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Maggie McDougall
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PRESENTATION

Operator

Ladies and Gentlemen, thank you for standing by. Welcome to Intertape Polymer Group's Third Quarter 2018 Conference Call & Webcast. During the call, all participants will be in a listen-only mode. Afterwards, we will conduct a question and answer session. In order to maximize the efficiency of this event, the question period will be open to financial professionals only. At that time, those with questions should press star * followed by the number 1 on their telephone keypad. If at any time during the conference, you need to reach an operator please press star followed by zero. Your speakers for today are Greg Yull (CEO) and Jeff Crystal (CFO).
I would like to caution all participants that in response to your questions and in our prepared remarks today, we will be making forward-looking statements which reflect management's beliefs and assumptions regarding future events based on information available today. The company undertakes no duty to update this information including its earnings outlook even though its situation may change in the future. You are therefore cautioned to not place undue reliance on these forward-looking statements as they are not a guarantee of future performance and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those expected. An extensive list of these risks and uncertainties are identified in the company's annual report on form 20F for the year ended December 31st 2017 and subsequent statements and factors contained in the company's filing with the Canadian Securities regulators and the US Securities and Exchange Commission. During this call, we may also be referring to certain non-GAAP financial measures as defined under the SEC rules, including adjusted EBITDA, adjusted EBITDA margins, trailing 12 month adjusted EBITDA, leverage ratio, adjusted net earnings and free cash flows. A reconciliation of the non-GAAP financial measures to the most directly comparable GAAP measures is available at our website at www.itape.com and are included in its filings, including the MD&A filed today. Please also know that variance ratios and percentage changes referred to during this call are based on unrated numbers, and all dollar amounts are in US dollars, unless otherwise noted. I would like to remind everyone that this conference is being recorded, today, Thursday November 8th, 2018 @10:00a.m. Eastern Time and will now turn the call over to Greg Yull. Mr. Yull, please go ahead Sir.

