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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Intertape Polymer Group's Second 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 their 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, 2017 and subsequent statements and factors contained in the company's filings with the Canadian 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, and free cash flows. A reconciliation of the 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 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 unless otherwise noted.

I would like to remind everyone that this conference is being recorded today, Monday, August 13, 2018, at 10:00 a.m. Eastern Time, and 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 2018 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. I'll start on page three.

It was a strong quarter. In comparison to the same period last year, revenue was up almost 19%. Adjusted EBITDA was up more than 11%. We completed the Airtrax transaction, refinanced and expanded our credit facility, and acquired Polyair. The Polyair acquisition marks our first major move into the protective packaging space with a quality product offering that expands our product bundle and brings with it an established customer base. I'll address the acquisition in more detail in a moment. First, I would like to take a step back and describe how we think about our business and where we believe we are going.

On page eight, our vision is to be recognized as a global leader in packaging and protective solutions. We've established clear targets for the business by 2022, which are to reach $1.5 billion in revenue, $225 million in adjusted EBITDA, and 15% adjusted EBITDA margins. These targets require both organic growth from our base business as well as growth through acquisitions. We are in the midst of an extensive capital investment plan at specific facilities that supports our organic growth. Polyair is the sixth and largest acquisition that we've made since 2015.

With our capital investments and strategic acquisitions, we believe we are positioning the company for long-term growth and, at the same time, remaining agile in the market and able to respond to competitive challenges and other variables like volatility in raw material costs. Our focus is on securing low-cost assets, operating them efficiently, and delivering high-quality products to our customers and distributors.

We are investing in and acquiring assets that we believe will provide continued growth to the company and improve our competitiveness in key segments of the market in North America, like protective packaging and water-activated tape. Based on our experiences, customers and distributors are attracted to simpler, straightforward relationships. They want to deal with fewer vendors and buy more from each of them, if the price and performance are right. They are looking for credible partners with scale and breadth. That is also the rationale behind our strategy to strengthen our product bundle. We want to offer our established base of distributors and end-user customers a more streamlined method to procure a wide array of quality, low-cost packaging and protective solutions.

In order to strengthen our product bundle, we've invested in existing facilities to ensure we're as efficient as possible and prudently building out our capacity for products where we believe demand is growing. On page nine, you can see that we've invested nearly $35 million in CapEx so far this year. This includes the work that is underway at our two projects in India, the Capstone facility, which is highlighted on page 10, and the Powerband facility on page 11. Both projects are on budget and on schedule to commence operations in the first half of 2019.

The expansion of our Midland operation is highlighted on page 12. This is the second phase of the project that essentially doubles our production capacity at the Midland facility for water-activated tape that is used in our growing e-commerce vertical. We expect the new line to be operating in the first quarter of next year. These are important investments that stand to improve our competitiveness and strengthen our product bundle, either through low cost production or production scale. We are often asked about the return profile of our CapEx. We invest in projects targeting return levels at least 15% on an IRR basis. But these are complex operations and they aren't light switches that turn on the moment they are installed. Timelines vary by project but, generally speaking, our larger investments can take up to 24 months to construct and commission and 12 months to 18 months to reach optimal efficiency.

At the same time, we're expanding our product bundle with strategic acquisitions like Polyair, which is shown on page 13. As background, we've been interested in Polyair for a number of years. Polyair initiated a formal sale process earlier this year and we are extremely pleased with the successful outcome for us. Polyair is a strong competitor in the protective packaging market, offering primarily bubble cushioning, foam mailers, and air pillow systems. They're offering complements to our existing product bundle. The acquisition provides cross-selling opportunities to our existing customers and distributors, as well as opportunities for us to market our offerings to their established customer base. They have built a strong industrial brand and share our commitment to low-cost quality products and superior customer service.

They've also built a significant position in the e-commerce vertical, which is obviously a key market for us with our water-activated tape and other packaging products. E-commerce growth continues to outpace growth in the overall economy. We are confident that protective packaging stands to benefit from this growth as merchandise is often shipped in unfilled cartons that require protective packaging to ensure any potential damage is limited. Our footprint in e-commerce is one of the primary reasons we've been interested in Polyair's business for a few years.

