CORPORATE PARTICIPANTS

Greg Yull
Chief Executive Officer

Jeff Crystal
Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Maggie MacDougall
Cormark Securities

Neil Linsdell
Industrial Alliance

Ben Jekic
GMP Securities

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Intertape Polymer Group's First Quarter 2018 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 your telephone keypad. If at any time during the conference you need to reach an operator, please press star followed by 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 the 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 with the Canadian Securities Regulators and the US 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, and free cash flows. A reconciliation of non-GAAP financial measures to the most directly comparable GAAP measures is available on our website at www.itape.com and are included in its filings, including the MD&A filed today.

Please note that variance, ratio, and percentage changes referred to during this call are based on unrounded numbers and all dollar amounts are in US dollars unless otherwise noted.

I would like to remind everyone that this conference is being recorded today, Thursday, May 10, 2018, at 10:00 a.m. Eastern Time.

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

Greg Yull, Chief Executive Officer

Thank you, operator, and good morning, everyone. Welcome to IPG's 2018 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, the first quarter results were in line with our expectations, both in terms of top line and bottom line profitability. We are very pleased with the solid 14.5% year-over-year increase in revenue supported mainly by the contribution from the Cantech acquisition and the increase in average selling price.

Our gross margin of 21.3% was lower than the first quarter of last year, which was 22.7%, excluding the impact of the insurance proceeds related to the South Carolina flood of $2.1 million recorded in the prior year quarter and higher average freight costs, which have affected the entire industry. Adjusted EBITDA of $3.2 million was up almost 7% over the first quarter of 2017 excluding the same insurance proceeds recorded last year.

On page seven, capital expenditures reached just over $18 million for the quarter and we are still expecting a total between $80 million to $90 million this year. We have continued to successfully leverage our new Midland, North Carolina manufacturing facility and the capacity expansion plan is progressing on schedule. As we have announced, we spent approximately $48 million on the first phase of this greenfield expansion and expect to end up spending an additional $14 million to $16 million on the second phase to double the capacity of this facility by early 2019. This will represent a total investment of between $62 million to $64 million that is strategically targeted to the fast-growing ecommerce customer channel. We continue to be excited by the growth opportunities within ecommerce, both in water-activated tape as well as other products in our bundle such as tape-dispensing machines, packaging films, and protective packaging.

We are also pleased by the progress of our other capital projects, including our two greenfield projects currently being executed in India. Those projects are still on track to be completed in the first half 2019. As such, the investment in the Indian greenfield projects, as well as all the other announced capital projects in 2017 and 2018, are expected to fully contribute to our results by the end of 2019 with the full annual benefit to be achieved in 2020. It is at that point where we would expect to achieve more sustainable leverage on our fixed expenses as well as our target run rate investment returns.

Turning to page eight, on June 29, 2018 we will pay a quarterly dividend of $0.14 per share payable to shareholders of record as of June 15th.

I will also mention that we continue to work through the exit of our minority partners in our Powerband partnership. This has taken longer than expected and we hope to reach an agreement in the near future. Despite this, our partners have fully handed over the management of Powerband to our IPG-appointed local management team, so this exit process is not affecting the day-to-day operations or the greenfield project. As we mentioned last quarter, while the standalone business continues to operate with compressed margins due to higher raw material cost and a tough international competitive environment, we are seeing strong benefits of higher sales and profitability in that product line in North America directly resulting from the acquisition.

The set up of the Capstone joint venture in our woven products business is in the final stages of the de-merger process in that we've almost completed the rollover of assets from the Airtrax business into Capstone. As previously announced, we expect that the Airtrax business will include approximately $11 million of revenue with a valuation nearing $12 million. We expect that this rollover will be finalized by the end of the second quarter of this year.

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 nine of the presentation where we present an analysis of our revenue for the first quarter of 2018.

