CORPORATE PARTICIPANTS

Greg Yull
Chief Executive Officer

Jeff Crystal
Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Michael Doumet
Scotiabank

Ben Holton
RBC Capital Markets

Gavin Fairweather
Cormark Securities

Ben Jekic
GMP Securities

Neil Linsdell
Industrial Alliance Securities

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Intertape Polymer Group's First Quarter Conference Call and Webcast.

During the call, all participants will be in listen-only mode. Afterwards, we will conduct a question and answer session. In order to maximize the efficiency of this event, the question period will be open to financial professionals only. At that time, those with questions should press star followed by the number one on their telephone keypad. If at any time during the conference you need to reach an operator, please press star followed by the zero.

Your speakers for today are Greg Yull, CEO, and Jeff Crystal, CFO.

I would like to caution all participants that in response to your questions and in our prepared remarks today we will be making forward-looking statements which reflect management's beliefs and assumptions regarding future events based on information available today. The company undertakes no duty to update this information, including its earnings outlook, even though its situation may change in the future. You are therefore cautioned to not place undue reliance on these forward-looking statements as they are not a guarantee of future performance and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those expected. I encourage you to review the discussion of the risks factors and uncertainties contained in the company's security filings in Canada and with the Securities and Exchange Commission.

During this call we will also be referring to certain non-GAAP financial measures as defined under the SEC rules, including adjusted EBITDA, adjusted net earnings, and adjusted net earnings per share. A reconciliation of the non-GAAP financial measures to the most directly comparable GAAP measures is available at our website at www.intertapepolymer.com and are included in its filings, including the MD&A filed today.

I would like to remind everyone that this conference is being recorded today, Tuesday, May 9, 2017, at 10:00 a.m. Eastern Time.

I will now turn the call over to Greg Yull. Mr. Yull, please go ahead, sir.

Greg Yull, Chief Executive Officer

Thank you, operator, and good morning, everyone. Welcome to Intertape's 2017 first quarter conference call. Joining me is Jeff Crystal, our CFO. After our comments, Jeff and I will be happy to answer any questions you may have.

During the call we will make reference to our earnings presentation that you can download from the Investor Relations section of our website.

Turning to page three of our presentation, results for the first quarter were in line with our guidance and we are very pleased with the performance of our operations as a whole. When compared to Q1 2016, revenue increased by 8.5 percent to $207.1 million. The increase in revenue was primarily due to additional revenue from the Powerband acquisition and an increase in average selling price, including the impact of product mix. Gross margin increased to 23.7 percent from 21.5 percent. The increase was primarily due to an increase in spread between selling prices and raw material costs and $2.1 million in South Carolina flood insurance proceeds. Adjusted EBITDA increased 23.5 percent to $29.7 million, which was primarily due to an increase in gross profit partially offset by higher SG&A.

On page four, as expected, capital expenditures in the first quarter of $22.1 million were significantly higher than the prior year. Over half of these expenditures were related to the construction of our new Midland, North Carolina manufacturing facility. This, as well as our other major initiatives, is progressing as planned both in terms of timeline and expenditure levels. Our capital expenditures for the current fiscal year are still expected to be between $75 million and $85 million.

Turning to page five, during the first quarter we achieved manufacturing cost reductions of $4.8 million compared to $3 million last year. For 2017 we still anticipate manufacturing cost reductions between $10 million and $12 million.

Finally, on June 30, 2017 we will pay a quarterly cash dividend of $0.14 per common share payable to shareholders of record on June 15, 2017.

At this point I'll turn the call over to Jeff, who will provide you with additional insight into the financials. Jeff?

Jeff Crystal, Chief Financial Officer

Thank you, Greg. I would now like to refer you to page six of the presentation.