Greg Yull, Chief Executive Officer

Thank you, operator, and good morning, everyone. Welcome to IPG's 2018 third quarter conference call. Joining me is Jeff Crystal, our CFO. After our comments, Jeff and I will be happy to answer any questions you may have. During the call, we will make reference to our earnings presentation that you can download from the Investor Relations section of our website. It was a strong quarter, revenue was up almost 15%, adjusted EBITDA was up almost 16% compared to the same period last year. We successfully completed the Polyair transaction which we discussed on our Q2 call and we successfully completed 250 million dollar senior unsecured notes offering, which Jeff will address in a moment. Last quarter we discussed our 2022 growth objectives, and how we compete in the industry. I want to touch on that again this morning, but today I also want to highlight the actions we are taking to deliver on that growth. And why we are so confident and excited about our future. Our 2022 targets for business consists in achieving 1.5 billion in revenue, 225 million in adjusted EBITDA, and 15% adjusted EBITDA margin. With the run rate of the existing business, including the ongoing capital investment and 1/6 acquisition we have completed since 2015, and their related synergies, we are very confident in our ability to deliver additional organic growth. But in order to achieve target, we will require a couple of modest Acquisitions, Depending on our scale, I want to be clear, that as we Identify and review additional acquisitions, our investing criteria will focus on the Strategic and creative nature of the targets, the success of the business in the long term is more important than achieving our 2022 targets by paying up for an acquisition. As such, we will remain prudent in our approach, as we evaluate targets and will not Chase for the sake of achieving a growth Target. How do we compete in today’s Market? Based on our experiences, customers and distributors are attracted to a simpler straightforward relationship. They want to deal with fewer vendors, and buy more from each of them. If the price and performance are right. They are looking for credible partners, with scale and breath. We deliver on both fronts. As one of the largest manufacturers in the sector, that provides a comprehensive product offering, our scale on long-standing relationship in the industry provides us access to the major Industrial distributors. We have designed our product bundle to offer these Distributors and customers a more streamlined method to procure a wide array of quality low-cost packaging and protective Solutions. What we mean by streamlined? Based on our experiences Distributors wants to turn inventory more frequently at our ability to deliver a product bundle that brought product bundling to a (inaudible) on a more frequent basis supports that objective. Another Central principle of how we compete, by investing in world class low cost manufacturing assets. As part of strengthening our product bundle, we are investing in existing facilities to ensure that we are as efficient as possible and prudently build our capacity where we believe is growing. In 2016, we made a decision to implement a two-year program reinvesting cash flow into the business, to significantly increase our Capital expenditures. By the end of this calendar year, we will have invested approximately 170 million in CapEx across our facilities. We are in the final stages of this program. Our new Midland facilities, which serves the e-commerce segment with water activated, already has its first like operational, and the second line scheduled to commence operation in Q1 of 2019. Our Greenfield capstone and (inaudible) in India are each scheduled to commence operations in the first half of 2019. These three new operations consistent of a second middle line onto Greenfield capstone and polymer facility represents approximately 65 million in capital spend. We expect that most of this Capital spent by the end of 2018, will save us small amount as we complete power band and Capstone in the first half of 2019. In total, the investment of these three new operations makes no contribution to top line revenue today, but it will shortly. These are world class facilities to improve our competitiveness, and strength in our product bundle even through lower cost production or production scale, upon commencing commercial operations as we built the order book, these projects will make a meaningful contribution to the business. With respect to the order book, in the case of Midland, the first operating line is already at capacity, and we believe sufficient growth exist within the e-commerce vertical, that the second line will scale effectively and work at constructing and we constructed the facility to allow the addition of more lines if necessary. The new Power band facility will be based loaded carbon ceiling tape currently produced at a higher cost in our Capex facilities as a strong starting position. Finally the new Capstone facility will have immediate orders from our North American Woven business, which are currently being sourced from third parties. These are complex operations, they aren't light switches that turn on, the moment they are installed. Timelines vary by project, but generally speaking our larger investment can take up to 12 to 18 months to reach optimal efficiency. For contacts, we have invested on targeted returns of at least 15% on our I&R basis, and in the case of the second Midland line, the 14 to 16 million in CapEx project, leverages the investment already in place from the original project, so we expect to exceed that hurdle rate. That should provide you some visibility in the impact of 65 million in new projects on the CapEx we are investing above our typical maintenance CapEx. Reaching the end of this investment cycle, and understanding the economics is exciting, and it is why we're so confident as we enter this next phase of growth. We have added scale, expanded our geographical footprint, strengthen our product bundle and driven efficiencies across our operations with these Investments. We will have completed this capital project from a position of strength in the market with the economy performing well. In 2019 we intend to return to a more normalized level of CapEx investment, in the range of 40 to 60 million a year. In the event a situation necessitates it, we believe the annual CapEx requirement could be reduced to approximately 15 Million a year. Including, the recent Polyair acquisition, without inhibiting our ability to service our customers. We are investing in and acquiring assets that we believe will provide continued growth to the company, and improve our competitiveness in key segments of the market in North America. Like protective Packaging, water-activated tape and packaging films. Our integration activities for the Canpex Polyair acquisition are progressing well. In the case of Canpex we remain confident in our ability to deliver on our synergies Target and the closure of the Johnson City facility is proceeding on time. The case of Polyair, it is still in the early days, but coordination of the sales team and the integration of the administration and our work the operation side are each proceeding well. We already had early success in our cross selling strategy both from ITG accounts hovering Polyair products, and Polyair accounts hovering ITG products. As I said, it is still early, but we are confident that Polyair represents a strategic acquisition. That strengthens our product bundle, with protective packaging Solutions. At this point, I’ll turn the call over to Jeff, who will provide you with additional insight into the financial. Jeff?

