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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Intertape Polymer Group Q2 2020 Conference Call.

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.

Joining me from the Company I have Intertape Polymer Group's Chief Executive Officer, Greg Yull, and Chief Financial Officer, Jeff Crystal.

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. You are 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. Please see slide two titled Safe Harbour Statement for further discussion.

During this call we may be referring to certain non-GAAP financial measures as defined under the SEC rules. A reconciliation of the non-GAAP financial measures to the most directly comparable GAAP measures is available on our website at www.itape.com.

Please also note that all dollar amounts are in US dollars unless otherwise noted.

I would like to remind everyone that this conference is being recorded today, August 13, 2020, at 10:00 a.m. Eastern Time.

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

Greg Yull, Chief Executive Officer

Thank you and good morning, everyone. Welcome to IPG's 2020 second quarter conference call. Joining me is Jeff Crystal, our CFO.

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

The second quarter was the most challenging period the company had experienced since I accepted a leadership role. I could not have been more proud of how our employees have performed since the onset of the pandemic in mid-March. The team managed a great deal of uncertainty, difficult decisions were made; through it all, our employees demonstrated a professionalism to our customers, our suppliers, and to one another. Their emphasis on working safely and servicing our customers ensured an uninterrupted supply of the essential products we produce to end users.

Revenue came in higher than we anticipated at \$267.8 million in the quarter. Adjusted EBITDA outperformed our expectation at \$40.4 million. Our adjusted EBITDA margin in the quarter of more than 15% benefitted from the tremendous performance of our plants and our timely decisions to cut or avoid discretionary spending. These results through this initial stage of the pandemic demonstrate both the essential nature of our products and the resiliency of the business to macroeconomic change.

The duration of the pandemic and the potential of further waves remain unknown, but what is clear today is that IPG managed through the first wave and we continue to do the same as virus cases increase in various jurisdictions. Our employees remain safe and our facilities remain operational. We are in a far better position now to deal with future waves of the pandemic than we were in March.

Our balance sheet remains strong and our substantial liquidity provides us with the flexibility to be either defensive or offensive depending on the timing of the macroeconomic recovery. Most importantly, the business demonstrated its ability to generate free cash flows, among other things, based on our strong product offering to our customers, the efficiencies instilled in our operations, the capital investments we've made in our world-class low-cost manufacturing base, and our recent acquisitions.

Free cash flow was \$35.3 million, an increase of 72% compared to the same period last year. The seasonal nature of our business typically generates progressively more cash flow in each quarter, all things being equal. With the actions we took on the quarter, the level of free cash flow was more pronounced than the same quarter in prior years. Our highest priority for free cash in the near term remains debt repayment. At the same time, as visibility improves in end market demand and at the appropriate time, we will continue to invest in accretive

acquisitions and return to more normal levels of capital expenditures, but we are not at that stage today.

In terms of end-market demand, the diversity of both our end markets and our product offering, as well as the essential nature of our products, insulated the business from the full impact of the economic downturn in the second quarter. At the trough in mid-May, demand across the portfolio dipped as low as approximately 20% down compared to the same period last year. This consisted of declines across multiple end markets, including general manufacturing, transportation, retail, and building construction, as well as de-stocking by a number of our distributors. These pressures were partially offset by the strength in the e-commerce end market, specifically as it relates to our water-activated tapes and certain protective packaging solutions such as void fill systems and mailers.

Demand started recover in late May and into June and we continue to see positive trends across product categories. Given the rapid change in demand and the pace of the demand recovery we experienced just in Q2 alone, it remains very challenging to be definitive with an outlook. As a result, at this point we will not be providing specific ranges for revenue, adjusted EBITDA, or free cash flow for the third quarter or the remainder of the fiscal year. What we can say, from a high level, is that we're seeing a broad-based recovery across essentially all product categories, but to differing degrees. Demand for specific products that were significantly impacted by the pandemic is returning to more typical levels, specifically certain industrial tapes like masking and duct tapes, certain carton ceiling tapes like hot melt as well as stretch foams. We are also seeing increased demand in wovens, particularly in our building construction products supplied by our Indian woven facilities. These Indian facilities are essentially sold out, forcing lead time extensions, which is a great result after the investments we've made in those facilities.