First quarter revenue increased by 14.5% to $237.2 million from $207.1 million a year ago. The $30.1 million increase was primarily due to additional revenue of $16.1 million from the Cantech acquisition and an increase in average selling price, including the impact of product mix, which had a favourable impact of approximately $14.5 million. This includes a favourable product mix variance primarily in film and certain tape product categories and price increases in film, woven, and certain tape products. The selling price increases affecting the 2018 first quarter results were largely related to the increased input costs and corresponding price increases announced in the fourth quarter of 2017. On a sequential basis, revenue decreased only slightly by 0.1%, driven mainly by a decrease in sales volume from the expected seasonality in certain carton sealing tape product categories, largely offset by an increase in average selling price, including the impact of product mix.

Turning to page 10, gross profit totalled $50.5 million for the first quarter of 2018, a $1.3 million or 2.7% increase from $49.1 million a year ago. Gross margin was 21.3% this quarter versus 23.7% last quarter and would have been 22.7% excluding the $2.1 million of insurance proceeds from the South Carolina flood recorded in last year's quarter. Gross profit increased primarily due to additional gross profit from the Cantech acquisition. This was partially offset by the non-recurrence of insurance proceeds and an increase in average freight costs, which also resulted in a decrease to gross margin. On a sequential basis, gross margin decreased from 22.8% in the fourth quarter of 2017, primarily due to a decrease in the spread between selling prices and raw material costs and an increase in average freight costs. Currently, the gross margin compression resulting from a decrease in spread and an increase in average freight cost is expect to be temporary, as selling price increases announced in the first quarter of 2018 are having a positive effect on gross margin in the second quarter of 2018.

SG&A totalled $29.1 million for the first quarter, a $3.2 million or 12.1% increase from $26 million a year ago. The increase was primarily due to an increase in employee-related costs, including salaries and other short-term benefits to support growth initiatives, and additional SG&A from the Cantech acquisition. SG&A also included M&A costs totalling $1.5 million and $0.7 million in the first quarter of 2018 and 2017 respectively.

Adjusted EBITDA decreased 0.6% to $30.2 million in the first quarter from $30.4 million last year. The $0.2 million decrease in adjusted EBITDA was primarily due to an increase in SG&A and the non-recurrence of insurance proceeds of $2.1 million realized in the first quarter of 2017, partially offset by adjusted EBITDA contributed by Cantech and an increase in gross profit. This represents an increase of almost 7% excluding the insurance proceeds from the prior year.

In the fourth quarter of 2017 the company recognized a $9.6 million net tax benefit primarily due to the re-measurement of the US net deferred tax liability using the lower US corporate tax rate provided under the Tax Cuts and Jobs Act enacted into law on December 22, 2017. This one-time benefit did not reoccur in the first quarter of 2018 and, as a result, our effective tax rate increased to 21.6%, which remains in line with our expectations for 2018 of 18% to 23% barring any changes in the mix of earnings between jurisdictions and any new guidance or legislative revisions made with respect to the Tax Cuts and Jobs Act. This tax impact, as well as a decrease in foreign exchange gains, contributed significantly to a decrease in net earnings of $10 million from $21.3 million for the fourth quarter of 2017.

As you will note on page 15, cash flows from operating activities in the first quarter decreased $9.5 million to an outflow of $20.1 million, primarily due to a decrease in cash flows from working capital items. The decrease in cash flows from working capital activities contributed to the decrease in free cash flows of $5.8 million to negative $38.5 million. Both of these results were expected, as the first quarter is normally when we require a larger investment in working capital for seasonal inventory builds due to higher anticipated sales and a settlement of annual customer and employee incentives as compared to the end of the fourth quarter, which is when we expect to deplete a large portion of that inventory build. Free cash flows are additionally impacted by the expected relatively high level of CapEx.

The company had total cash and loan availability of $136.5 million as of March 31, 2018 compared to $186.6 million as of December 31, 2017. The decrease in cash and loan availability was primarily due to an increase in net borrowings to meet seasonal working capital needs and to fund the capital expenditures. We ended the first quarter of 2018 with a leverage ratio of 2.5 compared to 2.1 at the end of the fourth quarter of 2017.

Days sales outstanding increased to 42 in the first quarter of 2018 from 41 in the fourth quarter of 2017. Trade receivables increased $4.7 million to $111.3 million as of March 31, 2018 from $106.6 million as of December 31, 2017, primarily due to an increase in the amount and timing of revenue invoiced later in the first quarter of 2018 as compared to later in the fourth quarter of 2017.