Jeff Crystal, Chief Financial Officer

Thank you Greg, I would now like to refer you to page 7 of the presentation where we present an analysis of our revenue for the third quarter 2018. Revenue increased by almost 15% to 279.1 million, the 35.6 million increase was primarily due to the Polyair and Airtrax acquisition, which contributed 9% of the increase, and an increase in average selling price including the impact which contributed almost 4% of the increase, volume increased overall by 2% in the quarter, compared to the same period last year. It is important to keep in mind that given the breath of our product bundle, relationship between volume and price is difficult for investors to decipher. Unit volume across different queues is measured in different units, and depending on the complexity or differentiation of this queue, the unit price and margin profile can vary widely. We are evaluating alternative metrics that would provide help to improve our shareholders visibility into this relationship while still protecting competitively sensitive information. As it relates to third quarter, our acrylic carbon sealing tape is a prime example of a lower price product with volume fluctuation can impact overall volume materially but have a much less significant impact on revenue and profit. Excluding acrylic carbon sealing tape, set volume grew 4.4% compared to the same basis last year, on a sequential basis Revenue increased 12% primarily due to Polyair and Airtrax acquisitions and an increase in sales volume of approximately 6.9% or 3.3% excluding acrylic carbon sealing tape, primary due to an increase in certain tape products. This was partially offset by a decrease in average selling price including the impact of product mix. Turning to page 9, gross profit increased 16%, to 58.9 million in the third quarter, from 50.9 Million in the same period last year. Gross margin was 21.1 % in the first quarter compared to 20.9% in the same period last year. The change is primarily due to an increase in spread between selling prices and combined raw material at great cost. Partially offset by an increase in plant related operating cost. We continue to see opportunities to drive additional efficiencies at plant level. Periodically unexpected cost can be experienced as a normal course of operating multiple manufacturing facilities, these costs can also include budgeted cost savings target, at a plant that we have not fully achieved, but the plant continues to operate efficiently. We experience unexpected cost during the course of the year, at the plant level. These costs can be characterized by inefficiencies caused by unplanned maintenance, staff and changes, and higher than anticipated medical cost as well as budgeted cost savings that were not achieved. One example in the third quarter, for one of our larger plants were higher material weights from two older lines that required additional calibrations. We have dealt with the issues and the lines are operating effectively. On a (inaudible) basis gross profits increased by 8% and gross margin decreased by 75 basis points. The decrease in Gross margin is primarily due to an unfavorable product mix and an increase in plant related operating cost that I referenced earlier. SG&A expense increased by 14.7 million and 33.4 million in the third quarter compared to 18.8 million in the same period last year. last the increase were primarily due to a 10.1 million increase, and the share base competition driven primarily by an increase in the fair value of cashed out, and the third quarter in 2018 as compared to a decrease in fair value in the third quarter of 2017. As well as 3.1 million additional SG&A from the Polyair and Airtrax acquisitions. On page 10, you can see adjusted EBITDA increased by 16% to $37.6 million for the third quarter, compared to 3.2 million for the same period last year. The 5, 1 million increase was primarily due to organic growth and gross profit and adjusted EBITDA, contributed by Polyair. In the third quarter we made an $11.3 million discretionary contribution to our US defined benefit pension plan. These plans are now only funded on an accounting basis, as a result we expect to reduce future contribution requirements and certain plan Administration expensive. We were able to deduct this contribution on the 2017 tax return, at the higher 2017 US corporate tax rate, which resulted in a tax benefit which was partially offset by the reversal of the related deferred tax asset recorded using the lower corporate tax rate provided under the tax cuts and job act, for a net tax benefit of $1.3 million recognized in the quarter. The effective tax rate decreased to 15.7% in the three months ended September 30th, 2018, as compared to 25.6% in the same period of 2017. This decrease was primarily due to one, a reduction in the US statutory corporate tax rate as a result of tax cuts and job act, two, a net tax benefit related to discretionary pension contributions I just mentioned, and three, a favorable change in the mix of earnings between jurisdictions. The favorable impact for partially offset by the elimination and limitation of certain deductions in the US, as a result of the tax cuts and job act. Cash flows from operating activities decreased by 9.6 million dollars to 14.2 million in the third quarter, compared to the same period last year. The decrease is primarily due to the discretion pension in contributions I just mentioned and an increase in inventory, primarily related to an increase in raw material cost and purchases, partially offset by an increase in gross profit and a decrease in taxes paid. Mainly as a result of the TCJA. Free cash flows were negative, 8.9 million in the quarter, compared to -4.9 million in the same period last year. Change is primarily due to the discretionary contribution of the US pension plans I mentioned earlier, partially offset by decrease in Capital expenditures. Company had total cash and loan availability of $111.3 million as of September 30th, 2018, compared to 186.6 million as of December 31st 2017. The decrease in cash and Loan availability is due primarily to an increase in net borrowing to fund the Polyair acquisition, and seasonal working capital requirements. Subsequent to quarter-end, we announced the closing of an offering of 250 million dollars of 7% senior unsecured notes due in 2026. The offering provides us greater flexibility in our capital structure, along with the opportunity of blocking at fixed rate and made a historically attractive interest rate environment. The offering resulted in net proceeds of approximately 243.8 million, after deducting under riding fees and estimated expenses, we use that net proceed from the offering to repay a portion of our borrowing of outstanding under the 600 million dollar credit facility, and to pay related fees and expenses as well as for General Corporate purposes. As Greg mentioned earlier, we expect to see a significant reduction in capital expenditure in 2019, to a range of approximately 40 to 60 million dollars. At these levels, our ability to generate free cash flow improved significantly compared to 2017 and 2018, and we intend to prioritize a portion of that cash towards the repayment of debt. Day sale outstanding increased to 46 in our third quarter of 2018, from 31 in the second quarter of 2018, trade receivables increased 148.2 million as of September 30th 2018 from 106.6 million as of December 31st 2017. Primarily due to an increase in the amount and timing in revenue, invoiced later, in the first quarter of 2018 as compared to the fourth quarter of 2017. As well as the impact of the Polyair acquisition. Day's inventory decreased to 65 in the third quarter of 2018 from 70 in the second quarter of 2018. Inventory increased to 161.4 m as of September 30th 2018, up from 128.2 million as of December 31st 2017. The change is primarily due to additional inventory from the Polyair and Airtrax acquisitions, an increase in production including the utilization of completed capacity expansion project as part of our planned inventory bill in anticipation of higher expected sales, and an increase in raw material cost and purchases. Greg will now provide the company's Outlook. Greg?