Demand continues to be very strong across our e-commerce offerings. Independent research reports the major e-commerce retailers have experienced strong growth since the onset of the pandemic as shelter-in-place practices both accelerated the transition to e-commerce from brick-and-mortar retail and expanded the product categories into verticals and consumer demographics that were under penetrated prior to the pandemic. The demand we've experienced in water-activated tape and certain protective packaging products reflect the growth experienced by the major e-commerce players. The independent report suggests the pandemic has pulled forward two or more years of demand into the e-commerce channel. They suggest the COVID-19 crisis may result in a structural shift, creating a long-term change in the way people shop. The reports highlight that the structurally higher e-commerce adoption will remain a

tailwind, which they believe will lead to sustained faster e-commerce growth in the second half of 2020 and into 2021.

Our exposure to this outsized growth in the e-commerce channel is the most significant difference in our business today versus where we were entering the last downturn in 2008 and is a clear offensive element in the type of market disruption caused by the pandemic. At the same time, we also have an improved margin profile and have greater flexibility in our balance sheet liquidity position versus 2008, which are great defensive attributes. The pandemic may result in a permanent shift in the composition of our end markets in the event e-commerce growth is sustained at current levels. Not only can we grow from the tailwind in e-commerce, but this shift benefits us because of our disproportionately larger market share, as many large e-commerce players use water-activated tape as their preferred box closure method which is not the case in brick-and-mortar retail.

As we discussed on our first quarter conference call, the investments we've made in water-activated tape capacity at the Midland facility have achieved our investment return thresholds. The acquisition of Polyair in 2018 and Nortech earlier this year increased our exposure to the e-commerce channel by extending our product offering with new protective packaging and automation products that specifically target e-commerce retailers.

From an operations perspective we have implemented cost-saving measures across the company since March. These included taking production offline at certain plants during the second quarter to better match supply with the demand we were seeing in the market. This downtime caused a temporary drag on our results in the quarter, as fixed overhead was not fully absorbed by our lower production levels in harder-hit product categories; however, plant performance remained very strong despite this downturn, which reflects the investments we've made in our employee talent, health and safety programs, and our world-class, low-cost manufacturing assets.

Three of our four assets in India are at capacity, highlighted by the demand and wovens that I mentioned earlier. The hedge facility, which produced carton sealing tapes, has remaining unused capacity, but from both a unit and dollar perspective its contribution is immaterial to the business. We continue to build our order book for that one facility.

Overall, while India is a relatively small component of the business the strategic investments we've made to diversify our production and raw material supply have proven successful. The capability to backwards integrate

into the two Indian woven facilities with the acquisition of Maiweave is a great example of that.

Our asset base and our team are the pillars that ensure us to compete effectively across cycles in the packaging and protect the solution markets. We have a track record of effectively managing the spread between raw materials and selling price across multiple cycles in the last 10 years. Currently we are seeing higher prices for both polypropylene and polyethylene, the key resins across our various product lines. We expect to be able to manage the spread to retain dollar contribution going forward.

As we move on from the demand lows experienced in April and May, the business has demonstrated its durability and resiliency. The blocking and tackling that we executed from an operations perspective within the plants in the first stage of the pandemic has evolved. We are consistently performing at levels that exceeded our expectations for 2020. With these fundamental operational measures and processes intact, we are transitioning our focus, looking ahead, and preparing for the next phase of growth.

E-commerce headlines our strategy for continuous innovation. We believe opportunities exist for both new products and more sustainable product offerings. Nortech is a great example of our expanded product offering that can deliver benefits to e-commerce retailers through packaging automation within their facilities that can use our existing tapes, protective packaging, and films as consumables. We continue to invest in products that offer sustainable benefits for both our e-commerce customers as well as our broader customer base. On this front, earlier this year we established our water-activated tapes as recyclable and more recently our ExlfilmPlus shrink films. We are also investing in the launch of a new curbside recyclable protective mailer as part of our Curby line of sustainable products.

In July we published our second annual sustainability report titled "We Package, We Protect & We Sustain." We are very proud of this year's report and it is significantly expanded from the prior one in addressing how we manage for sustainability in the operations of the business. I encourage you to view it on our website to see the progress we've made. We believe our customers and end users will increasingly pursue sustainable solutions and practices in their choice of packaging and protective product suppliers. We are committed to, most importantly, embracing sustainability, but also increasing our disclosure on it so our customers and other important stakeholders can make informed decisions.

As we mentioned on the first quarter call, given the disruption in the market during the past five months, we

stepped back from any near-term M&A opportunities. Our confidence in a target's future cash flow generation was simply too uncertain to get comfort on. However, as a recovery gains traction, we believe opportunities for smaller deals may present themselves. We intend to be open to these opportunities with an appropriate level of discipline for the prevailing market outlook and still maintain the flexibility of our liquidity position. We believe the initiatives we've implemented have put us in a stronger position to weather another potential virus case wave.

