MARKETWIRED/FRENCH AND ENGLISH

Moderator: Greg Yull
May 12, 2015
10:00 a.m. ET

Operator: This is conference # 27592791.

Ladies and gentlemen, thank you for standing by. Welcome to Intertape Polymer Group's First Quarter 2015 Results Shareholders 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. Your speakers for today are Gregory Yull, and 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. The company undertakes no duty to update this information, including its earnings outlook, even though its situation may change in the future.

You are therefore cautioned to not place undue reliance on these forward-looking statements as they are not a guarantee of future performance and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those expected. I encourage you to review the discussion of the risk factors and uncertainties contained in the company's

Securities filings in Canada and with the Securities and Exchange Commission.

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

I would like to remind everyone that this conference call is being recorded today, Tuesday, May 12, 2015 at 10:00 AM Eastern Time. And I will now turn the call over to Gregory Yull. Mr. Yull, please go ahead, sir.

Gregory Yull: Thank you, operator, and good morning, everyone. Welcome to Intertape's 2015 first quarter results 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 quarterly earnings presentation that you can download from the Investor Relations section of our Web site. I will begin with a brief review of the highlights for the quarter, starting on Page 3 of our presentation.

In addition to the significant undertaking of the South Carolina project, the first quarter results of 2015 included challenges from a macroeconomic perspective. As discussed at our March conference call, the significant decline of oil prices and in turn lower petroleum-based raw materials cost temporarily impacted customer order behavior, most particularly, in the films business and in certain tape product categories.

However, we did observe a return to a more normal level of demand towards the end of the first quarter. The strength of the U.S. dollar represents a disadvantage compared to competition from local manufacturers and our sales to customers outside North America. On the other hand, this has a limited impact as over 80 percent of our total revenue is from sales to customers in the U.S.

In that context, our results for the first quarter are in line with the outlook provided during the March call. We achieved revenue of $189 million, a decrease of 5.5 percent compared to the same quarter in 2014. The lower revenue reflects an approximate 4 percent decrease in average selling prices, including the effects of product mix.

As for sales volume, the approximate 2 percent decline was primarily explained by lower demand in film products due to a temporary customer destocking process I mentioned earlier.

Gross margin decreased to 19.6 percent in the first quarter of 2015 from 21.4 percent in the first quarter of 2014. The decrease was primarily due to the South Carolina duplicate overhead cost of approximately $2.2 million and an unfavorable product mix. Our adjusted EBITDA fell by 11.7 percent to $23.5 million primarily due to lower gross profit, partially offset by lower variable compensation expenses.

Turning to Page 4, you'll see that when compared to the first quarter of 2014, revenue decreased $3 million due to sales volume. Selling prices had a negative impact of $8 million, primarily due to an unfavorable product mix and lower petroleum-based raw material costs. When compared to the fourth quarter of 2014, lower sales volume had a negative impact of $8.9 million, largely reflecting business seasonality in the tape business and temporary customer destocking. Lower average selling prices resulted in a $2.8 million reduction to revenue.

Page 5 updates the progress we are making on our South Carolina project. As previously indicated, we are managing the project primarily according to three separate product lines – duct tape, masking tape and flatback tape, with duct and masking tapes accounting for almost all of the anticipated savings.

As planned, we successfully transferred production of flatback tape to Marysville in the first quarter of 2015 and duct tape to Blythewood in early April. The second quarter will be a transitional quarter for duct tape as we continue to improve our production yields and operating efficiency which was previously announced and expected considering the size and complexity of this process.

As for masking tape, we continue to conduct tests on the product produced in the new facility. These test results are leading in the right direction but still indicate that there are further modifications required to the production process before we can successfully transfer production from our Columbia facility. As a result, we expect the transition and subsequent realization of cost savings to take longer than expected.

To sum this all up for 2015, due to the delays encountered in the transfer of masking tape production, we are revising our estimates for 2015. Duplicate overhead cost to be approximately $5 million which is higher than the $3.7 million that we were previously expecting. In addition, we now expect the 2015 project savings to be between $4 million and $5 million which is lower than our previous guidance of additional savings of at least $6.5 million.

