MARKETWIRED

Moderator: Greg Yull
August 13, 2015
10:00 a.m. ET

Operator: This is conference # 70159590.

Welcome to Intertape Polymer Group's second quarter 2015 results and 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, CEO and Jeff Crystal, CFO.

I would like to caution all participants that in response to your questions and in our prepared remarks today, we will be making forward-looking statements which reflect management's beliefs and assumptions regarding future events based on information available today. The company undertakes no duty to update this information, including its earnings outlook, even though its situation may change in the future.

You are therefore cautioned to not place undue reliance on these forward-looking statements as they are not a guarantee of future performance and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those expected.

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 website 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, Thursday, August 13, 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 second 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 website. I will begin with a brief review of the highlights for the quarter, starting on Page three of our presentation.

As discussed in prior conference call the significant decline of oil prices and in turn lower petroleum based raw material cost temporarily impacted customer order behavior in late 2014 and early into 2015. Towards the end of the first quarter we observed a return to a more normal level of demand and that trend was confirmed in the second quarter.

Our second quarter results also benefited from the positive impact of lower petroleum based raw material cost. Average selling price decreased as well but as expected we were able to conserve a portion of this cost savings in our tape and woven product categories.

Assuming there are no significant increases in oil prices and related petroleum based raw material cost. We anticipate continued benefits on our results from lower raw material cost going forward.

During the quarter the ramp up of duct tape production at the new Blythewood facility resulted in larger than expected production yield and operating inefficiencies. The effect of these inefficiencies were greater than the initial cost savings translated into a negative impact of 1.3 million on gross profit and adjusted EBITDA for the second quarter of 2015.

As we will discuss later we expect some of these inefficiencies to continue and an extension of the South Carolina Project finalized. In that context our results for the second quarter are still in line with the outlook provided with the first quarter results. We achieved revenue of a 196.6 million, an increase of 4 percent compared to the first quarter of 2015. The higher revenue reflects and approximately 5 percent in sales volume primarily due to return to more normal levels of customer demands.

The operations recently acquired from better packages contributed 4.3 million to revenue while the commissioning of South Carolina Project resulted in a 4.9 million reduction in revenue in order to comply with applicable accounting standard. Average selling prices including the impact of product mix decreased by approximately 1 percent mainly driven by lower raw material cost.

Gross margin increased to 21.6 percent in the second quarter of 2015 from 19.6 percent in the first quarter of 2015. The increase was primarily due to an increase in the spread between selling prices and raw material cost, a decrease in duplicate overhead cost and a favorable product mix. These factors were partially offset by manufacturing ramp up inefficiencies related to the South Carolina Project. Our adjusted EBITDA of 27.1 million increased 15.1 percent over the first quarter of 2015.

On Page six, we present our expected CapEx for 2015 which remains in a range of 32 million to 37 million. For the first half of 2015 CapEx was 15.1 million of which 4.1 was related to the South Carolina project.

Turning to Page seven, we outlined manufacturing cost reductions in the year-to-date and the new expected range for 2015. The total manufacturing cost reductions were 5 million for the six month period. As a result of the revision to the 2015 cost savings expected from the South Carolina project we now expect 2015 manufacturing cost reductions to be between 9 million and 12 million which is lower than our previous estimate of between $13 million and $16 million.

On Page eight, as we previously announced at the beginning of April we acquired Better Packages a leading supplier of water activated tape dispensers. Since that time we've been working diligently at integrated the Better Pack business and have been very pleased with the progress being made on aligning our tape dispensing machine sales and marketing strategies as well as the integration of the Better Packages' employees within the IPG team. At this time, we anticipate the acquisition to continue to meet or exceed the financial targets that were used in the determination of the value of that business.

Under our normal course issuer of bid program that ended July 9, 2015 we repurchased close to 1.6 million common shares over the preceding 12 month period for a total purchase price of $21.3 million. With regards to the renewed NCIB we the have the option to repurchase up to 2 million shares through July 9, 2016.

As previously disclosed we intend to be opportunistic in executing any share repurchases under this NCIB. Finally, the board made the decision to increase the annualized dividends by just over 8 percent from $0.48 to $0.52 per share. This decision was made in order to return more value to our shareholders and to reemphasize our confidence in the future outlook of our business.