From a cost savings and productivity perspective the team and the plants are performing as strong as we've ever experienced. The investments we've made in the plants and the acquisitions in the end markets where we've seen the strongest opportunities for growth going forward. The business has demonstrated an ability to be nimble and generate cash flow through a very challenging period.

With that, I'll turn it over to Jeff to review the financials. Jeff?

Jeff Crystal, Chief Financial Officer

Thank you, Greg.

On page seven of the presentation we present an analysis of our revenue for the second quarter. Revenue was \$267.8 million, a decrease of 9.4% compared to the same period in 2019. The change was primarily due to a decrease in volume mix, primarily due to the net impact of the COVID-19 pandemic on our demand. Revenue was 10% above the midpoint of the range we provided on the first quarter call as a result of stronger demand in the back half of the quarter than we anticipated. Volume mix accounted for 8.3% of the decrease compared to last year with demand declines in industrial tapes, carton ceiling tapes, excluding water-activated tape and film products. The impact was partially offset by strength in water-activated tape and protective packaging, specifically mailers and void fill, each of which addressed the e-commerce market. Lower prices impacted revenue by 1.5%, primarily related to films, carton ceiling tapes, and wovens.

Turning to page eight, gross margin was 21.1% in the second quarter, a decrease of 79 basis points compared to the same period in 2019. The pressure in margin was primarily due to capacity optimization in the second quarter to better align with lower demand as a result of the pandemic, which resulted in unabsorbed overhead costs, as Greg referenced earlier. This pressure was partially offset by net improvement in other plant-related

operating costs due to the cost savings initiatives we implemented in the face of the pandemic.

Adjusted EBITDA was \$40.4 million or only 8.5% lower than the same period last year. The decrease compared to the last year was primarily driven by lower gross profit as a result of the demand impacts of the pandemic as well as the capacity optimization both mentioned earlier. These pressures were partially offset by a decrease in SG&A as a result of the cost savings initiatives we implemented.

At \$40.4 million adjusted EBITDA was 28% above the midpoint of the range we provided on the first quarter call as a result of stronger demand in the back half of the quarter than we anticipated and cost savings measures implemented. These measures included the capacity optimization to match demand that Greg referenced, a company-wide salary position hiring freeze, the postponement of annual pay increases for salaried staff, the delay of non-essential capital projects, and suspension of business travel and other discretionary spending.

In the second, quarter certain positions were eliminated as part of an employee restructuring initiative. This restructuring resulted in cash charges for termination benefits of \$2.7 million in the quarter and is expected to yield estimated annual savings of \$4.7 million in wages, salaries, and other short-term benefits, with the effect of additional adjusted EBITDA of approximately \$1.8 million in 2020. Minimal additional charges are expected to be occurred in the third quarter of 2020 as this initiative is completed.

We incurred \$1 million in M&A costs during the second quarter, which is in line with the \$3 million to \$4 million of total integration costs we expect for 2020 that we referenced on the fourth quarter call. We continue to expect the integration costs for the full year to be within that range. The range excludes non-cash purchase price accounting adjustments and due diligence costs associated with evaluating other M&A opportunities.

Cash flows from operating activities improved by \$8.6 million to \$40.5 million in the second quarter compared to the same period in 2019. The improvement was primarily the result of effective management of working capital including inventory management, customer collections, timing of payments, and the cost savings initiatives I just mentioned. It's important to keep in mind that the business has a natural seasonality in normal conditions where working capital is used as we build inventory in the first half of the year to prepare for the higher volume third and fourth quarter periods from a retail activity perspective. In the context of COVID-19, we believe the business should continue to have strong cash flows in the

third and fourth quarters of 2020 in the event demand maintains its current base and normal trajectory.

Free cash flows improved by \$14.8 million to \$35.3 million in the quarter compared to the same period in 2019. The improvement was primarily due to the increase in cash flows from operating activities and the lower level of capital expenditures we announced on the fourth quarter call as one of our precautionary measures.

We continue to believe that capital expenditures for 2020 will be in the \$30 million to \$40 million range; however, we have adjusted our outlook for the expected effective tax rate to be lower. We are now expecting 20% to 25% from the earlier expectation of 25% to 30% as a result of a favourable mix of earnings between jurisdictions. Cash taxes paid in 2020 are still expected to approximate the income tax expense.