Greg Yull, Chief Executive Officer

Thanks Jeff. With this morning announcement we are reiterating our outlook for 2018 Revenue, and narrowing our adjusted EBITDA range. Within the bounds of our previous guidance, given we are 9 months into the year. These expectations, exclude any significant fluctuation in selling prices caused by unforeseen volatility in raw material prices. We anticipate Revenue growth in 2018 to be between 16 and 18%, compared to 2017. Adjusted EBITDA to be between 140 million to 143 million, which has been narrowed from the previous expectation of between 140 and 150 million for the year. We are narrowing the guidance to the lower end of our prior range primarily due to the plant related cost that Jeff mentioned earlier. We view these items as day-to-day operation issues that are part of operating multiple manufacturing facilities which require consistent and vigilant management. We have taken the corrective actions on the most immediate of these issues and expect that they will be substainly addressed in the coming quarters. As such, we expect both Revenue and adjusted EBITDA in the fourth quarter of 2018 to be greater than in the same period last year. We are executing a strategy to deliver long-term value for our shareholders. Strengthening our product bundle by investing in our facilities and operations to drive efficiency and acquiring businesses that consolidate our position and complement our offering in growth market with key distributors. With a disciplined approach that is focused on ensuring this Acquisitions are (inaudible) to the business, and our growth moving forward. We appreciate the support, commitment that our investors have demonstrated, to our two-year capital investment program and we look forward to updating you on our progress. With that I'll turn the call back to the operator to open up the question and answer period. Thank you.