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

Jeff Crystal: Thank you, Greg. I would now like to refer you to Page 9 of the presentation. When compared to the second quarter of 2014 revenue decreased $6.3 million due to a decrease in average selling price and $4.9 South Carolina commissioning revenue reduction. The most significant reason for the decrease in average selling price was an unfavorable product mix when compared to the prior year in the carton sealing tape and woven product categories.

Carton sealing tape had a negative impact on product mix due to its generally being a lower priced product category, however, it is an above average gross margin product. Additionally, carton sealing tape sales in the second quarter of 2015 constituted new volume which in turn had a favorable impact on revenue gross profit, and gross margin.

Our woven product line mix was negatively impacted by the downturn in volume of higher priced geomembrane products coming from the oil and gas industry. These unfavorable factors were offset by higher volume and the additional revenue from the acquisition of Better Packages. Also for the first time, we are highlighting the impact of foreign exchange rates on our revenue which was a decrease of approximately $3 million due to the strengthening of the U.S. dollar compared to the Canadian dollar and Euro.

As we’ve previously discussed, the stronger U.S. dollar creates challenges in some of our export markets where we compete with local producers with lower domestic currency cost. However, many aspects of our cost and product pricing abilities lead to a natural hedge to help mitigate a significant portion of the foreign exchange impact on net earnings.

Turning to Page 10 of the presentation, gross profit totaled $42.4 million in the second quarter of 2015, a decrease of 3.7 percent from $44.1 million a year ago. Gross margin was 21.6 percent in the second quarter of 2015 and 21.7 percent in the second quarter of 2014. Gross margin decreased slightly in the second quarter of 2015 primarily due to an increase in manufacturing inefficiencies and certain manufacturing cost and an unfavorable product mix variant partially offset by favorable results of the company’s manufacturing cost reduction program and increase in the spread between selling prices and lower raw material cost and a decrease in freight cost.

On a sequential basis, gross margin increased from 19.6 percent in the first quarter of 2015 primarily due to an increase in the spread between selling prices and raw material cost, a decrease in South Carolina duplicate overhead cost and a favorable product mix variant partially offset by manufacturing ramp up inefficiencies related to the South Carolina project.

SG&A was $22.3 million in the second quarter of 2015, an increase of 8.2 percent from $20.6 million a year ago, primarily due to increases in stock based compensation expenses and SG&A from the Better Packages' acquisition. On a sequential basis, when compared with the first quarter, SG&A increased 22.8 percent due to increases in stock based compensation expense, variable compensation expenses and SG&A from the Better Packages acquisition.

As indicated on Page 12 of presentation, adjusted EBITDA totaled $27.1 million for the second quarter of 2015, an 8.1 percent decrease from $29.5 million in the second quarter 2014, primarily due to a decrease in gross profit and increase in research expenses associated with the South Carolina project and an increase in SG&A resulting from the Better Packages acquisition.

On Page 14, adjusted EBITDA increased sequentially by 15.1 percent from $23.5 million in the first quarter 2015, primarily due to an increase in gross profit, partially offset by an increase in variable compensation expenses and SG&A from the Better Packages acquisition.

Back on Page 10, adjusted net earnings decreased to $14.1 million for the second quarter of 2015 from $14.7 million in the second quarter of 2014. The $0.6 million decrease was primarily due to a decrease in gross profit and increasing SG&A resulting from the better packages acquisition and an increase in research expenses associated with the South Carolina project partially offset by a decrease in income tax expense.

For the second quarter 2015 the effective tax rate was 28.8 percent assuming there are no materials changes to the company's expected geographic mix of earnings the company expects its effective tax rate for the third quarter and full financial year of 2015 to be approximately 25 percent to 30 percent.

As you will note on page 17, cash flows from operating activities increased in the second quarter 2015 by 7.6 million to 25.7 million from 18.2 million in the second quarter of 2014 primarily due to an increase in accounts payable and accrued liabilities related to the timing of annual compensation related payments and a decreased inventory in the second quarter of 2015 compared to an inventory build in the second quarter of 2014 to support the South Carolina project. These favorable cash flow items were partially offset by an increase in income taxes paid in the second quarter of 2015 related to an installment paid for 2015 U.S. alternative minimum tax.

Free cash flows increased in the second quarter of 2015 by 11.6 million to 19.6 million from 8 million in the second quarter of 2014 due to higher cash flows from operating activities and lower capital expenditures. Net debt at June 30, 2015 was 148.1 million an increase of 33.2 million compared to December 31, 2014. Our debt to trailing 12 months adjusted EBITDA ratio was 1.7 at June 30, 2015 compared to 1.2 at December 31, 2014.