As Greg mentioned, liquidity and the capital structure are critical to the durability in the current climate. We entered the pandemic in a strong position in each case. We finished the second quarter with \$340.5 million in cash and loan availability. Our secured net leverage ratio, which is our most important loan covenant, remained unchanged from the prior quarter at 1.8 times, well within its limit of 3.7 times.

From a capital structure perspective, the \$250 million of senior unsecured notes issued in October of 2018 is critical to the flexibility we have today. The senior unsecured notes provide greater flexibility on the key secured net leverage ratio covenant, which significantly de-risks the balance sheet. Basically, the \$250 million of senior unsecured notes is not included in our secured net leverage ratio covenant calculation.

Our total leverage ratio at the end of the second quarter, including the unsecured debt, was 3.3 times, which is an improvement of one-tenth of one turn from the prior period. We do not have any maintenance covenant on total leverage, so this does not put us at any risk under our credit agreement. It is our secured net leverage ratio covenant at 1.8 that is measured versus our limit of 3.7 times.

In closing, as we proceed into the second half of the year, we believe it is beneficial to highlight the external factors that may influence the business. From a tailwind perspective, the sustainability of the increase in e-commerce growth is a major factor. The reopenings have supported our industrial vertical and given distributors the confidence to restock inventory to more normal levels. Finally, the cost savings measures we implemented will have a greater impact in the back half of the year than we experienced in the second quarter.

On the other side of the ledger, the unpredictability of the case counts and the impact that figure could have on potential new shutdowns, which would likely be more regional at this time, as well as the macroeconomic environment as government assistance programs expire, could create potential challenges. Lastly, the raw material pricing impact Greg mentioned earlier where we expect to manage to the dollar contribution.

It is too early to promise the worst is over, but given the disruption to the economy in April and May we certainly have a much better understanding of how our business can perform through such a challenge and we believe that we are much better positioned to manage the next potential wave of cases.

Now I'll turn it back over to Greg for his closing thoughts. Greg?

Greg Yull, Chief Executive Officer

Thanks, Jeff.

To sum up, it's important in today's situation to remain cautious but at the same time recognize that we have a better understanding of a path forward from here. In mid-April through May we were managing a significant level of uncertainty as it relates to end-market demand and distributor destocking. With approximately 80% of our business servicing the US market, the increased case counts in July are unsettling, but at this stage it does not appear that the broad-base shutdown measures of March and April will be repeated and, even if they were, in some form, we now have a good idea what that would look like to our business and how we could effectively manage through it.

We have tested a trough in the end-market demand and started to see a recovery. We supply essential products to a diverse range of customers and end markets. The investments and acquisitions we've made since 2016 are in the areas where we see the best opportunities for growth. Plus, our exposure to e-commerce sets us up well as it is expected to maintain its momentum through the second half of 2020 and into 2021.

The measures and protocols we've implemented since the onset of the pandemic have enabled us to not only remain operational but have delivered productivity gains. Our balance sheet and liquidity position offer defensive and offensive flexibility depending on the duration of the pandemic and the opportunities we see in the market. These are essential characteristics that position us to come out the other side of this pandemic in a strong position in the market.

Before closing, I would like to thank our employees. This is a very challenging situation for everyone. I could not be more proud of how they've conducted themselves and the level of commitment to the organization they have demonstrated. It is truly tremendous.

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

As a reminder, to ask a question you will need to press star one on your telephone. To withdraw your question, press the pound or hash key. Please stand by while we compile the Q&A roster.

Our first question comes from the line of Michael Doumet with Scotiabank. Your line is now open.

Michael Doumet, Scotiabank

Hey, good morning, guys.

Greg Yull, Chief Executive Officer

Good morning, Michael.

Michael Doumet, Scotiabank

First off, great quarter. I guess the question, the first one is, you know, I wanted to get a better sense for the monthly revenue cadence. So, just on your Q1 call, I mean you indicated that revenues in April through, call it, early May were down 10%. In your release today you talked about demand being down 20% at the low point in the quarter. To get back to that 9% that we saw for the full quarter, the math tells me that we were close to flat in June, so I'm wondering if you can talk about sort of the dynamic exiting Q3, whether you're seeing overall pent-up demand. Any colour that would be great.

Jeff Crystal, Chief Financial Officer

Yes, sure. I think that's a pretty good assessment of what happened. So I mean, as you said, we started off, as we mentioned on our May call, in early, early April certainly looking quite favourable, and then saw this trough happen through the back half of April into the first half of May and then started to see things recover as things

started to reopening. So yes, June was certainly the best month out of the three by far and we've seen those trends continue, as we're saying, into Q3.