QUESTION AND ANSWER SESSION

Operator

Thank you.
Ladies and Gentlemen, we will now conduct the question and answer period for analysts. If analysts would like to register a question, please press star * followed by the number 1 on your telephone keypad. You will hear a two-tone prompt to acknowledge your request. If your question has been answered and you would like to withdraw your registration, please press pound on your telephone keypad. If you are using a speakerphone, please lift your handset before entering your request.
One moment please for the first question. Our first question comes from Michael Doumet, with Scotiabank. Please proceed with your question.

Michael Doumet, Scotiabank

Good morning, guys.

Greg Yull, Chief Executive Officer

Hi Michael.

Michael Doumet, Scotiabank

Greg, just going back to the comment around narrowing guidance to the Lower end, you referenced plant-related cost there. Jeff spoke of this in his comments could you just elaborate a little on that so we get a bit of feel for the length of the headwind?

Greg Yull, Chief Executive Officer

Well I mean like I mentioned in my comments, we have addressed the most pressing of these issues, Jeff gave you an example of where in one of our older larger plants we have made some corrective actions as it relates to the performance in those plants, we have also seen healthcare cost increase in our plant, but when we think of the issues that we faced in Q3, these are fundamental blocking tackling issues in my mind and we can work through these in a relatively expeditious manner.

Michael Doumet, Scotiabank

Okay, helpful, maybe, if we start to think about the facilities that have come online. In the next several months, and you think about 2019, considering obviously the commons 12 to 18 months before getting to Optimal efficiency, what to think about the ramp of profitability that we should be expecting, again just to think about how start off cost could flow into the beginning of 2019.

Greg Yull, Chief Executive Officer

When we think of that 12 to 18 months you are talking about getting efficiency levels from a yield perspective or outline perspective, you know, off mirroring the gap like a 95% yield ratio to a 98% yield ratio right, when you think of that 12 to 18 months you are really fine tuning the operations of the business, I don't know Jeff, if you want to?

Jeff Crystal, Chief Financial Officer

Yes I mean, certainly we are going to see a ramp like what Greg said from an efficiency standpoint definitely is going to take us some time, especially if you look at a Greenfield facility you know you are hiring a lot of new people, so you know, it is not just calibrating the machinery and optimizing the process, but it is also just getting people sort of fine tune on operating machinery you look at our Indian facilities, you're talking about a lot so there's no questions there's going to be a ramp in efficiencies, and then there is the ramp in sales, we talked about in the Indian facilities were going to have a base loading into the Power Band facility related to some carbon tape volume that we are producing that can be moved over, and then same thing in Capstone side you've got a base loading on the volume that we are currently buying externally from Asian suppliers that is going to move to the Capstone plant so I think you're going to pick those up and then you still have to go out and get sales and that is certainly going to be ramped over time, so certainly when you look at 2019, both from an efficiency standpoint as well as from sort of a loading of capacity standpoint you are certainly not going to get there all in 2019 but we expect that to ramp quite nicely, certainly nicely into 2020.

Greg Yull, Chief Executive Officer

And I think it is important to acknowledge that we are, on schedule with our expected or forecasted ramps in all of those plants.

Michael Doumet, Scotiabank

That is great color thanks for that. But maybe, look, I'm going to try to put numbers in a model here as soon as you start this facilities, given that you base loaded, some of those sales it is somewhat sounds like a vertical integration based on that but how do we think about profitability in the initial quarters, is it initially negative, or is it closer to break even, ramping up gradually to towards that optimal efficiency?

Jeff Crystal, Chief Financial Officer

It is definitely definitely not negative, because basically when we go through even when you think from an accounting standpoint, typically when you're really starting up those operations and you're actually stewing off whether it's additional ways for spending additional time on it, that is part of the commercialisation of the machine, and that is capitalizable item, by the time you actually commercialize, the line, you are operating at a profitable level that is not target profit certainly like Greg said, but that is something meaningful, I would say that from the penile standpoint you won't see a lack of profitability in those lines, one for operating, but certainly that is going to ramp to a better level over time.