Revenue totalled $207.1 million for the first quarter of 2017, a $16.3 million or 8.5 percent increase from $190.8 million in 2016. The increase was primarily due to additional revenue of $7.1 million from the Powerband acquisition, an increase in average selling price including the impact of product mix mainly due to a favourable product mix in the woven and tape product categories, and the non-recurrence of the South Carolina commissioning revenue reduction recorded in the first quarter of 2016. These impacts were partially offset by a decrease in sales volume, primarily due to a decrease in demand for certain tape products.

Revenue for the first quarter of 2017 decreased sequentially by $2.8 million, or 1.3 percent, from $209.9 million in the fourth quarter of 2016, mainly due to a decrease in sales volume of approximately 6.2 percent or $13.1 million. We believe that the decreased sales volume was primarily due to seasonality in carton sealing tape product offerings. This was partially offset by an increase in average selling price including the impact of product mix of approximately 4.9 percent, which had a favourable impact of approximately $10.3 million, primarily derived from a favourable product mix in the tape and woven product categories.

Turning to page seven, gross profit totalled $49.1 million for the first quarter of 2017, an increase of 19.6 percent from $41.1 million a year ago. Gross margin was 23.7 percent in the first quarter of 2017 and 21.5 percent in 2016. Gross margin increased primarily due to an increase in the spread between selling prices and raw material costs and the South Carolina flood insurance proceeds recorded in the first quarter of 2017.

On a sequential basis, gross margin decreased from 25.6 percent in the fourth quarter of 2016, primarily due to a reduction in the amount of South Carolina flood insurance proceeds recorded, partially offset by improvement in self-funded medical and workers' compensation claims experience.

SG&A increased to $26 million for the first quarter of 2017 compared to $23.4 million last year. The increase was primarily due to additional SG&A in 2017 from the Powerband acquisition, an increase in variable compensation expense, and an increase in advisory and other costs associated with mergers and acquisitions activity.

For the first quarter of 2017 the effective tax rate increased to 26.8 percent from 24 percent a year ago, primarily due to a change in the mix of earnings between jurisdictions.

IPG net earnings totalled $13.5 million for the first quarter of 2017, a $3.9 million increase from $9.5 million in 2016, primarily due to an increase in gross profit partially offset by an increase in SG&A.

Adjusted EBITDA totalled $29.7 million for the first quarter of 2017, a 23.5 percent increase from $24 million in 2016. The increase was also primarily due to an increase in gross profit, partially offset by an increase in SG&A.

As you will note on page 12, we had cash and loan availability under our revolving credit facility of $111.3 million as of March 31, 2017 compared to $158.2 million as of December 31, 2016. Cash flows from operations decreased in the first quarter of 2017 by $9.3 million to an outflow of $10.6 million from an outflow of $1.3 million in 2016, primarily due to changes in working capital.

Free cash flow decreased in the first quarter of 2017 by $21.9 million to negative $32.7 million from negative $10.8 million in 2016, primarily due to higher capital expenditures.

Net debt as of March 31, 2017 was $201.2 million, an increase of $42.3 million compared to December 31, 2016. We ended the first quarter of 2017 with a debt to trailing 12 month adjusted EBITDA ratio of 1.6 compared to 1.5 in Q4 of 2016.

Days sales outstanding decreased to 40 in the first quarter of 2017 from 41 last year. Trade receivables increased $1.9 million to $92 million as of March 31, 2017 from $90.1 million as of December 31, 2016, primarily due to an increase in the amount of revenue invoiced later in the first quarter of 2017 as compared to later in the fourth quarter of 2016.

Days inventory decreased to 62 in the first quarter of 2017 compared to 65 in 2016. Inventories increased by $9.9 million to $113.3 million as of March 31, 2017 from $103.5 million as of December 31, 2016, primarily due to an increase in raw material purchases, including pre-buys, as well as planned seasonal inventory build.

Greg will now provide further details on our outlook. Greg?

Greg Yull, Chief Executive Officer

Thanks, Jeff.