Michael Doumet, Scotiabank

Okay, great. And maybe just to take that a little step further, on slide five you categorize some of the trends in product categories under strongly favourable and favourable. If I sort of look at those categories, it looks like more than 50% of your revenues would be categorized under strongly favourable and/or favourable. Does that sort of jive, first, and does that indicate that you might actually be seeing some positive momentum early Q3?

Greg Yull, Chief Executive Officer

Yeah, look, I mean I think the way you characterized that is fair. I do believe there is, you know, we look at the order of demand and certainly there is noise in there that is hard to distinguish, but I think overall, look, we're in Q3, we're feeling good about where we are definitely with our order book, and we've seen demand come back in the areas that were the weakest. And certainly on the strongly favourable side that has just continued, so certainly we've seen a very nice rebound.

Michael Doumet, Scotiabank

Okay, great. Encouraging for sure. Maybe if I can just sneak one last one in, the woven being in the strongly favourable category I think dose surprise me somewhat. I mean I was wondering if that's all, you know, home building or at least for the most part home building. And if you can just give us an update on, you know, given the investments that you've made in that category, how far along the margin improvement journey you are in the woven business.

Greg Yull, Chief Executive Officer

So I would say overall from a demand perspective in the woven business, we did have some new products roll through into Q1/Q2 that had to do with medical gowns. So we had some offset there that really helped some of the softness that we were experiencing at the time in areas like building construction and other areas. And then on a go-forward basis we've really seen a nice rebound in all of their end-market exposure areas with the exception of oil and gas. Certainly that is still a laggard. But when you think of where the business is, certainly in building

construction, certainly in Ag, you know, we've continued to see strength there.

As it relates to the investments that we've made, we're, as I mentioned in the call, those two facilities that we have in India supplying our woven products are currently sold out. So, from a margin profile, we're really starting to see the effect of that on the P&L and expect to continue to see that as we move through the latter half of 2020.

Michael Doumet, Scotiabank

Okay, great. Nicely done. Thanks for answering the questions.

Operator

Our next question comes from the line of Stephen MacLeod with BMO Capital Markets. Your line is now open.

Stephen MacLeod, BMO Capital Markets

Thank you. Good morning, guys.

Greg Yull, Chief Executive Officer

Good morning.

Stephen MacLeod, BMO Capital Markets

Good morning. I just wanted to follow up just on the previous set of questions with respect to kind of Q3 to-date trends. So you gave some colour trends by product type. Can you talk a little bit about trends by end market? If you had slide five and you took that pie chart and broke it up, can you talk about where you would see some of the puts and takes, maybe excluding e-commerce?

Greg Yull, Chief Executive Officer

Okay, so I'll look at it on a sequential basis, if that works. So certainly, when we think sequentially into Q3, on the high side, certainly fulfillment, e-commerce, building construction definitely is very strong. Retail continues to be very strong. Food and beverage continued its strength. On the general manufacturing side I would say that we've seen a significant recovery sequentially, still some weakness in that category, and I would tie that into the transportation market as well. Certainly a very nice

rebound from where we were in Q2, but still softness in those two specific end markets.

Stephen MacLeod, BMO Capital Markets

Okay. That's helpful. I guess it would be fair to say that the tailwinds are sort of offsetting the headwinds from where we stand now. Is that a fair assessment?

Jeff Crystal, Chief Financial Officer

Yes, that's pretty fair right now.

Stephen MacLeod, BMO Capital Markets

Okay. That's great. And then just on the cost side, Jeff, I'm just wondering if you could quantify, if you did already I apologize, but you talked about the larger impact of cost savings in the back half of the year. Can you talk about what that number would look like on a full-year basis?

Jeff Crystal, Chief Financial Officer

Yeah, we haven't quantified that. All we've quantified is the restructuring plan that we put in place. So that we expect to yield \$1.8 million and that's really all going to be in the second half because there was really nothing in the second quarter related to that. And then there will be additional cost-saving measures, which we haven't quantified, related to, obviously, no raises and some of the discretionary spending, the reduction in travel. So you should start to see that roll through Q3 and Q4 more materially than Q2.

Stephen MacLeod, BMO Capital Markets

Okay. Okay, that's great. And then maybe just finally, on the gross margin, you gave some color around the movements in resin prices and you expect to manage the dollar spread. When you look at all the puts and takes with respect to demand and resin price inflation, how do you expect gross margin to evolve into Q3 and Q4?