As of June 30, 2015 the company had cash and loan availability under its revolving credit facility of a 170.3 million. This compares with cash and loan availability of 206.2 million as of December 31, 2014.

The decrease in cash and loan availability was primarily due to the better packages acquisition, repurchases of common stock and an increase in inventory in the first half of 2015. These inventory increased to 64 in the second quarter of 2015 from 61 in the second quarter of 2014.

Inventories increased 12.3 million to 109.1 million as of June 30, 2015 from 96.8 million as of December 31, 2014.

The increase was primarily due to an increase in raw material purchases as well as an inventory build in anticipation of higher expected sales volume and annual maintenance shut downs of the certain facilities in the third quarter of 2015.

Day sales outstanding decrease by two days from 41 in the second quarter of 2014 to 39 in the second quarter of 2015. Trade receivables increased 4.1 million to 85.3 million as of June 30, 2015 from 81.2 million as of December 31, 2014 primarily due to the timing of collections and the better packages acquisition.

Greg will now provide further details on the South Carolina project and our outlook. Greg?

Gregory Yull: Thanks Jeff. On Page 18 and 19 we provide an update 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 tape and masking tape accounting for most of the anticipated sales.

As planned, we transferred production of flatback tape to Marysville in the first quarter of 2015 and duct tape to Blythewood in early April. As previously indicated we consider the second quarter to be a transitional quarter for duct tape considering the anticipated time to improve production yield and operating efficiencies, so we did not expect to benefit from the full cost savings related to that transfer in the second quarter.

As we ramped up duct tape production to higher volumes during the quarter, production yield and operating inefficiencies clearly became a bigger issue to the point of offsetting cost savings achieved resulting in a net negative impact of 1.3 million on gross profit and adjusted EBITDA in the second quarter. The net negative impact of 1.3 million is made up of 2 million of inefficiencies offset by 700,000 of cost savings achieved mainly as a result of headcount reductions.

As compared to the second quarter of 2014 the net negative impact on gross profits and adjusted EBITDA was 2.3 million. The additional 1 million was primarily due to the benefit realized in the second quarter of 2014 related to more manufacturing volume produced in the Colombia facility in that period as compared to both South Carolina facilities in the second quarter of 2015.

We made significant improvements in these inefficiencies throughout the second quarter of 2015. But we still have some way to go before we achieve our targeted yield and operating levels. As such we are expecting to see improvements in the performance of duct tape production as we progress through the second half of 2015 with most inefficiencies being resolved by 2016.

The company continues to conduct test on the masking tape product produced at the Blythewood facility and now expect to fully transfer production by the end of the second quarter of 2016 instead of third quarter of 2015 as we last announced. This delay is due first to the need to focus our project team's attention on the issues being encountered in a ramp of duct tape production.

Second, we are taking a more conservative approach to our trial of masking tape products in order to insure the proper balance between product quality and production performance before going into commercial production.

Lastly, given the lessons learned so far in the ramp up of the duct tape production. We believe that the process in meeting our pre-established production yield and efficiency targets will be more gradual than originally planned.

In summary we expect that South Carolina Project cost savings in 2015 will be more than offset by temporary production yield and operating inefficiencies affecting duct tape production. However, we do expect that the net negative impact in the third and fourth quarter of 2015 should improve compared to the second quarter of 2015. For 2016 we expect the duct production inefficiencies will be mostly resolved as well as masking tape production to be transferred to the Blythewood facility resulting in a significant improvement in net cost savings over 2015.

Overall we still expect the full impact of the $13 million in cost savings but given this is more gradual ramp up period we believe the full benefit of these savings will only be realized by 2017. Despite the issues encountered through the start-up period we remain optimistic about the ultimate benefits that this new facility will bring to the company in terms of supporting our commitments to the environment maintaining product quality leadership, better service for our customers and lower manufacturing cost.

The company has previously stated that it expects to achieve a gross margin of between 22 percent and 24 percent upon completion of the South Carolina Project. Assuming that raw material cost will remain at current levels the company expects to achieve this gross margin target prior to the completion of the South Carolina Project. At this time we expect polyethylene cost to decrease slightly and polypropylene cost remain flat in the third quarter of 2015 as compared to the second quarter of 2015.

Moving on to our outlook on Slide 20, the company anticipates revenue for Q3 2015 to be higher compared to revenue for Q2 of 2015 primarily due to seasonal higher sale volume. Gross margin for Q3 2015 is anticipated to be lower compared to Q2 of 2015 primarily due to the planned annual meeting shut down at many of our manufacturing facilities.