Days inventory increased to 67 in the first quarter of 2018 from 65 in the fourth quarter of 2017. Inventories increased $21.9 million to $150.2 million as of March 31, 2018 from $128.2 million as of December 31, 2017, primarily due to an increase in production as part of a planned seasonal inventory build and the increase in raw material costs.

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

Greg Yull, Chief Executive Officer

Thanks, Jeff.

Before I review the outlook on page 16, I'd like to reiterate that the gross margin compression on a sequential basis in the first quarter of 2018 resulting from a decrease in spread and an increase in average freight cost is expected to be temporary. We have previously discussed the fact that when there are very sharp spikes in raw material prices that occur within a very short timeframe, there could be some short-term timing effects due to the time that it typically takes for the effect of the increase to manifest itself into the income statement.

We have been implementing price increases beginning with the 2017 hurricane season and continue to do so to mitigate raw material and freight cost increases in early 2018. Selling price increases announced in late fourth quarter 2017 and in the first quarter of 2018 are having a positive effect on the gross margin in the second quarter of 2018 and we remain confident in our ability to pass on price increases to our customers in the majority of these cases, as we, and our industry in general, have done in recent years.

Moving on to the outlook for the fiscal year and second quarter of 2018, excluding the potential impact of acquisitions and significant fluctuations in selling prices in response to raw material cost fluctuations we anticipate 2018 revenue growth to remain similar to that of 2017. Primarily reflecting the timing of the Cantech acquisition last year, the year-over-year growth rate is expected to be higher in the first half of the year than in the second half of the year and revenue in the second quarter of

2018 is expected to be greater than in the same period last year. We remain confident in our adjusted EBITDA guidance for fiscal year 2018, which is still expected to be between $135 million and $145 million and greater in the second quarter of 2018 than in the same period last year.

In conclusion, we continue to focus on executing our capital expenditure projects supported by near record levels of investment and anticipate achieving benefits from some of these investments in 2018 with the full benefits being realized towards the end of fiscal 2019 and into 2020. The same timing is expected for the full year run rate synergies related to the Cantech integration of $2 million to $4 million. This integration continues to progress as planned. We believe that our level of capital expenditure investments will return to a more normalized level in 2019, barring any unforeseen additional investments driven by catalysts such as additional M&A. As such, we expect that the company will generate much higher free cash flow starting in 2019 then building in 2020 and future years. We progress in the second quarter of 2018 with confidence and continue to put in place the building blocks that we believe will help us achieve our goals for fiscal 2022 and subsequent years.

This completes my presentation. At this point, Jeff and I are open to answer your 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 or 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 Maggie MacDougall from Cormark. Please proceed with your question.

Maggie MacDougall, Cormark Securities

Good morning.

Greg Yull, Chief Executive Officer

Good morning, Maggie.

Jeff Crystal, Chief Financial Officer

Good morning, Maggie.

Maggie MacDougall, Cormark Securities

Wondering if you can disclose how much Cantech added to your Q1 revenue.

Jeff Crystal, Chief Financial Officer

Q1 revenue? Yeah, it's actually in one of the slides. It's $16.1 million.

Maggie MacDougall, Cormark Securities

Okay, thanks. And then on the gross margin compression that you saw quarter over quarter from Q4, also wondering if you can sort of segment out or perhaps give an idea of magnitude between the increase in freight costs and other raw material cost inflation in terms of which was the bigger impact.

Jeff Crystal, Chief Financial Officer

Yeah, we haven't broken that out. What I would say is that they are both significant, but we haven't broken it out.

Maggie MacDougall, Cormark Securities

Okay. And the pricing that you have put through for Q2 to offset some of that cost increase, at this point in time is that enough, considering that gas prices have continued to go up and freight costs could potentially continue to rise over the next few months.

Greg Yull, Chief Executive Officer

Yeah, so, when we look at that, and we made comment to that, as you know, in our April results we've seen the benefit of those cost increases. Certainly we're dealing with what we know right now and we'll react in an appropriate manner if other price increases come down in the future.