Michael Doumet, Scotiabank

Okay, that is helpful, thanks guys.

Operator

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

Neil Linsdell, Industrial Alliance Securities

Hi, guys congrats on the results. I would like to go back to the Polyair acquisition. And, when you made the acquisition we were talking about the benefits you expect to get through your distribution Networks, can you talk a little bit about how that is going and if we're going to continue to see some improvements there?

Greg Yull, Chief Executive Officer

Yes I mean we are still early in integration but it is going as well as we expected, maybe even a little more, he had just recently we had our largest trade show called (inaudible), where the first time we were able to present to our customers in that kind of fashion, a bundle of products, with the integration of the Polyair products, a lot of cross-selling targets have been identified, and started to be executed upon, we have had some early wins, I feel very confident about that acquisition, very confident about our ability to deliver on the synergies, and I think again, it fits very well strategically both at the distribution Level and the end-user level as it relates to specifically around our bundle of products, I am happy with Where We Are right now, and look forward to continue to see success on the cross over side and also on the cost side from an operation perspective.

Neil Linsdell, Industrial Alliance Securities

That sounds really good, looking at the new facilities in India that you've been, they are coming online, in 2018, can you talk a little bit about I am thinking about the raw material cost and availability of products in India versus North America and also with the labor? As far as your ability to ramp up in the employee base there.

Jeff Crystal, Chief Financial Officer

Hi, I mean like, just with the labor side first Jeff mentioned a lot of things especially with the Capstone it is fairly labor intensive as it relates to a number of people, and certainly we are actively on-boarding employees now, we have the opportunity or the luxury of having facilities in India that is operating similar type of equipment, thru the acquisition of Airtrax and that has provided us a vehicle to train these people on a lifetime of equipment. They will be operating with the start up on Capstone there is certainly a lot of energy and activity around on boarding on the people, raw material, certainly availability is not an issue, raw materials and our assumptions that we built into our business case in both Capstone and Powerband are still intact. Input costs and out of those locations into Intertape.

Neil Linsdell, Industrial Alliance Securities

Okay good. And just lastly we talked over previous quarters it has come up before about competitive selling prices you had competitors which were selling at unsustainably low prices, how is the environment right now?

Greg Yull, Chief Executive Officer

Overall the environment is very similar to what we had not too many changes, certainly we are seeing a competitive intensity still out of our power band operations existing, so certainly there is pressure on that front, but then that is not a very material part of our total business certainly on an integrated basis. That business continues to do well from a margin perspective, but I would say that it's more status-quo, listen we are in a competitive business, we have to ensure we have low-cost fast assets, we have to make sure we are selling at market prices and I think the company's positioned well to execute on that.

Neil Linsdell, Industrial Alliance Securities

Ok, good, thanks.

Operator

As a reminder if you would like to register a question please press star followed by the number one on your telephone keypad. Our next question comes from the line of Ben Jekic, with GMP Securities. Please proceed with your question.

Ben Jekic, GMP Securities

Good morning, two questions, quick questions, could you refresh our memory in terms of where, in which business do you deal with distributor, and in which business you deal with direct customers, I think the business with Distributors is sort of dominating but I think you were starting to add businesses where you're dealing with direct customers.

Greg Yull, Chief Executive Officer

We don't disclose a percentage but think about it this way, most of our tape and films and protective packaging business channels through distribution, certainly we have strong relationships with a number of large end users that is facilitated thru our National camp program in some cases we will be selling and billing directly, in other cases we will be utilizing a distribution Network to fulfill on a supply chain basis. Most of our business is thru Industrial type distributors.

Ben Jekic, GMP Securities

Is there a difference in term of passing any changes in the input costs you know, are you receiving more resistance from distributors or when you negotiate with distributors or when you negotiate with end-users?