These revisions do not impact the company's expectation of the gross margin target range of 22 percent to 24 percent for the second half of 2015 or the total anticipated savings for the South Carolina project of at least $13 million starting once masking tape production transfer is complete.

On Page 6, we present our expected CapEx for 2015 which remains in the range of $32 million to $37 million. For the first quarter, CapEx was $9 million, of which $3.3 million was related to the South Carolina project. As indicated before, we are beginning to focus on new CapEx projects as the South Carolina project is nearing completion with the majority of these additional projects being completed in stages in 2015 and 2016.

Turning to Page 7, we outlined manufacturing cost reductions in the first quarter and the expected range for 2015. The total manufacturing cost reductions were $3 million in the quarter. As a result of the revision to the 2015 savings expected from the South Carolina project that I discussed earlier, we now expect 2015 manufacturing cost reductions to be between $13 million and $16 million which is lower than our previous estimate of between $15 million and $18 million.

On Page 8, as we previously announced, we acquired Better Packages, a leading supplier of water-activated tape dispensers. We are making solid progress towards our short term integration milestones with continued efforts to combine the strength of both companies to meet our long term strategy. We largely view this as a bolt-on acquisition that we expect to complement our existing water-activated tape and machine product offerings.

Under our normal course issuer bid program, we are able to purchase up to 2 million common shares in the 12-month period ending July 9, 2015. Through March 31st, we've repurchased 1.2 million common shares for a total purchase price of $16.4 million. In addition, we have been active under the automatic share purchase plan entered into on March 30th and have repurchased an additional 249,000 shares as of April 30th, totaling 3.5 million.

Finally, we declared a dividend of $0.12 per common share payable on June 30, 2015 to shareholders of record at the close of business on June 15, 2015.

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

Jeffrey Crystal: Thank you, Greg. I would now like to refer you to Page 9 in the presentation where we present a summary of our results for the first quarter of 2015. Gross profit totaled $37 million in the first quarter of 2015, a decrease of 13.3 percent from $42.7 million a year ago. Gross margin was 19.6 percent in the first quarter of 2015 compared to 21.4 percent in the first quarter of 2014. Gross margin decreased primarily due to the South Carolina duplicate overhead cost and an unfavorable product mix variant.

SG&A was $18.1 million for the first quarter of 2015, a decrease of 4.5 percent from $19 million a year ago, primarily due to a decrease in variable compensation expense resulting from lower expected annual payment amount, partially offset by a decrease in stock-based compensation benefit and an increase in professional fees primarily associated with the acquisition of Better Packages.

On a sequential basis, when compared with the fourth quarter, SG&A decreased 22.1 percent due primarily to decreases in stock-based compensation expense and variable compensation expense.

As you can see on Page 11, adjusted EBITDA totaled $23.5 million for the first quarter of 2015, an 11.7 percent decrease from $26.7 million in the first quarter of 2014, primarily due to lower gross profit partially offset by a decrease in variable compensation expense.

On Page 13, sequentially, adjusted EBITDA increased 14.1 percent from $20.6 million in the fourth quarter of 2014, primarily due to the decrease in SG&A that I mentioned previously.

The effective tax rate of 27.2 percent for the first quarter of 2015 was lower than the 30 percent to 35 percent anticipated range that we announced in the fourth quarter of 2014, primarily due to a change in the expected mix of our earnings between jurisdictions. Assuming there are no material changes to the company's expected results and geographic sorts of earnings, we now expect our effective tax rate for the second quarter and full financial year of 2015 to be approximately 25 percent to 30 percent.

Adjusted net earnings increased to $12.6 million for the first quarter of 2015 from $11.8 million in the first quarter of 2014. The $800,000 increase was primarily due to decreases in income tax expense, variable compensation expense and finance cost, partially offset by a decrease in gross profit.