As a direct result of the revenue and gross margin guidance adjusted EBITDA for Q3 2015 is anticipated to be similar to Q2 of 2015.

At this point Jeff and I will be opened to answer any questions you may have.

Operator?

Operator: Thank you. Ladies and gentlemen, we will now conduct the question and answer session 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 tone acknowledging your request. If your question has already been answered and you would like to withdraw your registration, please press the pound key. If you are using a speaker phone, please lift your handset before entering your request. One moment please for your first question.

Your first question comes from the line of Sarah Hughes from Cormark Securities. Please go ahead.

Sarah Hughes: You before gave us a number on the -- how much you expect the transition cost to be, and can you give an updated number on that?

Gregory Yull: You mean on the duplicated overhead cost?

Sarah Hughes: Yes.

Gregory Yull: Yes. So -- we have that in the presentation. So we expect that for the year of 2015 we're still going be within our 5 million guidance that we gave. And then we are expecting for every additional quarter that Columbia remains open for the masking tape production that will then be incurring close to $1 million dollars of duplicate overhead. So assuming that the masking tape production is transferred by end of Q2 you would expect another 2 million into 2016.

Sarah Hughes: By third quarter. OK.

Gregory Yull: Yes $1 million per quarter.

Sarah Hughes: And so on the duct tape side of things when -- I'm just trying to get a sense of when you expect the -- as to just see a full run rate of cost savings on duct tape?

Gregory Yull: Well we expect to work through most of our inefficiencies throughout 2015 and be at that rate in 2016. We've made significant progress but we're not at a, what I would call a reliable steady state.

So we have very good days and then we run into a couple of negative days, so we've seen and we've reached our targeted output on a day and yield basis, but I think really you are going see that at the end of this year, beginning in next year.

Sarah Hughes: And you -- I think historically you said that 13 million savings half duct, half masking tape is that still a good number you think about?

Gregory Yull: Yes.

Sarah Hughes: We should see that 6 million -- your 6.5 million for the full year and next year assuming all goes well.

Gregory Yull: Assuming all those, well.

Sarah Hughes: On duct side. OK. OK and then so on the, Greg -- the gross margins guidance, the 22 percent to 24 percent, so that's excluding the cost benefit of South Carolina?

Gregory Yull: No, it's actually including everything, so that is all in, so that will include whatever net savings we're realizing on the South Carolina project. So what we're basically saying is that we don't need to get to the end of it where we have a run $13 million of savings to achieve that range.

Sarah Hughes: OK.

Jeff Crystal: So we always had that range based on the completion of the project, now we're saying we can get there without completing the project.

Sarah Hughes: And I am assuming that term raw material impact on price, given the price reduction.

Gregory Yull: Yes.

Sarah Hughes: And then so on raw materials, have you seen -- how I think about, you guys seen the benefit of raw material changes, was it all -- did you see the majority of that in Q2 or will we see more incremental benefit in the back half of the year from raw material pricing?

Gregory Yull: I think depending on where we go here with -- polypropylene is relatively flat at this point, polyethylene is working its way down. Hard to say, I would expect that we would continue to see -- I mean we saw in the last month the Q2 or in June of Q2 an improvement and I think we should stay steady state there, may be a bit of a pickup.

Sarah Hughes: And then the volatility we've seen in the polyethylene price in the last few months, will that have any impact on film performance in the next couple of quarters, or nothing meaningful?

Gregory Yull: It might on demand, as you know on discussion on our stretch foam side we see a lot of pre buy on the way up and then we see a lot of demand, construction and inventory depletion on the way down. I would say that our film business is performing pretty well so far this year, but the polyethylene's drop is just happening now so it's too early to say.

Sarah Hughes: And then lastly, the South Carolina revenue reduction in the quarter, can you just give me a bit more detail, explain that a little more and are we going to see that in future quarter?

Jeff Crystal: Sure I'll explain that. So yes, what that basically is, is that, whenever you are commissioning a machine or any type of asset from an accounting perspective you're essentially capitalizing the cost that it takes to commission -- cost of the machine.

But the accounting standards under international financial reporting standards require that you also associate any revenue related to that commissioning process and that you essentially back that out against the cost of the project.