Greg Yull, Chief Executive Officer

So, you know, I think with where we are right now and with, on a sequential basis with what happened in Q3 with fixed costs, that margin should improve on a sequential basis into Q3.

Jeff Crystal, Chief Financial Officer

And with regards to raw materials, I mean we've always said this. We always manage that dollar spread. So that's what we're going to manage to in this case too. It's an inflationary environment at this point on resin. So, assuming we manage that dollar spread dollar for dollar, you could see some reduction in margin, right, as you head to the back end of the year. But again, that all depends on how much, how well we do there, but we definitely expect to manage that dollar spread.

Stephen MacLeod, BMO Capital Markets

Okay. Okay, that's great. Thank you and congratulations on a good quarter.

Operator

Our next question comes from the line of Walter Spracklin with RBC Capital Markets. Your line is now open.

Walter Spracklin, RBC Capital Markets

Thanks very much. Good morning, Greg. Good morning, Jeff. How are you doing?

Greg Yull, Chief Executive Officer

Good morning.

Jeff Crystal, Chief Financial Officer

Good. How are you?

Walter Spracklin, RBC Capital Markets

Good. Good. So, on the costs, you mentioned wage freezes, obviously you've taken extraordinary moves here to reduce costs amid the lower volume environment. Won't those costs come back? Like aren't you more of a kind of a job shop as opposed to a company that might see more kind of incremental savings? Or as volume comes back can you really expand merging or shouldn't we—I know, Greg, you mentioned you expect margin enhancement, but even given the dilution from resin price pass-throughs I would have thought margins would have kind of gone back to where they were before as you relax

some of these kind of one-time extraordinary cost measures that you've taken into consideration here.

Greg Yull, Chief Executive Officer

Good question. So, certainly on a go-forward basis, when things get back to whatever new normal is, you'll have some costs come into the company that will be repositioned, but when you think of the totality of the cost savings that we've taken, and when I say that I include our operational performance within the facilities, we don't expect to give those back on a go-forward basis.

And then the other piece specifically around SG&A, it's hard to determine how much of that SG&A or what a new normal, specifically on the selling side, cost side, we get to, because certainly we've learned, as an industry and a company, to manage that differently and manage it effectively, so I'm not sure what costs get permanently taken out just because of a structural go-to-market change.

So, Jeff, I don't know if you have anything?

Jeff Crystal, Chief Financial Officer

Yeah. I mean, I think, to your point, Walter, I mean there will be some things that will come back because there has been some projects we put on hold, some discretionary spending around that, consultants and things like of that nature, which certainly will benefit us through this year, but as we pick up and get back to a new normal and pick up those projects again you'll see some of that come back. At the same time, at this point we're not planning any merit increases this year, so essentially you're skipping a year, so you're sort of a year ahead. Could there be merit increases next year? Possibly, if things continue to improve. So certainly you'd see that.

But then you look at stuff like the travel and entertainment type of category, which isn't insignificant for us, that I think, like probably many others in all kinds of industries, you're probably going to see that stay down for quite some time. I think we've been very successful with working remotely, obviously leveraging all these video conferencing tools, and we certainly saw a benefit in that and I think you're going to see a permanent shift in the use of that and more frequently. So I think that we're going to see a permanent reduction in that travel and entertainment category, which should be good. And then I think also the restructuring plan, what it does is it helps you sharpen your pencils, you know, and I think it really gave us a good look across the organization at optimizing some positions and so forth and functions and I don't

think all that's going to come back. I think a lot of that will be permanent.

Walter Spracklin, RBC Capital Markets

With all those gyrations going on in terms of end market, I know you get this question a lot so I'll ask it again anyway, e-commerce as a total of your business now that you've seen a lot of your kind of industrial revenue fall off and some will come back nicely but others, as you alluded to, will not come back as much, meanwhile as Greg, you mentioned your prepared remarks, e-commerce is two, three years fast-forwarded. Just is there any broad sense you can provide us as to the new or now updated end-market exposure you have in the e-commerce channel?

Greg Yull, Chief Executive Officer

At this point we can't comment on that. I would imagine, Walter, we'll end up commenting on that at the end of this year and re-establishing those percentages by end market. Difficult to do on a per-quarter basis. But certainly that percentage of overall revenue is increasing.

Walter Spracklin, RBC Capital Markets

Yeah. Lots of moving parts.

Greg Yull, Chief Executive Officer

Obviously, yeah. It's hard to do on a quarterly basis.