As you will note on Page 14, cash flow from operations decreased in the first quarter of 2015 by $4 million to $900,000 from $4.9 million in the first quarter of 2014, primarily due to lower earnings before income tax expense and a larger increase in working capital in the first quarter of 2015. The larger increase in working capital related to higher…

Operator: Ladies and gentlemen, this is the operator. I apologize, but there will be a slight delay in today's conference. Please hold and the conference will resume momentarily. Thank you for your patience.

Ladies and gentlemen, this is the operator. Thank you for standing by. Mr. Yull will restart so that everybody does hear his entire presentation. Mr. Yull, please go ahead.

Gregory Yull: Thank you, operator. Actually, Jeffrey Crystal will restart on the financials.

Jeffrey Crystal: Thank you, Greg. I would now like to refer you to Page 9 of the presentation where we present the summary of our results of the first quarter of 2015. Gross profit totaled $37 million in the first quarter of 2015, a decrease of 13.3 percent from $42.7 million a year ago. Gross margin was 19.6 percent in the first quarter of 2015 compared to 21.4 percent in the first quarter of 2014. Gross margin decreased primarily due to the South Carolina duplicate overhead cost and unfavorable product mix variance.

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The effective tax rate of 27.2 percent for the first quarter of 2015 was lower than the 30 percent to 35 percent anticipated range that we announced in the fourth quarter of 2014 primarily due to a change in the expected mix of earnings between jurisdictions.

Assuming there are no material changes to the company's expected results and geographic source of earning, we now expect their effective rates for the second quarter and full financial year of 2015 to be approximately 25 percent to 30 percent.

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As you will note on Page 14, cash flow from operations decreased in the first quarter of 2015 by $4 million to $900,000 from $4.9 million in the first quarter of 2014 primarily due to lower earnings before income tax expense and a larger increase in working capital in the first quarter of 2015.

The larger increase in working capital related to higher trade receivables and inventory as well as decreases in accounts payable and accrued liabilities primarily due to the timing of annual compensation-related payments in the first quarter of 2015.

Free cash flow increased in the first quarter of 2015 by $1.4 million to an outflow of $8.1 million compared to an outflow of $9.5 million in the first quarter of 2014, primarily due to lower capital expenditures partially offset by lower cash flows from operating activities.

Net debt at March 31, 2015 was $135.5 million, an increase of $20.6 million compared to December 31, 2014.

Our debt to trailing 12 months adjusted EBITDA ratio was $1.6 million at March 31, 2015 compared to $1.2 at December 31, 2014. The ratio increased due to a larger increase in working capital and an increase in borrowings which were used to fund the acquisition of Better Packages.

On March 18, 2015, the company entered into an interest rate swap agreement to fix the floating rate, 30-day LIBOR benchmark interest rate on $40 million of our debt at 1.61$ through November 18, 2019. As a result, our exposure to variable interest rates decreased to 60 percent of total debt at March 31, 2015 from 80 percent at December 31, 2014.

As of March 31, 2015, the company had cash in loan availability under our revolving credit facility of $184.3 million. This compares with cash in loan availability of $206.2 million as of December 31, 2014.

Days inventory increased to 61 in the first quarter of 2015 from 57 in the first quarter of 2014. Inventories increased $11.6 million to $108.4 million as of March 31, 2015 from $96.8 million at the end of 2014 primarily due to and inventory build associated with the South Carolina project and woven production upgrade as well as an increase in raw material purchases in the first quarter of 2015.

Days sales outstanding decreased by one day from 42 in the first quarter of 2014 to 41 in the first quarter of 2015. Trade receivables increased $4.6 million to $85.8 million as of March 31, 2015 from $81.2 million at the end of 2014 primarily due to an increase in the amount of revenue invoiced later in the first quarter of 2015 compared to later in the fourth quarter of 2014.

Greg will now provide the outlook. Greg?

Gregory Yull: Thanks, Jeff. Moving on to our outlook on Slide 15. We anticipate revenue for the second quarter of 2015 to be higher compared to the first quarter of the year primarily due to the company's belief that the majority of the destocking by customers during the first quarter of 2015 is completed as I indicated earlier.