Greg Yull, Chief Executive Officer

Well it depends where the relationship held right, primarily we negotiating we are pushing through at the distribution level, as opposed to the end user-level but in this case its where we will be holding the relationship with the end users, we will be actively pursuing those kind of price changes.

Ben Jekic, GMP Securities

Ok, thanks.

Operator

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

Walter Spracklin, RBC Capital Markets

Thank you very much good morning everyone. My question is with regards to your Revenue growth forecast for 2018, if memory serves you were kind of guiding in the range of the more recent growth closer down to 10 or 11%, has something significantly changed in terms of your efforts to get pricing through her in the third and fourth quarter that resulted in that or is it more on the activation of the plant side or what would be the main cause in the changes in your Revenue guidance in 2018?

Jeff Crystal, Chief Financial Officer

Our revenue guidance hasn't actually changed we are at that 16 to 18% we have narrowed our guidance on the EBITDA, and that was mainly related to like Greg said some of the plant related issues we've been having certainly more pronounced than in the third quarter, that we expect a little bit of that in the fourth quarter as well so that is really the majority of the reason why that would be the case.

Walter Spracklin, RBC Capital Markets

Okay, I had no tier that you are guiding similar to 2017, but I probably missed the…

Greg Yull, Chief Executive Officer

That was before the Polyair acquisition. So we were advised that in August and we brought that up to 16 to 18. Just a factor in the Polyair acquisition.

Walter Spracklin, RBC Capital Markets

Okay, make sense. You also touched on your ability to get pricing through in terms of in terms of recouping some of the input cost increases are those any are you getting success in formal contractual building in your contracts or is this something you just simply renewing at a lot higher rate how do you get that pricing through and related, I guess you addressed this, your competition, do you feel that they're doing the same now or do you see any market share losses if they're not doing the same, if you are successful in passing it on?

Greg Yull, Chief Executive Officer

I can't really comment too much on the competitors, But certainly from our perspective most of our business from our pricing perspective is that well if you look at certainly what we have executed so far this year in the past years we were able to pass those cost on mostly from just a normalized price increase announcement, typically takes us about 60 days to get on the PNL, typically we have about 50 days' worth of inventory on in house, at the whole cost so the company has done a very good job of managing those kind of cost increase that we have experienced so far this year which includes by the way things like free cost.

Walter Spracklin, RBC Capital Markets

Okay, last question you touched on improving free cash flow that is going to come with a more lower capex so it's going to step down even further Greg, if you get down to the $15 million level, you mentioned that you're going to be very judicious with respect to acquisitions and Jeff you mentioned that you wanted to pay down debt, can you give us an extent to what, how much, what is your target leverage so how much of an incremental free cash flow will you attribute to that, and absent any Acquisitions is your plan just to keep your powder dry or could you see either a dividend increase or buy back down the road?

Greg Yull, Chief Executive Officer

When we look at 2019 our three key Focus areas are number one to ramp up our operations, specifically the two in India, the one in Midland expansion there, and also kind of work thru the operational opportunities with the existing assets base. Number two integrating our Polyair business realize the synergies, number three generate cash flow and pay down debt. We articulated that in a normalized environment, we want to run this business somewhere between two and two and a half time leveled, and we're going to focus on paying down our debts, as we move forward, certainly from an acquisition perspective, there are other opportunities, we will be very diligent and prudent in the way we look at those, but we are comfortable where we are right now as it relates to dividends, and just focusing on generational free cash flow to pay down debt at this point.

Walter Spracklin, RBC Capital Markets

Okay, once you get to the two and two and a half and an absent of any acquisitions, are you more apt to keep cash growing in anticipation of future Acquisitions, or could you revisit your dividend pay up policy?

Greg Yull, Chief Executive Officer

I think as we said we certainly have our goals in mind for 2022 and in order to get to those goals we most certainly can do a lot of way there with what we have but to get to those goals we talked about doing a couple more acquisitions, for us right now, certainly we planted the leverage over the next number of periods. And once we get there, we see opportunities to invest in Acquisitions like that, potentially other investment in the business, but I would say is that this point our plan is to really just pay down the debt, focus on that, have that dry powder available for those opportunities and go from there.