We estimate their adjusted EBITDA to be approximately $14 million for fiscal 2018. We estimate deal and integration cost will be approximately $2 million and between $3 million or $4 million respectively, with the majority of integration costs expected to be recognized in 2019 and 2020. We expect the Polyair acquisition to be accretive to IPG earnings in 2019, excluding integration cost and non-cash purchase price accounting adjustments. We expect to deliver synergies from revenue and cost reductions. We also anticipate a reasonable level of organic growth in their business based on their e-commerce focus and their recent performance. Overall, we estimate that Polyair can achieve adjusted EBITDA of approximately $20 million to $22 million by 2021 from their business, which equates to a post-transaction valuation multiple of approximately seven times.

With Polyair being our sixth acquisition since the start of 2015, we believe we are demonstrating a track record of acquiring assets that consolidate our position in a vertical or complement our existing offering. Looking back, Better Packages complemented our water-activated tape business. We have since more than doubled the EBITDA we purchased on that transaction, mainly through leveraging cross-selling opportunities. Terra Tape built out our filament and pressure-sensitive business. We have more than tripled the EBITDA on this deal through rationalization. Powerband and Airtrax each provide a lower cost manufacturing base for certain packaging tape products and other woven businesses, allowing us to sell products more competitively in North America and Europe. And Cantech strengthened our position in industrial and specialty tape by adding new products, brands, and cost synergy opportunities.

We continue to drive efficiencies in these businesses. Subsequent to the end of the second quarter, we announced to our employee base at the Cantech manufacturing facility in Johnson City, Tennessee that we will be closing the facility and transitioning its capacity to other facilities in the IPG network, which is discussed on page 13. The closure is scheduled for the first half of next year. We expect the closure to generate cost savings of between $1.5 million to $2 million annually due to a smaller footprint and improvements in utilization at other factories. These expected savings will be incremental to those we have already announced, bringing the total expected annual synergies from that transaction to $3.5 million to $6 million by the end of 2019. We also expect to record a one-time upfront charge in the third quarter of approximately $6 million, mainly for non-cash impairment of property, plant and equipment, as well as inventory. We estimate total cash cost for this facility closure of approximately $2.5 million will be incurred over the next two years.

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 16 of the presentation where we present an analysis of our revenue for the second quarter of 2018. Second quarter revenue increased by almost 19% to $249.1 million from $210.2 million in the same period last year. The $38.9 million increase was primarily due to both revenue from acquisitions and organic revenue growth including price, product mix, and volume. On a sequential basis, revenue increased 5% as a result of the price increases in certain tape and film categories and a favourable product mix in certain tape categories.

Volume increased overall by 2% in the quarter compared to the same period last year. There is a clear delineation in our volume between Powerband acrylic carton sealing tape and the rest of the business. Keep in mind that acrylic tape is our lowest price tape product sold relative to our other offerings. The impact of volume fluctuations in this product line can therefore affect the volume disproportionately compared to its impact on revenue and profit dollars. Excluding Powerband, sales volume grew just over 7% compared to the same basis last year. The most significant drivers of this growth were directly related to recent investments such as in water-activated tape and stretch film. Our woven business also experienced strong volume growth in the quarter.

Turning to page 17, gross profit increased 15% to $54.5 million in the second quarter from $47.4 million in the same period last year. Gross margin was 21.9% in the second quarter compared to 22.5% in the same period last year, primarily due to the Cantech and Airtrax acquisitions not included in the base period. This was partially offset by the spread between selling prices and combined raw material and freight costs. Excluding the impact of the acquisitions, gross margin was 22.7%. On a sequential basis, gross profit increased by 8% and gross margin improved by 60 basis points. The improvement in gross margin is primarily due to the spread between selling prices and combined raw material and freight costs. This increase was partially offset by an increase in plant-related operating costs.

SG&A expense decreased by 4% to $27.6 million in the second quarter compared to $28.7 million in the same period last year. The reduction was primarily due to lower share-based compensation and lower M&A costs, which were partially offset by increases in variable compensation, the addition of Cantech SG&A, and employee costs related to growth initiatives.