The gross margin and adjusted EBITDA for the second quarter of 2015 are anticipated to be significantly higher compared to the first quarter of 2015 primarily due to the full effect of lower petroleum based raw material cost being realized in the second quarter results and the reduction in South Carolina duplicate overhead cost due to the completion of the duct tape transition.

At this point, Jeff and I will be open. We will open up the call to questions. Operator.

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 pelase press star followed by the number one on your telephone keypad. You will hear a tone acknowledging your request. If your question has been answered and you would like to withdraw your registration please press the pound key on your telephone keypad. If you are using a speakerphone please lift your handset before entering your request. Your first question comes from the line of Sarah Hughes from Cormark Securities. Your line is open.

Sarah Hughes: Can you hear me?

Gregory Yull: Yes. Good morning, Sarah.

Jeffrey Crystal: Yes, good morning.

Sarah Hughes: OK, sorry. I didn't know if the line was off. And I guess just first on South Carolina. In terms of the process modifications you have to make to the masking tape line, I'm just wondering if you can give us a bit more detail on that. Wondering if there's any risk that you need to kind of change equipment or is it more just tweaking the existing equipment in the process going through the plan.

Gregory Yull: It's a combination of formula and process conditions. And it's a balance between process conditions as it relates to the machine ability of the process onto itself and the end results of the properties of the tape from a performance perspective.

And we're just playing a process here where it's a balancing act. You tend to, as you develop – use your process, that you tend to give us a little quality from a performance respect within the tape. So we're just directionally adjusting those accordingly.

Sarah Hughes: OK. I guess, and so in terms of your new forecast at the end of Q3, are you quite confident that you'll have the process of change in terms of meeting that guidance or is that still too early to – you're still in that tweaking process, it's too early to tell?

Gregory Yull: Well, I mean our expectation right now is to have this complete at the end of Q3. With all the information that we know right now, we're trying to take that conservative approach as it relates to both guidance on that and also with our customers, more importantly, to make sure that we're giving them quality products.

In any situation like this, as you know it's the things that you don't know that come and affect the timing. But where we sit right now with what we know, we feel confident in our ability to deliver and execute upon completion at the end of Q3.

Sarah Hughes: OK. And how did the addition or the rest of the duplicate overhead cost hit Q2 and Q3? Is it equal or how should I expect that?

Jeffrey Crystal: No, it wouldn't be equal. I mean you're going to have additional duplicate overhead cost hitting Q2 just because you do have some remnants with regards to the duct production in Columbia. So that will come down significantly in Q3.

Sarah Hughes: OK. And then just on the core business. In terms of – you're obviously forecasting for good improvement in gross margin and EBITDA in the second quarter versus Q1, did you start to see that in March like in terms of the improvement in gross margin and EBITDA on the month of March versus January and February in Q1?

Gregory Yull: Yes, we did. We thought in March when we had our conference call, I made the reference point of saying booking demand and pick up last 10 days. That continued. And also in March, we saw a definite improvement as it relates to material cost flowing through the P&L. January and February will most probably peak raw material cost from October. So we started to see an impact on a positive side sequentially.

Sarah Hughes: Right. And then in terms of on the selling price, did all the selling price changes that you have made in response to the lower resin cost, did that get reflected in Q1 or could we see incremental changes in the second quarter.?

Gregory Yull: I would say it's fairly stable.

Sarah Hughes: OK. On a sequential basis?

Gregory Yull: Correct.

Sarah Hughes: OK. That's all for me. Thank you.

Gregory Yull: Thank you.

Jeffrey Crystal: Thank you.

Operator: Your next question comes from the line of Justin Wu from GMP Securities. Your line is open.

Justin Wu: Good morning.

Gregory Yull: Good morning, Justin.

Jeffrey Crystal: Good morning, Justin.

Justin Wu: My first question is a follow-up on Sarah's, just a clarification on the duplicate cost, if I could. I guess implied within your guidance on gross margins, you basically said that Q2 gross margins are kind of higher partly due to reduction in the duplicate overhead cost in Q2 versus Q1. And then you're saying that Q3 we'll see that even going lower. So I just want to make sure that the bulk of the duplicate costs are actually incurred in Q1.

