CORPORATE PARTICIPANTS

Greg Yull
Chief Executive Officer

Jeff Crystal
Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Michael Doumet
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Ben Jekic
GMP Securities

Neil Linsdell
Industrial Alliance

PRESENTATION

Operator

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

During the call, all participants will be in a 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's call 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. An extensive list of these risks and uncertainties are identified in the company's annual report on Form 20-F for the year ended December 31, 2016 and subsequent statements and factors contained in the company's filings and the Canada Securities Regulators and the U.S. 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 EBITDA margin, trailing 12 months adjusted EBITDA, leverage ratio, free cash flows. A reconciliation of the non-GAAP financial measures to the most directly comparable GAAP measures is available at our website at www.itape.com and are included in its filings, including the MD&A filed today.

Please also note that variance ratio and percentage changes referred to during this call are based on unrounded numbers and all dollar amounts are in U.S. dollars.

I would like to remind everyone that this conference is being recorded today, Friday, August 11, 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 IPG's 2017 second 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 second quarter were slightly below our expectations, despite the strong performance of our manufacturing cost reduction initiatives and progress on key capital expenditure projects. Revenue increased by 4.3% to $210.2 million when compared to Q2 2016. The increase in revenue was primarily driven due to an increase in average selling price including the impact of product mix and additional revenue from the Powerband acquisition partially offset by a decrease in sales volume.

Adjusted EBITDA was $28.5 million or flat compared to last year when you remove the $4.5 million of South Carolina flood insurance proceeds received in the same period in 2016; however, during the second quarter we were very active in the M&A pipeline and successfully completed two transactions at the end of June and beginning of July, for which integration is underway. As a result, the second quarter included $2.3 million of expenses related to our M&A activities, which is $1.5 million greater the amount we spent in the same period last year.

The first factor explained lower than expected results is related to our Indian operation, Powerband. While the Powerband acquisition was an important contributor to second quarter revenue, the revenue and adjusted EBITDA contribution fell significantly short of expectations due to ongoing raw material cost and competitive pressures. These factors start affecting Powerband's results in the fourth quarter of 2016 and have persisted longer than we initially anticipated. We expect raw material costs to come down as supply capacity is restored and we believe that the competitive environment will improve over the near term, but it is uncertain as to how long this will continue.

The second factor is related to slower progress on a commercialization of certain masking tape and stencil products at our manufacturing facility in South Carolina. We continue to work hard on commercialization at this facility and have been experiencing some positive results related to the testing of these products, but the timing of the completion of this process is still uncertain. These factors are the main drivers of our decline in our revised 2017 outlook, which I will address shortly.

On page six we provided details on the Capstone partnership. The principal purpose of the Capstone partnership is to provide IPG with a globally competitive supply of certain woven products in order to better service and grow the company's woven products business. We have stated numerous times ever since the oil and gas industry's significant downturn in late 2014 that the competitive landscape in the woven product line had intensified and that our product, our company cost structure was not competitive. With the addition of Capstone we will now have a low cost base that will allow us to improve our margin significantly and start growing our business once again. We are very excited about this transaction and we believe it represents a big step in the right direction towards improving this business.

We will maintain a 55% interest in the Capstone partnership and will invest $13 million in several tranches. On June 23rd and August 8th we purchased shares of Capstone in tranches of $5.1 million each that were each funded primarily from our revolving credit facility. The majority of our cash consideration is intended to be used by Capstone to partially finance the construction of a greenfield manufacturing facility in India to create new capacity to produce woven products primarily for our global distribution. The greenfield project is expected to cost approximately $30 million and we anticipate the construction will begin in 2017 with commercial operations starting sometime in the first half of 2019. Building plans are already being developed and a partnership is proceeding very well. While we will likely incur expenses and starting up the greenfield project, we do not expect the Capstone operation have a significant impact on our 2017 results.

On page seven is a second transaction which was closed on July 1st, the Cantech acquisition for $67 million in cash consideration net of cash acquired of $4.8 million. In many respect, Cantech represents a promising bolt-on acquisition, expanding our product offering and expanding our distribution channels in Canada, the U.S., and Europe. We are excited by this acquisition as we believe that it will provide us with some attractive revenue-generating opportunities with the larger ones being leveraged off Cantech's strong brands and sales channel in Canada, as well as adding new products to the IPG bundle, such as the highly successful sheathing tape and hockey tape. In addition, we believe there are many opportunities for achieving significant cost savings, such as in raw material purchasing, and further the efficiency of Cantech's operations. Given the fact that achieving some of these synergies as well as integrating the Cantech assets into our legal and administrative structure will result in an incurrence of some meaningful integration costs in the second half of 2017 and into 2018, we expect that the adjusted EBITDA impact from Cantech net of these integration costs will not be significant in 2017 and will be offset somewhat by these costs in 2018 with the full positive impact expected by 2019.