One thing that happened that was different this quarter, specifically in Q1, is, for example, our polypropylene price did not settle until the third week in January. So, in the third week of January it settled to tell us what we were paying on January first. So we went through three, four weeks without knowing what the price was and that price went up $0.09 a pound, dramatically like that. So, those kind of swings are very hard to manage. And we're trying to clearly articulate that, you know, given time, we'll get that back, and we're seeing that in our results in April at this point.

Maggie MacDougall, Cormark Securities

And then just wondering if you could, lastly, give an update on the status at Powerband and if you saw much improvement in margin there or if it's been sort of status quo over what you experienced in the last half of 2017.

Greg Yull, Chief Executive Officer

I would say on a sequential basis it's pretty much status quo. It's the same. Again, we have a standalone business that certainly is under pressure historically and the margins are compressed. We certainly have a dramatic increase in our North American business, both in profitability here and in revenue, and that's associated with the Powerband acquisition. So, on a consolidated basis, the business is performing well, but the standalone business in India is certainly still under pressure at this point.

Maggie MacDougall, Cormark Securities

Okay. Thanks very much, Greg.

Greg Yull, Chief Executive Officer

Thank you.

Operator

Our next question comes from the line of Neil Linsdell from Industrial Alliance. Please go ahead.

Neil Linsdell, Industrial Alliance

Good morning, guys.

Greg Yull, Chief Executive Officer

Good morning, Neil.

Neil Linsdell, Industrial Alliance

Just on the price increases that you're talking about that we should see some benefit in Q2, have you gone to all your customers and you've put your price increases in or is this something that it's constantly evolving and you're talking to clients? I'm just wondering if everybody's kind of settled now for a period of time.

Greg Yull, Chief Executive Officer

Well, they're in place. The last group of pricing we put in was April 30th or April 15th. So that's in place. And we saw increases that we put in place at the end of November certainly start rolling through the P&L as we progress through Q1, but the April results, the pricing is in April's results, which means the pricing is in place.

Neil Linsdell, Industrial Alliance

Okay. And in previous quarters we've talked about some, I think it was Chinese suppliers and you had some irrational pricing. It seemed to have settled down, I think, last quarter. Any kind of resurgence or anything going on in the market that we should be looking at?

Greg Yull, Chief Executive Officer

No, I think it's pretty similar. I mean, look, the place that we're experiencing the most competitive pressure right now is on that Powerband business and that really hasn't changed. So that's the area of intensity that I would highlight. The rest is more normal or consistent with what we've seen in the past.

Neil Linsdell, Industrial Alliance

Okay, good. And then you were just talking about your 2022 target, so previously when you were first starting up Blythewood we were talking about longer-term targets of getting to about, I think it was $1.5 billion in revenue. Can you just update us on your long-term targets as far as revenue by whatever date and margin contribution at that point?

Greg Yull, Chief Executive Officer

Those targets are still in place and I think we've made good progress towards getting there, so nothing's really changed as it relates to either timing or the goal. I would say that, as we've said in the past, we can only do so much organically, so M&A will have to play a role for us to get there. So the goal is $1.5 billion in sales and greater than or around $225 million of EBITDA and with an EBITDA margin of 15% or greater.

Neil Linsdell, Industrial Alliance

Okay. That's what I was looking for. And I was just wondering if anything that you've done in the meantime with Powerband with the Cantech or if anything like that puts you further ahead of that schedule or basically that's all in line with what your strategic plan was.

Jeff Crystal, Chief Financial Officer

We knew that within that strategic plan we would have to do M&A so, no, those are just contributing to essentially what we were hoping to happen.

Neil Linsdell, Industrial Alliance

Okay. So, everything on track.

Jeff Crystal, Chief Financial Officer

Yeah.

Neil Linsdell, Industrial Alliance

And then just in a more general, you know, when you purchased Cantech I think there were some product lines which were nice complementary or diversified away from where you're selling now. Are there any other kind of segments that you'd like to get further into or you're seeing more opportunities because of the Cantech purchase?

Jeff Crystal, Chief Financial Officer

We mentioned, you know, they have some product lines with good brand names, especially within Canada. We've mentioned a couple of those in certain sports tapes and certain building and construction tapes as well, so we're certainly leveraging that.