Adjusted EBITDA increased by 11% to $34.6 million for the second quarter compared to $31.1 million for the same period last year. The $3.5 million improvement was primarily due to increases in gross profit and the adjusted EBITDA contributed from the Cantech acquisition.

On page 24 you can see cash flows from operating activities increased by $7.9 million to $27.5 million in the second quarter compared to $19.6 million in the same period last year. The improvement is primarily due to an increase in gross profit and a decrease in cash taxes, mainly as a result of a U.S. tax refund related to the Tax Cuts and Jobs Act in the U.S. The improvement in cash flows from operating activities positively impacted our free cash flows, which increased by $11.9 million to $11.1 million in the second quarter compared to negative $0.8 million in the same period last year. T

he company had total cash and loan availability of $271.9 million as of June 30, 2018 compared to $186.6 million as of December 31, 2017. The increase in cash and loan availability was primarily due to incremental capacity available under the new credit facility. During the second quarter, we successfully refinanced and increased our credit facility to $600 million with a new five-year term from the previous $450 million facility that was due to expire in November 2019. The new facility consists of a $200 million term loan and a $400 million revolving credit facility.

As Greg mentioned, we closed the Polyair acquisition on August 3rd, which used approximately $146 million of our capacity under the credit facility. At the end of the third quarter, and taking into account the pro forma impact of the Polyair acquisition, we expect our leverage ratio to be approximately 3.2 compared to 2.1 at the end of the fourth quarter of 2017. We are comfortable at this level for now given that it's below our credit facility limit of 3.5 times and as we generate cash flow we'll continue to apply a portion of it to pay down debt, just as we have over the course of the past year.

As we mentioned in our last quarterly update, we expect to see a significant reduction in capital expenditures in 2019 to a range of approximately $40 million to $60 million, as we will be completing our most significant capital projects. This should enable us to generate free cash flow at a much greater rate than in 2017 and 2018, where capital expenditures have been at all-time highs.

Day sales outstanding were essentially unchanged at 41 days in the second quarter compared to 42 days in the first quarter of 2018. Trade receivables increased $6.5 million to $113.1 million as of June 30, 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 second quarter of 2018 as compared to later in the fourth quarter of 2017.

Days inventory increased slightly to 70 in the second quarter of 2018 from 67 in the first quarter of 2018. Inventories increased by $23 million to $151.2 million as of June 30, 2018, up from $128.2 million as of December 31, 2017. The change is primarily due to an increase in production, including the utilization of completed capacity expansion projects as part of our planned inventory build in anticipation of higher expected sales and a scheduled annual maintenance shutdown planned at certain facilities in the third quarter, as well as the increase in raw material costs that I referenced earlier.

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

Greg Yull, Chief Executive Officer

Thanks, Jeff.

With this morning's announcement, we are revising our outlook for revenue and adjusted EBITDA on page 25 to include the impact of the Polyair acquisition. These expectations are excluding any significant fluctuations in selling prices caused by unforeseen volatility in raw material prices. We now anticipate revenue growth in 2018 to be between 16% and 18% and adjusted EBITDA to be between $140 million and $150 million. We also expect revenue and adjusted EBITDA in the third quarter of 2018 to be greater than in the same period last year.

We are executing a strategy to deliver long-term value for our shareholders, strengthening our product bundle by investing in our facilities and operations to drive efficiencies, and acquiring businesses that consolidate our position or complement our offerings in growth markets or with key distributors. We appreciate the support and commitment that our investors have demonstrated and I look forward to updating you on our progress.

With that, I'll turn the call back to the operator to open up the question-and-answer period. Thank you.

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 wish 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 with Scotiabank. Please proceed with your question.

Michael Doumet, Scotiabank

Good morning, guys.

Greg Yull, Chief Executive Officer

Good morning.

Michael Doumet, Scotiabank

So, higher input prices have been a hot topic amongst investors, to say the least. You recognized a sequential improvement in the price cost gap this quarter. I'm just wondering if you can talk about how much is left in terms of recapturing that margin spread, either in percentage terms or any other way that you can provide insights there.