On page eight we highlight other significant items including the increase in our revolving credit facility borrowing limit from $300 million to $450 million in addition to the existing accordion feature of $150 million. The primary drivers of this increase were the additional capital needed for the Cantech acquisition as well as to provide us with additional availability for further strategic investments. On July 3, 2017 we exercised our call option to purchase the remaining 26% of Powerband from its majority shareholders. We are currently working through exit provisions stipulated in the binding term sheet executed on July 4th. In preparation for the upcoming exit of the minority shareholders who are also operating the business, we have established a senior, senior management team to succeed them. The project to construct the greenfield manufacturing facility in India is currently proceeding as planned; however, we may adjust the scope and timeline of this project if needed during the transition. The completion of this additional acquisition is expected to occur prior to the end of the year.

On September 29, 2017 we will pay a quarterly dividend of $0.14 per common share payable to shareholders of record on September 15, 2017.

Turning to page nine, capital expenditures in the first half of 2017 increased significantly from $23.3 million in the previous year to $42.5 million as we continued to make solid progress on our capital projects. A large portion of the spend in the first half of 2017 was related to our water-activated tape capacity expansion project in our new facility in Midland, North Carolina. This strategic project is currently proceeding on time and on budget and is expected to be operational in the fourth quarter of this year. We are also pleased to announce that we completed the shrink film capacity expansion at our facility in Portugal on time and under budget while all other strategic capital expenditure initiatives are proceeding as planned. Our capital expenditure planned for the current fiscal year remains at between $75 million and $85 million.

Turning to page ten, during the first six months we achieved manufacturing cost reductions of $8 million as compared to $6 million last year. In 2017 we included for the first time cost savings derived from the South Carolina project that were previously presented and considered separately. These cost savings also include synergies being realized as part of the TaraTape integration, which is proceeding as planned. For 2017 we continue to anticipate manufacturing cost reductions of between $10 million to $12 million; however, considering our strong progress so far we expect to be at the higher end of that range.

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 11 of the presentation where we present an analysis of our revenue for the second quarter of 2017. Revenue for the second quarter of 2017 reached $210.2 million, an $8.6 million or 4.3% increase from $201.5 million for the same quarter of 2016. The increase in revenue was primarily due to the following factors: First, an increase in average selling price including the impact of product mix of approximately 3.7%, which had a positive impact of approximately $7.4 million, primarily due to a favourable product mix in the woven and film product categories. Second, the Powerband acquisition contributed additional revenue of $5.3 million. Finally, the non-recurrence of the South Carolina commissioning revenue reduction of $2.1 million in the second quarter of 2016. These factors were partially offset by a decrease in sales volume of approximately 3.1% or $6.2 million, mainly related to certain tape products. The decrease was mainly driven by masking tape products commercialized in the Blythewood, South Carolina facility and sold in the second quarter of 2016, most of which were subsequently returned due to quality issues in the third quarter of 2016.

Turning to page 12, gross profit totalled $47.4 million for the second quarter of 2017, a $4.4 million or 8.5% decrease from $51.8 million for the same quarter of 2016. Gross margin was 22.5% this quarter and 25.7% in the second quarter of 2016.

Gross profit and gross margin both decreased primarily due to the non-recurrence of South Carolina flood insurance proceeds of $4.5 million recorded in the second quarter of 2016 and stronger manufacturing capacity utilization in the second quarter of 2016. These unfavourable factors were partially offset by the favourable impact of our manufacturing cost reduction programs.

SG&A for the second quarter of 2017 totalled $28.7 million, a $2.4 million or 9.3% increase from $26.3 million for the same quarter of 2016. The increase was primarily due to the change in fair value of cash settled, share-based compensation, an increase in expenses related to our M&A activities, and additional SG&A from the Powerband acquisition. These factors were partially offset by a decrease in variable compensation resulting from lower than expected operating results.

Adjusted EBITDA totalled $28.5 million for the second quarter of 2017, a $4.5 million or 13.7% decrease from $33 million for the second quarter of 2016, primarily due to the non-recurrence of $4.5 million of South Carolina flood insurance proceeds recorded last year. Included in adjusted EBITDA are expenses related to our M&A activity totalling $2.3 million and $800,000 recorded in the second quarter of this year and of last year respectively.