Moving on to page 13 we have our annual outlook for 2017, which remains unchanged from the guidance we provided in March. We expect gross margins for 2017 to be between 23 percent and 24 percent, adjusted EBITDA is expected to be between $127 million and $137 million, manufacturing cost reductions for 2017 are expected to be between $10 million and $12 million, and total capital expenditures for 2017 are expected to be between $75 million and $85 million. We expect a 25 percent to 30 percent effective tax rate for 2017. Cash taxes paid in 2017 are expected to be approximately half of the 2017 income tax expense. This excludes the potential impact of significant tax reform legislation and changes in the mix of earnings between jurisdictions. In regards to our Q2 2017 results, we expect revenue in the second quarter of 2017 to be greater than in the second quarter of 2016; however, both gross margin and adjusted EBITDA are expected to be lower than in the second quarter of 2016, primarily due to the positive impact of the South Carolina flood insurance proceeds recorded in the second quarter of 2016.

In conclusion, we continue to make significant progress on our previously announced capital expenditure projects, which are expected to be on time and on budget. Despite some headwinds we are facing in terms of higher raw material prices as well as the continued efforts to recover lost sales related to the South Carolina flood, we remain comfortable with our annual guidance.

This completes my presentation. At this point Jeff and I are open to any questions. Operator?

QUESTION AND ANSWER SESSION

Operator

Thank you. Ladies and gentlemen, we will now conduct the question and answer period for analysts. If analysts would like to register a question, please press star followed by the number one on your telephone keypad. You will hear a two-tone prompt to acknowledge your request. If your question has been answered and you would like to withdraw your registration, please press pound on your telephone keypad. If you are using a speakerphone, please lift your handset before entering your request. One moment please for the first question.

Our first question comes from the line of Michael Doumet from Scotiabank. Proceed with your question.

Michael Doumet, Scotiabank

Hi. Good morning, guys.

Greg Yull, Chief Executive Officer

Good morning, Michael.

Michael Doumet, Scotiabank

First question, I'm little surprised to see gross margins increase on the back of increased spread between selling prices and raw materials, so with polyethylene and polypropylene up in the quarter could you explain that dynamic and its sustainability?

Greg Yull, Chief Executive Officer

I think from a P&L impact I think you're going to see a lot of the P&L impact of that in Q2. I think a lot of it was purchased in Q1 and hits the P&L in Q2. So the polypropylene that we've seen, the polyethylene that we've seen, there's probably some in Q1 but there's a fair amount of its going to go through in Q2. And just on that topic, you know, we look and see in both of those areas, we see them unraveling. They've already started to unravel. Polypropylene has started to unravel. It ended up going up approximately $0.20 a pound. It's already down $0.06 or $0.07 a pound. And we expect to continue to see that but we still have high-cost inventory that needs to be used in our, um, on the P&L.

Michael Doumet, Scotiabank

Okay. So that's captured in the inventory or the higher priced inventory. Could you maybe comment on the competitive response and the pass-through potential of higher prices?

Greg Yull, Chief Executive Officer

So when we think of, ah, on the polyethylene side, which the order of magnitude of the increases have been less, the film area has been typically pretty well versed in passing those on, so that's been a good position on the polyethylene side. That as well will probably started coming down here in the next 30, 60 days as a lot of new capacity comes on stream.

On the polypropylene side, which namely gets consumed in our tape area and ECP area, the tape side, because of its short-term nature, I don't think increases are going to be passed on, because I think in the period of three months we're going to be back to where we started. On our woven product side we've put some price increases in to cover that polypropylene.

Michael Doumet, Scotiabank

Okay, thanks. Just turning over to your manufacturing cost reductions, we've seen a pretty good chunk realized in this quarter alone, I think it's up to 40 percent of the full year guidance, and just given TaraTape synergies are included and so is the South Carolina project in that number for the year, and I'm assuming additional cost saving projects and we are also ongoing, would it be fair to say there is potential upside to that number?