Jeff Crystal, Chief Financial Officer

We can't really comment on that. I mean that would be giving guidance for Q3, which we haven't given. But basically, like we said in our May announcement, we had instituted some price increases that came into effect in April and we certainly saw a nice uptick in margins in April.

And although prices of raw materials, certainly polypropylene were higher in the quarter, so certainly that was offset somewhat by that. And, as we've discussed, we certainly expect that that dynamic of being able to go out and get increases, as long as it's supported by the competitive environment, should not be an issue. So certainly we will be adjusting that as we need to.

Michael Doumet, Scotiabank

Okay. Maybe just trying to get a sense if the improvement or if you're expecting an improvement, maybe not as it relates to Q3 but sort of going into the end of 2018. I mean you've talked about higher polypropylene price. I'm just wondering if your pricing momentum is maybe a little bit stronger than the cost momentum going forward.

Greg Yull, Chief Executive Officer

I don't think we can give you a look at that. But one thing I would say just connected to margin is, you know, when you think of our margin right now, and Jeff called it out, we're certainly facing margin pressure just with our acquisitions, and as we further integrate those acquisitions and take costs out, like we're doing in Cantech, I think that has a material impact on margins going forward.

Michael Doumet, Scotiabank

Okay. That's helpful anyways, thanks. And maybe just turning to the EBITDA contribution from acquisitions, it was a little bit lower this quarter than in the prior quarters, so maybe if you could just parse that out and whether if that impact came from Cantech or from Airtrax, which was also closed in the quarter.

Greg Yull, Chief Executive Officer

So, certainly Cantech had, ah, I wouldn't call it a great quarter. When we purchased that business and a lot of these businesses, they tend to be fairly lumpy quarter to quarter, and a lot of order timing within Cantech, certainly we had a couple operational issues in plants during the quarter. Moving forward, we feel really good about hitting our business case there. We're raising the guidance on synergies in that business and we saw a nice rebound in July so far in the Cantech business.

Michael Doumet, Scotiabank

Okay, perfect. And maybe just one last question before I turn it over. Any way you can size up the revenue decline at Powerband for us? I'm assuming the impact of volumes was partially offset by like an increase in price mix there, so any update there as well as any update on the overall competitive environment.

Jeff Crystal, Chief Financial Officer

Yeah, so there too, you know, we feel like it's mostly a question of order timing. And we've articulated this in the past, when we're dealing with that type of business, certainly it can affect our volumes somewhat materially, even though you're talking about a low revenue per unit type of volume and certainly a lower profitability as well, especially considering it's coming from the Powerband business. But we feel that that quarter in particular were some timing related effects. If we look at the first quarter, we were actually somewhat up a little bit in volume in Powerband and so we hope to see that recover into the third quarter and fourth quarter.

Greg Yull, Chief Executive Officer

In Powerband during the quarter we also went through a bit of a transition with our customer base in the U.S., so we feel like we're through that transition and that affected some of the order timing on a year-over-year basis.

Michael Doumet, Scotiabank

Okay, perfect. Thanks, guys.

Operator

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

Once again, Neil, your line is open.

Neil Linsdell, Industrial Alliance Securities

I'm sorry. I was on mute. Good morning, guys. If we go back to slide eight and look at the strategy, and if I look at that between the geographic footprint, the product offering, and the operational synergies cost savings, can you talk about the strategy in relation to the goals that you set for 2022 as far as how each one is going to contribute and the puts and takes thinking about you might have geographic expansion in certain areas where you're going to get lower margins but you'll get the higher revenue, and specifically how all those things come together to get you the profitability improvement or those margin targets?

Greg Yull, Chief Executive Officer

Look, I think, as I said in my conference call, we're focused primarily within the North American channel right now, and our expansion globally has been around securing low-cost, world-class assets to support our bundle strategy within North America, both within our tapes and films business and our woven products group. So I think from a global footprint perspective, the four plants that we'll have in India, plus the Portuguese operation plus the converting operation in Germany, cover a lot of what we wanted to get accomplished when we rolled out this strategy.