As you will note on page 19, cash flows from operating activities in the second quarter decreased $4.8 million to

$19.6 million from $24.4 million, primarily due to the non-recurrence of the South Carolina flood insurance proceeds. For the same period, free cash flows decreased by $11.4 million to negative $800,000, primarily due to an increase in capital expenditures and decrease in cash flow from operating activities.

Turning to page 19, the company had cash and loan availability under our revolving credit facility of $179.2 million as of June 30, 2017 compared to $111.3 million as of March 31, 2017. Net debt increased by $82 million to $283.2 million as of June 30, 2017 as compared to March 31, 2017, primarily due to an increase in borrowings to fund the Cantech acquisition. We ended the second quarter of 2017 with a leverage ratio of 2.4 compared to 1.5 last year and 1.6 at the end of the first quarter. As we have previously stated, this leverage ratio is still very much within our comfort zone of 2x to 2.5x as we do not feel its proximity to the upper hand of this range will limit our willingness or ability to continue investing in our capital expenditure program and M&A opportunities.

Days sales outstanding increased to 41 in the second quarter of 2017 from 40 in both the second quarter of 2016 and the first quarter of 2027. Trade receivables increased $4 million to $94.1 million as of June 30, 2017 from $90.1 million as of December 31, 2016, primarily due to an increase in the amount and timing of revenue invoiced later in the second quarter of 2017 as compared to later in the fourth quarter of 2016.

Days inventory decreased to 64 in the second quarter of 2017 from 68 in the second quarter of 2016, an increase from 62 in the first quarter of 2017. Inventories increased $13.3 million to $116.8 million as of June 30, 2017 from $103.5 million as of December 31, 2016, primarily due to a planned seasonal inventory build and lower than expected sales volume in the second quarter of 2017.

Greg will now provide the company's outlook. Greg?

Greg Yull, Chief Executive Officer

Thanks Jeff.

Moving on to page 20, we revisit our outlook for the year, which we have adjusted for the Cantech acquisition and Capstone Partnership net of integration costs and the lower expectations of Powerband results and slower commercialization of certain South Carolina produced products that I mentioned previously. Our adjusted gross margin range for 2017 is down to 22.5% to 23% from the previous range of 23% to 24%. Lower than anticipated revenues and the updated gross margin range translate into a revised adjusted EBITDA outlook in between $120 million and $127 million from the previous $127 million to $137 million.

The Cantech acquisition and Capstone Partnership transaction are expected to have a minimal impact on 2017 adjusted EBITDA. The revised guidance is therefore presented on virtually the same basis as the original guidance, which had factored in these transactions. Excluding the positive effect of the South Carolina flood insurance proceeds on the 2016 and 2017 results, this range should still result in an increase of adjusted EBITDA of between 10% and 15% in 2017 as compared to 2016. Specifically with regard to the outlook for the third quarter of 2017, we expect revenue gross margin and adjusted EBITDA to be greater than in the third quarter of 2016. All the remaining outlook measures are unchanged.

In conclusion, despite the headwinds resulting in a revised outlook, we continue to focus on executing our capital expenditure projects and the integration of our M&A transactions. We believe strongly in the strategic and financial benefits that we expect to realize from these initiatives and remain very optimistic that the results of these investments will materially and positively affect the company's results in the near term.

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.

Your first question comes from Michael Doumet from Scotiabank. Your line is open.

Michael Doumet, Scotiabank

Hi. Good morning, guys.

Greg Yull, Chief Executive Officer

Good morning.

Michael Doumet, Scotiabank

I'll start on your revised 2017 guidance. I want to see if you guys can help parse out or help us at least with parsing out your views on the longevity of some of the items you've highlighted. So at Powerband it's a combination of higher input prices and increased competition. At Blythewood you're progressing a little slower than expected. So how much of these headwinds can be contained to the second half?

Greg Yull, Chief Executive Officer

Well, in regards to the Powerband situation, a lot of that is dependent on, you know, do we end up and we've seen some lightening up of the raw material cost, but certainly we need more as we progress through that. So that's uncertain. And then as it relates to Powerband as well, certainly the competitive intensity in that area has increased. We don't believe that's sustainable but it's hard to determine whether that's a quarter, two quarters, or three quarters. So that's a little out of our control. We're really trying to deal with what we can control in that operation, which is obviously maximizing efficiencies throughout that business.