Greg Yull, Chief Executive Officer

I would say from my perspective there is. But I would caution everyone. We had a good quarter, Q1, all around operationally, we had a good quarter in Blythewood, and we're still in the midst though of ramping up that second masking tape product and stencil within Blythewood, so there's a possibility of having some inefficiencies as we move through the year that we didn't have in Q1. But certainly if Q2 shows up like Q1 does, there's certainly upside there.

Michael Doumet, Scotiabank

Okay, great. I was going to pass it on but maybe just a follow up. You did start to answer that question but can you update us on the ramp up and the sales recovery of both the stencil and masking tapes at Blythewood?

Greg Yull, Chief Executive Officer

So the easiest one first, on the stencil side we're commercial on approximately 85 percent of the styles of product that we sell. The other 15 percent right now, we're at the very beginning of the commercialization process. We're out with customers with products and we've seen our sales ramp up nicely there. I mean we're still a long way from run rates that we were at prior to the flood but certainly there's a clean line of sight there and we feel good about where we are.

On the masking tape side, we still are not commercial on the second masking tape type; however, we are in the early stages of customer trialing. We've gone through our trialing/testing protocol and we feel confident about that but until we get feedback from customers we don't know whether we have a product that's ready for the market. But certainly all signs are encouraging right now and, again, we are out with that product with customers around the world testing it, so feedback should be happening fairly shortly.

Michael Doumet, Scotiabank

Okay, perfect. Thank you, Greg.

Operator

Our next question comes from the line of Ben Holton from RBC Capital. Please proceed with your question.

Ben Holton, RBC Capital Markets

Good morning, guys.

Greg Yull, Chief Executive Officer

Good morning, Ben.

Ben Holton, RBC Capital Markets

Looking at that $4.8 million in cost savings that you did realize in the quarter, is there any way to break out kind of what Blythewood savings were there? I know in the past couple of quarters we've seen fairly consistent sequential improvement there. Has that continued?

Jeff Crystal, Chief Financial Officer

Yes, that's continued. I mean we're not breaking out the number but certainly its meeting our expectations in terms of exceeding the amount that we did the previous quarter.

Ben Holton, RBC Capital Markets

Okay, great. Thinking about the $2.1 million of insurance offsets that you called out in gross profit, did that flow through to EBITDA and net income or were there offsetting costs that netted that out?

Jeff Crystal, Chief Financial Officer

So, I mean it flows through, but at the end of the day we're still suffering from some of the flood impact. I mean it's primarily the lost sales that we're still experiencing as well as the additional manufacturing cost of producing that masking tape in our Marysville, Michigan facility. So there are costs but at this point, like we sort of discussed in the last couple of quarters, at this point we obviously aim to recover those, reduce those costs and increase the sales, but we haven't been calling out the flood impact. And the other issue there is that even the lost sales, it starts to become a fuzzier and fuzzier number the further and further away you get from the actual flood. But yes, there are lost sales and some additional costs that are offsetting that $2.1 million.

Ben Holton, RBC Capital Markets

Okay. And then thinking forward to Q2 guidance, can you frame the directionality of gross margin and adjusted EBITDA if you were to back out the flood insurance costs from Q2 2016, so kind of a cleaner apples-to-apples picture?

Jeff Crystal, Chief Financial Officer

Yeah, I mean we haven't done so. I mean, certainly like we discussed, I mean you have $4.5 million affecting the gross profit and EBITDA of the insurance proceeds last year, so certainly that will not be recurring this year in Q2. If you back that out, beyond that we're not giving any additional guidance there. As Greg mentioned, we may see some pressure on margins just related to the higher raw material costs that will flow through in the next quarter, but that's about as much as I can say at this point.

Ben Holton, RBC Capital Markets

Okay. Thanks, Jeff. One last question if I can. The higher raw material cost, should that be kind of a one quarter blip in Q2 assuming polypropylene and polyethylene do fall off kind of as forecasted?