Walter Spracklin, RBC Capital Markets

I hear you. Okay. And then last question here is on the theory or thesis around on-shoring. A lot of talk about it, particularly around strategic products, and I know you mentioned on your woven and a certain number of your products you are selling into that new avenue of growth in domestic markets, but my question is really whether—is there a new opportunity that might emerge here that when you look at some of your structurally-impaired end markets and then you contrast that with some of this new growth that is emerging, could you, like you did with e-commerce and really build new plants around an e-commerce product, could you envision repurposing or building from scratch new plants that are designed to provide a local kind of strategic manufacturing presence from a domestic standpoint?

Jeff Crystal, Chief Financial Officer

Well, what I would say to that is, I mean certainly we've seen some opportunities for new products, like we said, like certainly this fabric we've been producing for medical gowns has been highly successful and certainly that, you know, I can imagine that the Canadian government or other governments here may like to have that on-shored. At this point we're able to do that with the capacity we have. So we don't have any plans to necessarily build or invest in a large amount of CapEx to support businesses like that, but there could be some motivation to have that ability, which we do, amongst customers who want to make sure you have an onshore capability, which we've been successfully doing already. So certainly we do see opportunity there, but I don't think that's going to turn into like some big CapEx investment.

Walter Spracklin, RBC Capital Markets

Got it. Okay, that's all my questions. Appreciate the time.

Operator

Our next question comes from the line of Scott Fromson with CIBC. Your line is now open.

Scott Fromson, CIBC Capital Markets

Good morning. Just wondering if you could talk about what you may see with changing consumer industrial demands, how it's going to impact your CapEx and acquisition strategies. I know you said that that's kind of delayed, but I'm wondering if you're able or do you need to repurpose some industrial production facilities to e-commerce products and could this include asset closures?

Greg Yull, Chief Executive Officer

Well, look, I don't think we have any line of sight of having structural problems within our industrial markets or manufacturing facilities at this point to start with. I don't think that's—that is not where we are right now to start with, right? So we're not talking about repurposing any assets at this point.

Jeff Crystal, Chief Financial Officer

Yeah, no, I mean I think, like obviously we saw the trough in demand in Q2 and certainly if that would just last

forever you might have opportunities to, let's say, repurpose a certain amount of capacity. But since demand has come back, and as you see in our trends, I mean you're seeing some un-favourability in some but it's, again, it's not, it's moderately unfavourable, so certainly not a big opportunity there to repurpose capacity even if it would stay at the current trend.

Scott Fromson, CIBC Capital Markets

Okay. Just a question on resin: Are you seeing price increases in your resin inputs? The sources are showing that it has gone up from the latter part of Q2. And how do you see this playing in the pass-through structures and impact on margins?

Greg Yull, Chief Executive Officer

So, the last question first. On the margin side, we really concentrate on protecting our dollar spread between revenue and raw material cost, so that's our number one. So, in a highly inflationary environment in raw materials you could see margins come down and dollars stay whole on a go-forward basis. Certainly we've seen a fair amount of movement in both polyethylene, ah, polyethylene has moved the most. We've seen movement within the polypropylene spectrum recently. And as we manage through that we plan on passing those costs through the channel. Some of those have already been implemented, both on the buy side of us buying higher-cost raw materials and, importantly, on the sell side with us selling at a higher price to cover those costs. The impact will pretty much stem out into the latter part of Q3 into Q4 and we expect to, again, manage that dollar spread on the way through.

Scott Fromson, CIBC Capital Markets

Would it be a similar situation with your paper-based products, particularly those for e-commerce?

Greg Yull, Chief Executive Officer

So, on the paper side, we really haven't seen that much movement, and in some cases on paper we are locked in on from a pricing perspective. But we do not see much exposure on the paper side. And then even just continuing on with raw materials, we're seeing declines in some hydrocarbons that we utilize for adhesives, namely SIS and C5, and that's somewhat of an offset or a partial offset to some of the other headwinds we're seeing.

Scott Fromson, CIBC Capital Markets

Great. Thanks. That's helpful.

Operator

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

Zachary Evershed, National Bank Financial

Good morning, everyone. Thanks for taking my question. Just quick one for you. With the strength that we're seeing in e-commerce end markets we were expecting a little more from the Nortech acquisition. How do you square the performance there with the tailwinds that we're seeing?