Now the $4.9 million we're talking about there is the revenue impact but in fact you're also have to back out the cost of sales that relates to that revenue. So on a net basis, basically the growth profit impact of that revenue reduction is negligible because obviously you're pulling out a large percentage of the revenue in cost of sales.

Sarah Hughes: Right, OK.

Jeff Crystal: So that would basically explain what it is. Do we expect it going forward? I would say it's possible we could see some going forward but I would expect if we do it would be a lot less than that just given the fact that the commissioning process obviously is being worked through, most of that happened in Q2 and we would expect maybe some in Q3. But it shouldn't be that significant.

Operator: Your next question comes from the line of Ben Holton from RBC Capital. Please go ahead.

Ben Holton: You're quite active earlier this year on the NCIB. Can you just walk you are thinking about the current 2 million shares you have available, especially given the share price today. Should we expect you to be back in the market in the near term or are there other capital demands that you prioritize about that?

Gregory Yull: Well, when we lay out our capital priorities, share repurchases are on the far right side of the scale. Obviously, with the dividend increase we believe that takes precedent and most importantly investments into our business, whether that'd be organic investments in the CapEx or M&A that would take priorities.

Again we're opportunistic in that and we're in a close period right now and we're going to be in closed period for another 48 hours, I believe or a day or two, and we'll see where the stock ends up in the next couple of days.

Ben Holton: That makes sense, did the focus and the extra time being spent on South Carolina push out some of your other high return projects that you've talked about in the past. Or does it at all reduce your capacity or willingness to complete more sizeable acquisitions?

Gregory Yull: Well, it certainly from our perspective increases the focus if that's profitable. I mean I don't want to say that we weren't focused before, but we're pretty aware very involved in Blythewood and very cognizant of distractions. We feel like we've manned up quite a bit as it relates to engineers within our business and project management people and we can take on more projects. But we're very cognizant of the distractions possibility and very precise and disciplined in kind of what we're going to take on and what we're not going to take on right now.

Ben Holton: So maybe going back three or six months, are you less willing to do an acquisition at this point or all things being equal.

Gregory Yull: No, we are not less willing to do it.

Ben Holton: OK. And maybe just one off on Sarah's question, on the margin guidance range that 22 percent to 24 percent, am I thinking about this correctly that once South Carolina is complete that you should or could be above this range given all of the additional cost savings or the full run rate of cost savings that you'll recognized?

Gregory Yull: Considered where we are right now, we're not going to go there. So our guidance right now is 22 percent to 24 percent as attainable before South Carolina is complete. And I think giving guidance beyond that right now we can't do that we are not comfortable in doing that.

Jeff Crystal: Also Ben it depends where we fall in that range as well.

Ben Holton: Yes. Off course it's a step up (multiple speakers).

Jeff Crystal: Exactly.

Ben Holton: Yes. Great I'll pass the line.

Operator: Your next question comes from the line of Damir Gunja from TD Securities. Please go ahead.

Damir Gunja: On your South Carolina I just want to get maybe a little bit more of a sense from you guys are we talking about just sort of fine tuning here and calibration of the production process and in the next few quarters is there any risk of any incremental CapEx there or how comfortable are you guys with sort of the fund lending's here?

Gregory Yull: I think when we sit there and evaluate the assets in the ground and the potential for more CapEx I think that's pretty de-minimize. I think our attention right now is in process efficiency reliability and concentrating on simple things like up time and waste. We as I mentioned earlier, we've made substantial progress in period of time whether that's a shift, whether that a day, whether that's a week, but we have a lot more work to do as it relates to reliability.

So when I think of the assets and the potential for more capital for that project there is nothing there right now that we see, that we need, it's just more process development and creating a much more reliable process if you will.

Damir Gunja: OK. And just the second one from me a lot of stuff has been covered off, I'm wondering if you can give us a sense on the product mix, obviously areas like geomembrane may stay somewhat depressed, but can you reference any areas of strength? I'm just wondering if you are seeing anything from the continues strengthening of U.S. economy if you are seeing any of the more cyclical areas that you are involved in seeing an upturn?

Gregory Yull: Once I said that we've seen our business performing relatively well on a volume perspective within our packaging business. So part of the closure, films business those seem to be doing relatively well.

On the other side within our industrial business not to the same level of performance, certainly in our coded products ECP product category, we've seen a completely non-existing oil and gas business which has had a significant impact on top line and bottom line in the quarter and we don’t expect that to return in any time soon.

But certainly things pretty good in packaging, couple of issues international and as Jeff mentioned it's tough to compete in some spaces right now and with what's happening currency over the last six months.