Greg Yull, Chief Executive Officer

Yeah, I think that's, I mean I can't tell. I mean it might carry into the first month of Q3 but clearly right now, especially in polypropylene, we've already seen that come off quite a bit. And with the polyethylene there's lots of capacity on here in the latter part of 2017, so yeah, it'd be a fair assumption to say that that's a Q2 issue.

Ben Holton, RBC Capital Markets

Great. Thanks. I'll pass the line.

Jeff Crystal, Chief Financial Officer

All right. Thanks, Ben.

Operator

Again, if analysts would like to register a question please press star followed by the number one on your telephone keypad. Our next question comes from Gavin Fairweather from Cormark. Please proceed with your question.

Gavin Fairweather, Cormark Securities

Hi, there. Good morning.

Jeff Crystal, Chief Financial Officer

Good morning.

Greg Yull, Chief Executive Officer

Hi, Gavin.

Gavin Fairweather, Cormark Securities

Just to focus in on the input costs again, I think we've talked mostly about the North American market. I remember in the Q4 there were some issues with butyl acrylate in Asia and impacting the Powerband operations. Curious for your take on any changes in that market and just how Powerband is tracking versus your expectations.

Greg Yull, Chief Executive Officer

So Powerband operationally has been significantly impacted by the rise of butyl acrylate in Asia. We've started to see some tempering there but it's very minimal at this point. We believe it's a short-lived phenomenon. As capacity comes on stream for butyl acrylate, I mean a lot of that was caused by two plant issues as it relates the suppliers of butyl acrylate. So that continues to manifest itself in our results right now.

Gavin Fairweather, Cormark Securities

Okay. The rest of my questions have been asked. Thank you.

Jeff Crystal, Chief Financial Officer

Thanks, Gavin.

Operator

Our next question comes from the line of Ben Jekic from GMP Securities. Please proceed with your question.

Ben Jekic, GMP Securities

Good morning. Most of my questions have been asked but I do have one and that is you often have talked about sort of future high return products that you may or may not announce. I'm guessing that is, if memory serves, referring to a couple of facilities that you mentioned before. What's the current mindset? Should we be expecting something in 2017, some announcements, or is that a future theme?

Greg Yull, Chief Executive Officer

Well, really can't comment on that, but as we sit here right now we've got a lot of high return projects going on that between the end of 2017 and into 2018 come on stream. Most of those, as you know, are new capacity between our plant in Midland, shrink film operation in Portugal, film expansion in Utah, film expansion in Danville, Virginia, and also a specialty tape operation. So for now that's all that we have that we've disclosed as it relates to high return projects of magnitude.

Ben Jekic, GMP Securities

Okay, perfect. Thank you.

Operator

Our next question comes from the line of Neil Linsdell from Industrial Alliance Securities. Please proceed with your question.

Neil Linsdell, Industrial Alliance Securities

Good morning. I just wanted to check on your comments regarding increased, ah, or the costs of M&A activities. Is this for projects which have already completed or is this all looking for new acquisitions?

Jeff Crystal, Chief Financial Officer

This is ongoing activity. So this basically has to do with managing our pipeline of opportunities.

Neil Linsdell, Industrial Alliance Securities

Okay. How is that pipeline?

Jeff Crystal, Chief Financial Officer

Busy. Busy, as you can see.

Neil Linsdell, Industrial Alliance Securities

Any specific areas of the world? Or just outside—

Jeff Crystal, Chief Financial Officer

We can't comment on that but we can certainly say that we're looking at opportunities both domestically and internationally. But it's certainly been a busy pipeline at this point.

Neil Linsdell, Industrial Alliance Securities

Okay. And just on, ah, you mentioned some of the CapEx as far as the capital programs. You didn't mention the India. Can you mention anything about how that's progressing?

Greg Yull, Chief Executive Officer

Oh, yeah. So all the projects right now are on budget, on time, and that Indian project is at the end of 2018, second half of 2018. We have, as you know two, three film operations and three tape projects going on right now and they're all trending well, they're all at budget, all on time.