I think beyond that, I mean most of the tapes they have are tapes that we already produce, so certainly we've discussed optimization of capacity and efficiencies around those products, but I think those are really the two main categories. And maybe there's another one as well, sorry, in medical as well that they have, but those would be it.

Greg Yull, Chief Executive Officer

And I think the other thing I would add there is that we're in the midst of integrating their system from an ERP perspective. Once that's accomplished I think there will be more opportunity to cross sell there, because we'll be one consolidated company from a systems perspective, so from a customer-facing perspective and supply chain perspective.

Neil Linsdell, Industrial Alliance

Yeah, and that's what I was thinking about. Specifically, I think the medical opened up a lot of very large opportunities that you could get further into with a lot of customers.

Greg Yull, Chief Executive Officer

I wouldn't necessarily say in the medical side. Where I would be more inclined is in the building construction side within specifically the retail kind of DYI side, specifically in Canada but certainly in the U.S. well, and then on the athletic tape side as well.

Neil Linsdell, Industrial Alliance

Okay. And, sorry, just one more housekeeping. We've talked about your CapEx spending. I think maintenance CapEx, if you take out a lot of the growth projects, we're talking about $30 million or so, $35 million per year. So, as we go out past the 2019 completion of the build-out on your current projects, would that still be kind of a valid maintenance CapEx number?

Jeff Crystal, Chief Financial Officer

I think, you know, it could be. I mean I think for us, we think we'll be somewhere around where depreciation is. I mean we'll be probably running at close to $40 million of deprecation on an annualized basis. You know, it could be $30 million, could be $40 million, could be $50 million, maybe a little higher, but it should be in that range.

Neil Linsdell, Industrial Alliance

Okay. All right, great. Thanks a lot.

Operator

As a reminder, if you would like to ask a question, press star followed by the number one on your telephone keypad.

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

Ben Jekic, GMP Securities

Good morning. I have two questions, both relatively qualitative to the extent that you want to talk about it. My first question is on exposure to raw materials compared to, let's say, two, three years ago before your capital deployment phase started. Like are you, you know, is your exposure greater, same, or smaller? Which of the resins have been added? Just give us some dynamics around that please.

Greg Yull, Chief Executive Officer

Well, I would think that it's the same. Certainly what has changed somewhat is geographical exposure to raw materials just with us moving into India specifically. So we probably have the same mix or ballpark mix between polyethylene and polypropylene and things of that nature, just some of those sourced products now would be out of Asia as opposed to North America.

Ben Jekic, GMP Securities

Okay. And then my second question is just a little bit more on competitive pressures. You just said, I think, that where you're feeling it mostly is Powerband. Maybe if you can just jog our memory, like where is that coming from and for what kind of shipments? Is it shipments within Asia or heading to North America? And then has there been any drastic changes in any other product lines?

Greg Yull, Chief Executive Officer

Well, that's the one that we're experiencing the most intensity and that's both in Europe and in North America. It's a situation that I believe will work itself out. The net result will be an increase of the spread between selling price and material cost. And I think that, over time, will work itself out and I'm confident that it will. It's hard to predict when it does. Certainly the input costs in Asia are staying at a very high level and, just to refresh everyone's memory, when we bought that business we were paying $900 a metric ton for BA. We're currently paying somewhere between $1,400 to $1,600 a metric ton for BA, butyl acrylate, which is the main component for adhesive. So I think that will, over time, work itself out, it's just, you know, it just is one of those quarter-to-quarter things at this point.

In relation to the balance of our business, you know, we do live in a competitive world here where we're fighting for orders. I would say that that landscape has not necessarily changed since the last time we updated it. Does that answer your question, Ben?

Ben Jekic, GMP Securities

It does. Thank you.

Operator

Mr. Yull, three are no further questions at this time. I will now turn the call back to you. Please continue your presentation or 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 second quarter results in August. Thank you.

Operator

Thank you. Please note that a replay of this call can be accessed as of 1:00 p.m. today Eastern Time. You may access this recording by dialling 855-859-2056 and entering the pass code 6864098. Again, that's by dialling 855-859-2056 and entering the pass code 6864098.

This concludes today's call and you may now disconnect.