Damir Gunja: OK. Thanks for the color.

Operator: Your next question comes from the line of Justin Wu from GMP Securities. Please go ahead.

Justin Wu: My first question is on customer purchasing patterns, I was just wondering if you can comment on whether you've seen customers return to more normal purchasing patterns following that destocking fees and whether there has been any kind of pent up demand related to that.

Gregory Yull: Yes. We saw a primarily customers in North America return to typical demand at the end of beginning in Q2, end of Q1 and that stayed steady state.

We did have some price increases go through on polyethylene and that drove a build up for sure within our films business and I think that was magnified by the fact that I think the channel had depleted their inventory dramatically.

But outside of that it’s been fairly steady state. We have seen a decline as we've mentioned before in our international business and that's basically fairly flat right now quarter-over-quarter. So it's been pretty steady since we got through the March time frame, Justin.

Justin Wu: OK. Are you getting any sense of there has been aggressive pretty buying by any of your customers?

Gregory Yull: There probably was a little bit of that in Q2 on stretch foam.

Justin Wu: OK. But on tape side has been pretty steady.

Gregory Yull: No. I don’t think so.

Justin Wu: And how much was international of your -- say revenue last year and what kind of run rate are you at this year?

Gregory Yull: In international we were near about last year on both 10 percent of our revenue, but part of that there is probably about 2 percent out of the 10 percent were released to our Portugal facility, so that’s actually a domestic European operation, so call it about 8 percent international and another 8 percent going to Canada.

Justin Wu: OK. So 8 percent is export from the U.S.?

Gregory Yull: Yes.

Justin Wu: And this year it’s fairly lower than that?

Gregory Yull: I would say it still -- not far from that, just from a percentage basis.

Justin Wu: And I guess, going on to the currencies and what we seen with China and their devaluation. We've seen Chinese material being disruptive in the past in the market, maybe it’s still too early to say, but what's your view on that? Is there any potential for disruption?

Gregory Yull: Yes. Certainly the last week has been fairly turbulent. So specifically around polypropylene and polyethylene, we changed since the last time we talked in May. Asia is now advantaged in both polyethylene and polypropylene to North America by approximately $0.08 to $0.10 and again just to put in perspective, in October of 2014 that spread was up to $0.20 a pound.

We still believe that long term open to 2017, there is still a lot of capacity coming on stream. So in propylene there is about 11 percent increase in capacity coming on stream between the end of this year and a first quarter or second quarter of '16, and then in polypropylene which is what we use, there is approximately 10 percent of added capacity coming on in '17 and '18.

So that should have still a positive impact on the industry in North America and on the ethylene side the polyethylene side there is approximately a 33 percent increased planned rate now in ethylene and then in polyethylene there is about 44 percent increase in capacity of polyethylene of which half of that capacity will be installed in 2016-2017.

So fundamentally I think it's still a reasonable expectation for North America to be in a good position versus Asia, a long-term of these and whenever this capacity is added to the featuring in North America.

Justin Wu: OK. Thank you.

Operator: At this time, if you are an analyst and have any additional questions, please press star followed by the number one on your telephone keypad. As a reminder, if you are using a speaker phone, please lift your handset before pressing any questions.

And your next question comes from the line of Michael Doumet from Scotia Bank.

Please go ahead.

Michael Doumet: So in regarding to your South Carolina Projects, just I want to make sure understand the cost curve. The expectation is for 2 million in duplicate overhead cost and in incremental net negative savings impact from operating inefficiencies that should come down from 1.3 million in the quarter, for the second half of 2015 and neither of those costs are reflected in your manufacturing cost reduction outlook for 2015. Is that correct?

Gregory Yull: That’s correct.

Michael Doumet: OK.

Gregory Yull: Those are irrespective of that.

Michael Doumet: OK, thanks. And that was the just clarification, so in term of your revenue you did have a decline as it relates to FX, was that largely related to the weakening Canadian dollar? Just so -- just for helping us model it going forward?

Gregory Yull: I mean, the majority of it is the CAD exposure.

Michael Doumet: OK. That’s all from me. Thanks guys.

Operator: Mr. Yull there are no further questions at this time. I will now turn the call back to you.

Gregory Yull: Thank you. If there are no further question let me thank you for participating in today’s call. We look forward to speaking with you again following the release of our third quarter results in November. Have a good day. 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 September 13, 2015. Thank you. You may now disconnect your line.

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