Michael Doumet, Scotiabank

And at Blythewood, I mean just can you give us a sense of where you are in terms of the commercialization and what was the negative surprise in the quarter?

Greg Yull, Chief Executive Officer

Yeah, the negative surprise in the quarter is that we had to revise. When we did our update in May Q1 we had product being tested with customers. Due to the feedback from the customers we had to do a revision on the formulation of that product. And we're in the queue on having that product evaluated right now. So, it's uncertain again as it relates to time. As we all know, we've been here before. So we have to let that process play out. We feel confident that we'll get there; it's just a question of when.

Jeff Crystal, Chief Financial Officer

And just to add to that, one thing that makes it really painful, and we've said this in the past, is that these products are going overseas. So the feedback loop is very long between the time you're shipping it to your customer and it getting into their customers hand and ensuring it's working in application. So it's certainly painfully slow in terms of getting the feedback on these various testing trial.

Greg Yull, Chief Executive Officer

It's almost a 10- or 12-week cycle.

Michael Doumet, Scotiabank

Okay. So my sense again is that this could potentially push the sales curve out maybe more than two quarters. Is that fair?

Greg Yull, Chief Executive Officer

Hard to say. Honestly hard to say.

Michael Doumet, Scotiabank

All right. And just one last one on the guidance: How much integration costs are you assuming for Cantech in the second half of this year?

Jeff Crystal, Chief Financial Officer

We haven't disclosed exactly how much but basically it's going to offset the EBITDA contribution this year. So you've got about a half year and there. And that includes both integration as well as those upfront costs.

Michael Doumet, Scotiabank

Okay. Fair. And one last. You've got three organic projects expected to commence production in the second half of this year. How should we think of their revenue versus EBITDA contributions?

Jeff Crystal, Chief Financial Officer

So, I mean we haven't disclosed the revenue and the EBITDA generated out of that, but I think that certainly there should be a revenue contribution, as we discussed. Going into the next year or two we expect to see a lot higher top line growth being generated from these organic projects because, like you say, a lot of them come online either end of this year or beginning of next year into next year. And from an EBITDA perspective, you know, you see the different product lines that are in there you could certainly assume it's somewhere around what we're doing today.

Michael Doumet, Scotiabank

In a liner-type contribution—sorry?

Jeff Crystal, Chief Financial Officer

That would be a reasonable assumption.

Michael Doumet, Scotiabank

Okay. Thanks, guys.

Operator

Your next question comes from Ben Jekic from GMP Securities. Your line is open.

Ben Jekic, GMP Securities

Good morning. I just have two quick questions. You mentioned that there were $2.3 million of expenses that were expensed this quarter for Cantech. I don't know if I missed it but where is that expense placed?

Jeff Crystal, Chief Financial Officer

It's in the SG&A line. It's all in there.

Ben Jekic, GMP Securities

SG&A. Okay. And then, if I heard correctly, you mentioned woven products and films were better this quarter than before. Can you kind of elaborate on that? I think, especially in woven products, given where oil and gas is, I think you were experiencing weakness before, and this certainly sounds a little more positive.

Jeff Crystal, Chief Financial Officer

Yeah, I mean there really what we're talking about is the mix of the product. So the mix of products certainly within woven was better this quarter versus last year and you could even see on the same basis you see the same thing in the year to date. So basically we're selling more of the higher selling price or higher average selling price products than we did last year, which would be things like structured fabrics. It's a little more high-end products versus some of the low-rent commoditized products. So it's basically a change in the mix. And the same thing on the film side.

Greg Yull, Chief Executive Officer

Yeah. And we've seen good performance in both those categories, certainly in the woven side the business has performed well relative to prior years and I think there's certainly some momentum there as it relates to the integration into the Capstone greenfield into 2019. So I think that's a big milestone for that business and certainly that should propel that business forward once that line is up and running, that plant.

Ben Jekic, GMP Securities

And one final question. I mean you were mentioning raw material instability only with regards to Powerband. Can you talk a little bit on how have the recent moves affected sort of the overall platform? And maybe just remind us on your kind of pass-through mechanism, you know, what is it in terms of when raw materials change, ah, what flexibilities do you have?