Neil Linsdell, Industrial Alliance Securities

Okay. And the capacity expansion that was supposed to be done, I think, by the middle of this year?

Greg Yull, Chief Executive Officer

For India? That line is up and running right now, the coating line that is in the existing facility.

Neil Linsdell, Industrial Alliance Securities

Okay, great. And just any commentary, you mentioned the possibility of changes, is there anything that you've seen so far in concerns about NAFTA border taxes or income taxes that you can comment as far as are you making any kind of preparations or contingencies about things you're hearing about?

Greg Yull, Chief Executive Officer

It's certainly a moving target, certainly when we look at situations we're modelling, tax scenarios as well on top of it, so we've added that to our process, but it's so hard to determine where they're going to end up. I mean it's all over the place. But certainly in our discussions and, again, our modelling, whether it's border-adjusted taxes, whatever it is, we're throwing that into the modelling, the what-if scenarios, but beyond that we're not really doing too much.

Neil Linsdell, Industrial Alliance Securities

Okay, fair enough. Thanks, guys.

Jeff Crystal, Chief Financial Officer

Thank you.

Operator

Again, if an analyst would like to register a question, please press star followed by the number one on your telephone keypad.

Our next question comes from the line of Michael Doumet from Scotiabank. Please proceed with your question.

Michael Doumet, please proceed with your question.

Michael Doumet, Scotiabank

Okay, now I'm on. So you highlighted, just going back to Neil's question on the advisory fees and the other associated costs with M&A, I mean could you break that out just in terms of either materiality or amount? And maybe just give us a sense if that's expected to continue throughout the year.

Jeff Crystal, Chief Financial Officer

Well, I can't give you a breakdown of the amounts, I haven't disclosed that, but obviously it was a big enough driver to put in the MD&A. And certainly, as we've said, I mean our pipeline has been active. We hope that that will continue to be active. But, again, the issue we constantly are facing is challenges amongst getting people to the end, getting people to the table, getting valuations that make sense, but in the meantime we're certainly working hard on looking at different opportunities, both domestically and internationally, and that's what's driving some of these costs. So I would say I would expect that to continue through the year. But, again, that could drop very quickly should things fall off the table.

Michael Doumet, Scotiabank

Okay, thanks. And just maybe a follow-up there too. So, nice bump up in revenues on price and mix. That's a change from either year over year or even sequentially. I think you flagged out favourable mix on woven and tapes. Could you just maybe comment a little bit further on what exactly is driving that and again on just to the sustainability of that number?

Jeff Crystal, Chief Financial Officer

Well, some of it's being driven by some pickup on the stencil side. So stencil tends to be a higher ASP product, so as we ramp up sales there we're certainly seeing some positive effects on our mix. As Greg mentioned as well, there has been some price pass-throughs in the film side, so you get some of the price there and some of the mix there.

So those are the couple other things I can highlight for you that we've seen when you look year over year. When we look sequentially there's actually a multitude of different items causing that, so I wouldn't really call out one in particular, but there's probably a multitude making up that amount.

Michael Doumet, Scotiabank

Okay. Perfect. Appreciate the shorter MD&A, guys, too. Thanks a lot.

Jeff Crystal, Chief Financial Officer

No problem. Our pleasure.

Operator

Mr. Yull, there are no further questions at this time. I will now turn the call back to you. Please continue with your presentation or closing remarks.

Greg Yull, Chief Executive Officer

Thank you very much for participating in today's call. We are holding our Annual Meeting of Shareholders in Toronto on the June 7th, so we hope to see you there. If not, we look forward to speaking to you again following the release of our second quarter results in August. Have a great day. Thank you.

Operator

Please note that a replay of this call can be accessed as of 1:00 p.m. today, Eastern Time, at 1-800-585-8367 until 11:59 p.m. Eastern Standard Time on June 9, 2017. Thank you. You may now disconnect your lines.