Jeffrey Crystal: Yes. I mean a good portion as you see there was about $2.2 million that hit Q1. So that (point add) is significantly higher than what's hitting Q2 and that's higher than what's hitting Q3. So it will be coming down each quarter based on the plans.

Gregory Yull: And I guess a big part of that, Justin, is that as we move through and pick up reliability on the duct tape production, you'll see an impact on that as well.

Justin Wu: OK. And just on – and if I could on mix and volume and those types of issues, which you guys kind of give out a pretty good level of detail on the impact, but as we kind of head into Q2, I was wondering if you could comment – it sounds like volumes are picking up as customers restock. I was wondering if you can comment on pricing and mix in both tape as well as film side.

Gregory Yull: Yes, I'll give you a couple of high level comments. We don't disclose too much of that. But overall, our demand has been fairly good, especially around the packaging side of our business. And some of that I think is inventory build back, getting back to normalized inventory levels. As you can see in our disclosure at the end of March, mix is playing a fairly significant role at this point. And that's mostly due to just order pattern.

We have seen some mix deterioration in our ECP business. That was mostly driven by geomembrane and what's happening in oil and gas. And that's just the reality that we're living in in that space right now. And that will come back as oil and gas comes back. So in that regards, we're holding our pricing fairly steady there.

So if I had to – overall, I think volume is OK, I think pricing is fairly stable at this point. And mix, mix should improve going forward.

Justin Wu: And in terms of the customer destocking that occurred through I guess part of Q4 into Q1, did that occur in both sides of the business? And maybe you can comment on if you saw – the inventories that were down, in the industry, whether it was consistent with your overall decline in Q1 in terms of volumes.

I guess what I'm trying to get a sense of is one is market share and also, in terms of the restocking, whether you anticipate – things are accelerating now, but is it going to accelerate even further in the second half of the year? I mean, how far did customers get their inventories down?

Gregory Yull: Yes, so it's tough to read how far they've gone down. But what I would say is in the areas that we saw declines in December, January, February are the areas that we're seeking pick up or the most pick-up so far into Q2. So that gives me a feeling as though there is a replenishment of inventory, plus a fairly consistent demand happening through the channel.

Justin Wu: And maybe just lastly, if I could, on the SG&A, the numbers were down quite significantly versus last year. Is that a kind of number that you think is sustainable at that, I guess, it was $18 million level?

Jeffrey Crystal: Well, I mean, as we mentioned, there was a decrease in variable compensation expenses just due to the performance in the quarter. So I wouldn't say it's necessarily going to be at that level going forward. I mean, we're not disposing details of that. But there are some reductions there that wouldn't be recurring, let's say, hopefully not in the next couple of quarters.

Operator: Your next question comes from the line of Ben Holton from RBC Capital Markets. Your line is open.

Ben Holton: Hi, guys. Thanks for taking my call.

Gregory Yull: Good morning, Ben.

Jeffrey Crystal: Hi, Ben.

Ben Holton: Last quarter you mentioned that the margin guidance for the back half of the year, i.e., the 22 percent to 24 percent did not include the impact of lower raw material prices, though clearly you're starting to see those flow through your P&L, could you provide any color on how you see those back half margins shaping up now that lower prices are kind of a reality?

Gregory Hull: Yes, we're still very comfortable with that guidance at this point with what we know today and the patterns that we're seeing. We've definitely taken a bit of a step backwards here with our projections on the South Carolina masking. And I think some of that's going to be covered by a pick-up in gross margins between material and AFP spreads.

It's still early to tell with certainty how much we're going to be able to keep or what the path forward is there. But, again, we feel good with that guidance. We'll get another opportunity here at the end of Q2 to review that guidance. And we are being very disciplined in the marketplace right now from a pricing perspective.

Ben Holton: Right. So in kind of March and April, few months of price flow-through, you have been able to increase the spread over the raw materials?

Gregory Yull: Yes, we've seen a sequential improvement from January through to April.