As it relates to protective solutions, certainly when we think of the acquisition of Polyair and integrated that into our business and into our bundle, those two are definitely connected. That would be probably our biggest product segment that we were looking at from an expansion perspective. So I feel like the heavy lifting is accomplished there.

On the operational excellence side, that's just a never-ending pursuit of continuous improvement through disciplined lean manufacturing in all of our facilities. So it's hard to articulate and we don't give guidance on how that each area drives the goals piece, but what we do say is certainly for us to reach those goals we need a balance between organic growth, which is a lot of the CapEx that we're initiating right now or in the midst of completing right now, and M&A, as we continue to pursue M&A opportunities.

Neil Linsdell, Industrial Alliance Securities

Okay. Fair enough. And as we look at some of these projects that are coming on, there seems to be a lot of stuff with India with Midland that's going to be happening in early next year, 2019. I know you haven't given guidance yet but would there be anything expected as far as significant step-ups in revenue or efficiencies once all these things kind of come into play beyond what, I guess, you've already talked about?

Jeff Crystal, Chief Financial Officer

Yeah, I mean we haven't given guidance for 2019, but what we have said is that we certainly expect sort of outsized growth on the top line going into next year and as well as going into 2020 where we'll have basically the full effect of all these projects hitting our top and bottom line. So certainly we do expect an impact on both, because, like we said, from the perspective of Capstone, let's say, that is taking us into a much lower and competitive cost on the woven side of the business, but it also enables us to go out and get revenue that, ah, opportunities that we've just never been able to access with our cost structure. The Powerband one is somewhat similar on the tape side and it's also going to provide us a platform to grow some products that we're somewhat constrained on in capacity in North America. So we certainly see them as a both cost and growth drivers.

And then obviously Midland I would say is more of a growth driver than a cost driver. Our expansion in Midland, which would be doubling the capacity there, I mean obviously we've been seeing outsized growth in the water-activated tape going through that e-commerce channel. So that'll just continue to support that growth there. That gives you a little bit more colour.

Neil Linsdell, Industrial Alliance Securities

That's good. And maybe lastly, I just wanted to touch on what you were talking about as far as a lot of your customers, and I appreciate they're going to be multinationals, are looking to work with fewer suppliers and get more products. So if you look at the expansion that you've done, say, on the e-commerce side, which has been very impressive, is that an area? Or how are you continuing to, I guess, develop you product lines to be able to address these desires by your customers and how, if you can tell us anything about how the sales channel is working to be able to pull all these products together and work them into the offering for these clients.

Greg Yull, Chief Executive Officer

Well, I think before the Polyair acquisition I think it was pretty easy to tie in a lot of these sales channel, sales groups to customers, both at the distributor level and an end-user level. Certainly with Polyair, mostly because they're a different business, it's a different ERP system, where we're focusing a lot on right now is Intertape has some inherent product lines that we feel, and these are product lines within protective packaging, that we feel we can get significant leverage with the experienced Polyair sales group. So we're, right now, focused on integrating those products within Polyair. We're certainly taking our time as we line up at significant end users, specifically around e-commerce, to make sure that we've got a unified approach to those customers, and I think that will develop more and more as we move along in the integration. I mean we're still very early in the integration. I think we're 10 days in at this point after the close. But we're very active in that integration right now. I think that's where the biggest opportunity is.

Jeff Crystal, Chief Financial Officer

And I think also, we think about e-commerce, I mean protective packaging is, like Greg mentioned earlier, probably the biggest leg of the stool that we were missing in terms of things that were somewhat closer in terms of relation to the product lines that we already sell. Because when we think about the packaging in a fulfillment centre in e-commerce, we're basically have a pretty strong offering there in terms of breath of products around that. There certainly could be a couple more that are little further fetched from what we're actually participating in today. So, when we think of targeting e-commerce, we do think of that in terms of what they're using on that (inaudible).

And then obviously, going through our distributors, we're trying to think of okay, number one, how can we pull through that volume through distributors through these relationships, through these e-commerce customers, like Amazon being a large one, how can we pull through the volume through distribution and certainly how can we also help our distributors keep their process moving efficiently in terms of being able to order a bundle of product that they can turn quickly into cash in their inventory. So it sort of all works together in terms of a strategy.

