them around so that we take their strength and we put them at work.

Zachary Evershed

And on that last point, given what we saw in Tissue over the last few years, would it be reasonable to expect some capacity rationalization in the Packaging segment now?

Hugues Simon

Well, I think what would be reasonable to see is that continuing to improve our results. The purpose of our operation is not to reduce the number of operations but to run the ones that make sense for the Company. So the work stream that we've already started in all segments of our operation is we consistently look at what are the assets, what is the sweet spot on a machine versus its customer base and trying to pair the right customer with the right machines.

At some point, if you get out of solutions, you make difficult decisions like the ones we took in Trenton. But the objective is to run, sweat the assets, but it has to deliver good value for Cascades and the shareholders.

Zachary Evershed

That's clear. Thanks. I'll turn it over.

Operator

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

Your next question comes from Matthew McKellar with RBC Capital Markets. Your line is now open.

Matthew McKellar — RBC Capital Markets

Hi. Good morning. Thanks for taking my questions. Maybe first, to follow up on Sean's question, could you help us understand the degree to which you see cross-pollination between the Containerboard and Specialty Packaging segments today? For example, what share of your specialty revenue would be from customers who are also customers in the Containerboard business?

Hugues Simon

Yeah. I mean, we have most of our customers that are in Specialty, they also use regular packaging. So we're not talking 5 percent, 10 percent here. We're talking like way above the 50 percent mark.

The other thing, though, is also from a Packaging side, what we don't know. Right? Because, I mean, there's stuff we know, but there's also stuff we don't know, and we believe that there's just as much potential there. Having a sales force being able to—and we have access to some great customers, understanding our customers, their needs. Because, I mean, our customers are much bigger, and I'm not going to name specific ones, but you would guess that we have many customers that, I mean, they use such a large variety of products. So it does create value, and it doesn't have to be a billion dollar of additional business to make a significant impact on the profitability of Cascades.

So there's something there for sure that we've identified customers, right, where we can do some cross-selling. But we've also identified the one that we're not sure, but we need to find out.

Matthew McKellar

Great. That's helpful. Thank you. Maybe next, in Tissue, it sounds like you're expecting stable to slightly higher volume sequentially. Could you please clarify if that will see the—if Q4 in particular will see the full benefit of volumes associated with the new business with the US retail customer, or if that ramps into 2025?

And then from a mix perspective, is that new business part of the sequential mix impact I think you've mentioned for Q4? And if not, could you just provide some more colour around the changes in the mix you're seeing?

Hugues Simon

Sure, I'll let JD answer that question. Jean-David?

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

Yes. Thanks, Hugues. Yeah, so for the new customer ramp-up, it's going to be more towards the end of Q4, so we'll see the full impact in Q1 2025. The mix effect that we have, and we talked about, is more on the away-from-home side at this moment. We'll see some changes in our mix on the retail by the end of Q4 as well. So, again, this should be, I will say, stabilized in Q1 of next year.

Matthew McKellar

Great. Thanks very much. I'll turn it back.

Operator

Thank you. There are no further questions at this time. Mr. Hugues (phon), please continue.

Hugues Simon

All right. Well, thank you, everyone, for your great questions and attending this call. And looking forward to speak on an individual basis with some of you, and also looking forward for the next call.

Thank you very much.

Operator

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