Greg Yull, Chief Executive Officer

Yes, so from a raw material perspective from today's perspective looking short term forward into Q3, I mean we're going to see probably a little bit of a bump here in polyethylene, and that will probably, you know, there's a lot capacity coming on in polyethylene in the latter part of this year. We think that price increase and certainly polyethylene will drop after that. Polypropylene, a little bit of a different story. We're seeing some pressure here from producers mainly around their margin, so they're trying to get a margin increase. We'll see how that plays out. The one good thing or a couple good things about both polyethylene and polypropylene is we have little movement there just overall price, but we're pretty close to where the Asian prices are as well. We're kind of mid single-digits on a cents-per-pound basis, so that's pretty good. As it relates to kind of pass-through mechanisms, basically in a lot of our industrial businesses it's announcing a price increase, you know, 30 days probably notification then you get, you know, by the time you get on your P&L its probably 45 to 60 days if you're effective in getting your price increase.

Ben Jekic, GMP Securities

Right. Okay. That's it from me. Thank you.

Greg Yull, Chief Executive Officer

Just on raw materials, we don't see a dramatic increase as we move through the latter part of 2017.

Ben Jekic, GMP Securities

Perfect. Thank you so much.

Operator

Again, if anybody would like to ask a question, please press star one on your telephone keypad. That would be star one on your telephone keypad. Your next question comes from Neil Linsdell from Industrial Alliance. Your line is open.

Neil Linsdell, Industrial Alliance

Good morning, guys. I was just wondering with the time that you spent now in India if you're getting a really good feeling for the advantages or disadvantages of working in that region and how India might be shaping up. Is that going to be a very significant hub for you to attack these international markets?

Greg Yull, Chief Executive Officer

Yeah, I think with our experience there we're certainly much more comfortable today than we were when we started in India. When we look forward into 2019 we'll have four plants operating in India. We'll have Airtrax plant, the Capstone plant, and two Powerband plants. So they'll be significant contributors to Intertape asset base. It's primarily focused around ensuring that we've got low-cost positions in certain product areas. Most of those plants deal with export and not necessarily participating at a material nature into the local Indian economy 2019/2020. So I think it's very important. We're comfortable there. It's different. Certainly culturally it's different doing business there and we spend a lot of time there with the people and the leadership that we have in place there.

Neil Linsdell, Industrial Alliance

And your facilities are kind of spread out within India. Is there some logic behind doing that?

Jeff Crystal, Chief Financial Officer

Well, you have the Powerband, the two facilities are within, say, about 150 kilometres of each other, so it's not unmanageable in terms of location. And the location in fact for the new factory was chosen based on certain tax incentives and infrastructure levels at the new site. It's in a special economic zone in India, so that's why it was specifically chosen. And the other business is completely separate, so we have, as you know, another partner involved in the woven side and that partner's business had been based outside of New Delhi and in fact the new factory that we're building there is literally about 20 minutes from the current factory. So it's actually both businesses are not too far away from the perspective of the plants that belong to them.

Neil Linsdell, Industrial Alliance

Okay. I was just wondering if there is anything as far as the infrastructure or the staffing of the employees.

Jeff Crystal, Chief Financial Officer

No. I mean in terms of infrastructure, I mean, as I said, where we're operating today at Powerband, it's quite good, and the zone that we've chosen is a zone that is marketed to foreign companies setting up shop in India and therefore infrastructure is one thing that is quite good there. And then the same thing on the Airtrax and Capstone side. We haven't seen any major issues there either.

Neil Linsdell, Industrial Alliance

Excellent. And then I'm just wondering are there any other countries that you might be looking at in your further expansion internationally over the next, say, four or five years? Or do you think there's going to be more significant investment in India?

Greg Yull, Chief Executive Officer

All I would say there is we're trying to ensure that we are long term in a cost competitive position with world-class assets in low-cost jurisdictions, and that might takes us to other countries, but for now we're focused on India.

Neil Linsdell, Industrial Alliance

Okay. And then just on the product diversity, I know with Cantech you're getting into medical and other specialty tapes. Do you think there's a lot more you can do in that specific area and would there be other kind of specialties that you'd still keep your eye on as far as expanding your product line?

Greg Yull, Chief Executive Officer

Absolutely. We're always interested in specialty tapes. We're definitely interested in areas that move us into areas where we have a high unit sell price and it's a specialty sale process, so certainly.

Neil Linsdell, Industrial Alliance

Okay. Fair enough. Thanks.

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 your closing remarks.

Greg Yull, Chief Executive Officer

Thank you, operator, and thank you for participating in today's call. We look forward to speaking with you again following the release of our third quarter results in November. Thank you.

Operator

Thank you, everyone. Please be advised that a replay of this call will be available as of 1:00 p.m. Eastern Time today. You may access this recording by dialing 855-859-2056 and entering the passcode 35687440. Thank you, everyone. You may disconnect your call now.