Neil Linsdell, Industrial Alliance Securities

Okay. Appreciate the colour. Thanks.

Greg Yull, Chief Executive Officer

Thanks, Neil.

Operator

Our next question comes from the line of Maggie MacDougall with Cormark. Please proceed with your question.

Maggie MacDougall, Cormark Securities

Good morning. So, just wondering if you could talk to, in either broad or maybe not so broad terms, how you look at your operational expense lines, in particular as you move through the back half of this year and into next year where you've got number of projects completing and some integrations likely, you know, getting some good momentum. Just trying to get a sense as to what kind of additional OpEx you may be carrying at present and how you see that developing over the next couple of years.

Jeff Crystal, Chief Financial Officer

Yeah, I mean like we said, we've certainly beefed up on the OpEx side and in terms of supporting all of these growth initiatives and projects, so there's no question we have beefed up over the last few years. We certainly still see a lot of runway here in terms of executing on these projects. As we said, a lot of this comes online in 2019 and then obviously you've got to support the growth, again, in terms of getting those cost savings, as well as growing your revenue. So, I would say that at this point we don't expect any major shift there, if that's what you're asking, at this point. I think it's going to really depend on sort of what develops after that.

And obviously, the other part that's always uncertain is the M&A piece, right? So we've certainly set up a structure internally to support the M&A integration which, in the case of the Polyair, we talk about going for another couple of years, certainly until we hit our target there, and then, obviously, we still have some work to do on Cantech and Powerband as well as Capstone. So, in that case, we certainly need headcount and need people to support those integrations as well as any other deals that may come down the line which we couldn't predict today. So I wouldn't expect any major changes there.

Maggie MacDougall, Cormark Securities

Okay. Thanks a lot.

Operator

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

Ben Jekic, GMP Securities

Good morning. On a similar note, I wanted to ask about the gross margin, and just maybe elaborate a little bit on what factors are playing out there. Like one is obviously the acquisitions and the costs. Could you maybe, again, without slipping into guidance, give at least some directional sense of, you know, at what point will be at least the gross margin side of the equation optimized and then when is it just going to be the costs that are going to impact that metric and how should we—?

Greg Yull, Chief Executive Officer

On the acquisitions, I think we've got a clear path within the Cantech business to get them to a level of Intertape, historical Intertape gross margins. I think that's a combination of, as you know, raw material saving, synergies, certainly, with Johnson City taking a rooftop out, certainly drives significant margin improvement. So I think we've got a clear line of sight there.

I think on the Powerband situation, as I said before, that's going to be longer term, but I do think that will work itself out over time. And again in that business, we're seeing a pretty good integrated at least EBITDA margin on that business. I won't comment on the gross margin but certainly on an integrated EBITDA margin perspective on a consolidated basis that business looks good.

Certainly as we look through Polyair, again, that business is a less capital intensive business than our historical business, number one. Number two is we see a pathway to improve the margins there as it relates to cost takeout, operational efficiencies, and just pure leverage on the volume side.

Ben Jekic, GMP Securities

Right. Okay. Thank you.

Operator

And our next question comes from the line of Walter Spracklin with RBC. Please proceed with your question.

Walter Spracklin, RBC Capital Markets

Thanks very much, operator. Good morning, everyone. I guess my first question would be on CapEx. I know that's an area of sensitivity on the part of many investors and your indication for next year that it will come down. I guess you guys are far enough in your, and I've got two questions on that. First of all, you're far enough toward the end of those projects to give with comfort to that that CapEx budget and plan that you had in place is playing out that way that we do expect that to come down.

And second question is with Polyair acquisition I noted there was no, while you brought your EBITDA numbers up and you didn't have any changes to your CapEx plan, which would suggest that there hasn't been much need for any major expenditure on the Polyair facilities. Can you confirm that that's the case and also whether there will be any one-time costs associated with the Polyair acquisition that haven't come in to get results yet?