Greg Yull, Chief Executive Officer

So, the Nortech situation, as it relates to e-commerce, is more of a kind of forward-looking development engagement with our e-commerce verticals and that whole strategic push around automation at that level is more intact now than it was before COVID. The struggles that we're having on a day-to-day basis at Nortech is just the pure blocking and tackling around acceptance of equipment, certainly factory acceptance testing is a struggle, getting people into our facility to sign off on the equipment and then also, on a go-forward basis, getting people out in the field to install that equipment has been problematic since COVID-19 hit. I think the whole exercise around e-commerce being accelerated a couple years will further accentuate the fact of or the need for automation on a go-forward basis. So, I don't know if that answers your question, Zack.

Zachary Evershed, National Bank Financial

Yes. It's really helpful. I'll turn it over.

Operator

As a reminder, ladies and gentlemen, please press star one on your telephone keypad to ask a question. Our next question comes from Neil Linsdell with Industrial Alliance. Your line is now open.

Neil Linsdell, Industrial Alliance Securities

Thanks. Good morning, guys. Congratulations on the quarter.

Greg Yull, Chief Executive Officer

Thanks, Neil.

Neil Linsdell, Industrial Alliance Securities

Just kind of a clarification on your facilities in India. I'm just wondering about the resiliency of your Indian operations as we start to see potentially more COVID cases there. The labour situation in India versus how you do operations in North America, is there much more of a labour content? And I know the North American facilities you have, they're very well equipped for automation and for social distancing; is it the same thing with India?

Greg Yull, Chief Executive Officer

Yeah, it is. So, at a very high level, in our Indian facilities we're basically implementing the same policies and procedures as it relates to protocols around COVID-19 in those facilities.

Certainly when you think of just woven products as a whole versus our tape facilities, there's a higher labour content in woven products. And look, at the end of the day, we're managing as best we can these situations in all of our plants and have pretty structured procedures and protocols in place. And then we also have procedures and protocols in place if we have a COVID-positive test in one of these facilities. So that's basically us just continuing to manage through that situation, but I wouldn't, I don't think if you walk through a plant in India you would see that many more people than you would in North America as it relates to a congregation or density of employees.

Neil Linsdell, Industrial Alliance Securities

Okay. So, equally well positioned. And then I remember when we did the investor analyst day in Midland we were looking at different things that your clients were looking at as far as innovation as far as their packaging needs. Is there anything in the current environment that is changing or new discussions that are going on or is everybody just still trying to figure out how to manage with the current environment?

Jeff Crystal, Chief Financial Officer

I think what's really happening is obviously the acceleration of e-commerce is creating more urgency, right, for products in that channel. So we talk about our Curby recyclable mailer. That is something the market is just frothing at the mouth about and needs in light of e-commerce picking up steam. The same thing with our other products, you know, with our HexcelWrap and other products within that channel. So we're seeing a lot of demand coming there and certainly when they see new products there is just that much more urgency is what we're seeing. But I wouldn't say you're seeing necessarily a change in new products or a change in new product strategy from pre-COVID. It's just maybe more of an urgency around it.

Neil Linsdell, Industrial Alliance Securities

Okay. Thanks. That's it for me.

Operator

Our next question comes from the line of David Ocampo with Cormark Securities. Your line is now open.

David Ocampo, Cormark Securities

Good morning, everyone.

Greg Yull, Chief Executive Officer

Good morning.

David Ocampo, Cormark Securities

I just have sort of a longer-term question. I know this year most of your free cash flow will be directed at really knocking down the leverage, but as we kind of exit COVID you've sort of indicated that you may do some acquisitions down the road. How are you guys balancing that with share buybacks and really keeping the leverage down? I know you guys have indicated in the past that you wanted to keep it at 2 to 2.5 but would go up for an acquisition. Just trying to square that up on my end.

Greg Yull, Chief Executive Officer

So look, I mean I think overall the visibility around future cash flows of businesses is still somewhat cloudy, right?

So, on an M&A side it's, as I mentioned in my prepared remarks, it's still uncertain. The focus around debt repayment is still there and once we get to that kind of 2.5 times leverage, I mean we've got a lot of opportunity there to distribute capital and reallocate priorities. But it's hard for us to comment on that on a go-forward basis until we get there. I mean, as we've said, our number-one goal is to repay debt. In the midst of doing that, we can still do some small acquisitions on the way through and still be capable of paying down debt.

David Ocampo, Cormark Securities

That's great. Thank you.

Operator

And there are no further questions at this time.

Greg Yull, Chief Executive Officer

Thanks, Lindsey. Thank you for participating in today's call. We look forward to speaking with you again following the release of our third quarter 2020 results in November. In the meantime, I hope you and your families stay safe and healthy. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.