Ben Holton: Great. And moving to the other end of the P&L, you made a fairly significant adjustment to your tax guidance. Was there something that you changed internally to adjust the mix of the geographic profitability or was this just a natural shift of the business?

Jeffrey Crystal: Yes. I think that was just a natural shift. So it's something that we do expect to see going forward, but was not in place when we gave our guidance last quarter or in Q4.

Ben Holton: So going forward, including kind of past 2015, or is this more a temporal thing due to currencies and things like that?

Jeffrey Crystal: No. As far as we can see, I mean we're looking at this for 2015. Could it go beyond that? Yes, it possibly could. But of course, going further out is tougher to tell.

Ben Holton: Of course, I appreciate that. Maybe just one final one for me. If we look at organic revenue only, ex-Better Packages, would your guidance for Q2 revenue still be increasing over Q1 levels?

Jeffrey Crystal: Yes.

Ben Holton: Great. I'll pass the line. Thank you.

Jeffrey Crystal: Operator: Your next question comes from the line of Damir Gunja from TD Securities. Your line is open.

Damir Gunja: Thanks for taking my question. Resin is still down year-over-year, but it actually has had a significant recovery from the start of the year. I'm just wondering if we see at some point as the inventory works through the channel serve an opposite effect to the destocking and maybe some of the benefits that we're seeing potentially now in Q2 start to reverse in Q3, Q4.

Gregory Yull: Yes. So a couple of comments I'd make on that. We're seeing some increases here in polyethylene, up $0.05 a pound, effective May. On the polypropylene side, we're still seeing some declines flow through. We've seen a $0.05 reduction just very recently in polypropylene.

And then the other piece that has changed since we last spoke is North America now is advantaged versus Asia on polypropylene. And also, we are advantaged on polyethylene to Asia as well which helps us from a competitive perspective.

So I guess the way I would answer that, the only place that we're really seeing an increase at this point is polyethylene. Most of that goes into our stretch foam business. We have an increase in place right to our customers to pass that on at this point.

Damir Gunja: OK. Thanks.

Operator: Your next question comes from the line of Ben Jekic from Industrial Alliance. Your line is open.

Ben Jekic: Hi. I have one question just on the gross margin and you may have answered it in roundabout way, but I guess what my question is, is your Q2 2015 gross margin guidance in any way kind of anticipating a potential revision for the second half of the year guidance? And what is the similar dynamic and what is the different dynamics in those two?

Jeffrey Crystal: I mean at this point, I mean we're giving the guidance for the back half of the year based on what we know. So it's necessarily correlated with the Q2 guidance. So I'm not sure what you mean by that.

Ben Jekic: Yes. I was trying to gauge what the correlation is. And if we should read into the Q2 as the management is a quarter away of revising positively second half of your guidance.

Jeffrey Crystal: Yes, I mean I think at this point, we're comfortable with the 22 percent to 24 percent and we're sticking with that for now.

Gregory Yull: That's pretty broad range. We have a fair amount, Ben, as you know a fair amount of moving parts here. So as we sit here today, we're comfortable with that range.

Ben Jekic: OK. And then in terms of the competitive environment, has there been any moves that are making you feel comfortable or uncomfortable?

Jeffrey Crystal: No. I mean we live in a competitive world, right, and a competitive product line. And we've got to be priced right. We're trying to position our product again for the value we bring to the market with our products. And the space is competitive but it really hasn't changed over the past six months or year.

Ben Jekic: Good. Thank you.

Jeffrey Crystal: Thank you, Ben.

Operator: Again, if you are an analyst and would like to ask a question, please press star followed by the number one on your telephone keypad. Mr. Yull, there are no further questions at this time. I will now turn the call back over to you. Please continue with your presentation or closing remarks.

Gregory Yull: Thank you, operator. And thank you for participating in today's call. We look forward to speaking to you again at the release of our second quarter results. Thank you.

Operator: Please note that a replay of this call can be accessed as of 1:00 PM Eastern Time today at 1800-585-8367 until 11:59 PM Eastern Time on June 12, 2015. Thank you.

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