Greg Yull, Chief Executive Officer

So, as it relates to kind of the overall company guidance for next year of $40 million to $60 million CapEx, we're pretty comfortable with that number. We don't have a full look right now of what Polyair will be consuming as it relates to CapEx in 2019, but we feel like we have enough room within that guidance at this point with what we know, right? Again we're seven days or ten days into close here and certainly actively pursuing that.

And I think it's also really important to realize that in the last two years, as it relates to CapEx, we basically built three greenfield sites, right? And that's the consumption of the CapEx and that's the timeline that we referred to that it takes two years to get a lot of these operations up and running and then another period of time to get them to run rate. So when I think about it and I think of our historical CapEx, we have no plans right now to build a new plant, right, which is the biggest consumer of CapEx historically.

Walter Spracklin, RBC Capital Markets

Okay. And turning over to resin and transport prices, clearly there's been some discussion on to what extent these can be built into contracts, when they're in contracts, how well they hold. Can you talk about how much of your exposure do you consider to be covered through commodity price increase factors built into your contracts and how difficult will it be to include some that haven't been, I'm referring to transportation costs here, in terms of your customers willingness or your ability to provide or push through a price increase of that manner?

Greg Yull, Chief Executive Officer

So, I think on the contractual obligation, certainly we have some contracts there. Most of our product, as you know, is at-will pricing, and I think when you look historically at the business we've done a good job of managing certainly the raw material side, but certainly so far this year the freight side. Freight's up double digits at this point. And when you think of kind of our spread right now when we manage it, we include freight in that cost, in that raw material sell price spread at this point. And I don't think, like from our perspective, you know, some of our end users are on formulas, if you will, but our business primarily and our industry works off of a lot of at-will pricing. And that presents opportunities too.

Walter Spracklin, RBC Capital Markets

Okay. And lastly, you noted the Polyair integration upside in the EBITDA that you can generate longer term once the acquisition is fully integrated. You pointed to a number of past experiences which were successful. Is there anything about this one that you see is going to introduce some different challenges than you had in prior acquisitions that are absolutely crucial to you hitting the numbers that you're looking at? Or is it kind of very similar and therefore can we see the risk to those EBITDA targets as being fairly low given they're so similar to the integration efforts you made in past acquisitions?

Jeff Crystal, Chief Financial Officer

Yes, I mean, in this case, obviously it's a different business, so that obviously is probably the biggest thing that, for us, introduces a risk, is understanding the protective packaging business. I mean we do have, we have had some small, very small participation in that business but, again, this is a whole other scale. It's certainly going to test some of our theories with regards to the product bundle and so forth. But in terms of the actual execution, I mean there's not, you know, it's a very similar deal, I would say, to what we did with Better Packages, although on a much larger scale, given that you are trying to bundle products together primarily through the distribution network and obviously trying to target the e-commerce side. So we were very successful at doing that with Better Packages and we certainly see synergy here. And of course, you know, we did a lot of due diligence around this through our commercial studies and understanding the way distributors and end users value these products going through the channel as well as ours and certainly as a bundle as to what value they would put on that.

So we feel pretty good about it but of course it is a new business for us. So I would say that would be part of the risk. And then obviously there is just the day-to-day of trying to integrate reporting, trying to integrate people, culture. But nothing in particular that we would say is a real red flag in terms of risk that something wouldn't succeed. And we don't see this deal as more or less risky really than the ones that we've done, certainly not the ones in North America anyway.

Walter Spracklin, RBC Capital Markets

Just curious, was Amazon part of that due diligence?

Jeff Crystal, Chief Financial Officer

Indirectly.

Walter Spracklin, RBC Capital Markets

Indirectly. Okay. Okay, that's all my questions. Really appreciate it. Thanks, guys.

Operator

Mr. Yull, there are no further questions at this time. I'll now turn the call back over to you for closing remarks.

Greg Yull, Chief Executive Officer

I'd like to thank everyone for participating in today's call. Have a great day. Thank you.

Operator

This concludes today's conference. Please note the replay of this call can be accessed as of 1:00 p.m. today EDT at 855-859-2056 or internationally at 404-537-3406 and then reference ID number 3878158. Enjoy your day.