Walter Spracklin, RBC Capital Markets

Last question Greg you mentioned that you want to be judicious, you underlined that a couple of times, is that to indicate that the prices you are seeing right now are not attractive, is it simply a matter of there is no offers out there, and how do you see it trending, how's it's, it is improving from your perspective in terms of getting more realistic in terms of multiple required for transactions to get done, or are you seeing a lot more competition out there? That is keeping the price higher?

Greg Yull, Chief Executive Officer

We have certainly seen over the last little while multiples from a sellers perspective increase, we have seen multiples from a public company prospective decrease and that gap becomes broader so from our perspective we see that correcting overtime, I think it will because we don't think it is sustainable, where it is, and we are just going to be very prudent and diligent about the opportunities that we do take. From that perspective, because we do not want to take out these acquisitions.

Walter Spracklin, RBC Capital Markets

Ok, that is all my questions.

Operator

Our next question comes from Maggie McDougall, with Cormark, please proceed with your question,

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Maggie McDougall, Cormark

Good morning. I am wondering if you guys could give us a little bit of color now that you have got the Midland capacity extension expansion coming online, and if that were to sell well and then with Polyair also added what would the company exposure be to the e-commerce and market?

Jeff Crystal, Chief Financial Officer

We haven't disclosed. In terms of what the overall exposure, like we said in the past, what makes it difficult, it certainly add some visibility into pieces of our business, because we sell thru primarily to distribution and don't get point of sale data, it makes it difficult to know exactly where all of those products are going, but I would say is when we think about volume that we do know about, it is certainly growing at a highest rate, when we think about all our channels, it is becoming more significant but in terms of percentage of our business, it is not a huge percentage of our business. Just to give you an idea.

Maggie McDougall, Cormark

Okay, thank you. And, so, do you wanted to ask about it sort of circles back on the project of coming online, in India and in Midland as well, I would assume just because the Midland facilities currently sold out the IRR progression is going to look a lot different from the powerband and cap project in India. So that one sort of aside, the other two, I guess there are three packets that are high level to sink through from modeling in 2019 and it would be bring the lines into a production and then turn them on and then do hey work, and then sell the capacity, and maybe those two things happen concurrently and then working efficiently, so when you look at those to do's, are there any areas where you would want to say okay, Q1, Q2 let's be a little cautious here, with investors or investors should think cautiously in that time frame to allow us the time needed to get those things running, do you think it is going to be a bit more play by play, Supposing you guys have better color on that then you would just because you know the machinery . The training that is required to get things up and going?

Greg Yull, Chief Executive Officer

Yes so I mean I will let Jeff answer I'll get some feedback here but from my perspective is the guide right now is those two plants in India will be operational on the first half of next year, so impact on Q1, Q2, it is going to be pretty de minimus. As we move thru the year, then you should start see impact in Q3 and Q4.

Maggie McDougall, Cormark

Okay, and what do you anticipate in terms of selling the capacity? (inaudible) You are going to see a competitive push back on?

Jeff Crystal, Chief Financial Officer

Certainly has we said, number one we got like I mentioned earlier on one of the other questions we got based on both of those plants so certainly there is already sales that we have but we're just going to shift into being produced in both of those plants, so that's a piece of it, and then in terms of going and getting other shares, talking about on the Capstone side there is no question that we have been in a competitive disadvantage in that woven product for a number of years, we feel pretty confident that with the cost base in the relationship that we have we can go and get certainly that Market share back like the same thing on our tapes and phones and protective packages there is a lot of customers there that don't want to be single sourced, want a reliable good supplier so we shortly meet those criteria's. We are pretty confident in getting those sales, and then on the power band side, we talked about going in there, essentially we are at our capacity in North America, so we are certainly going to see growth just literally from the product line coming out of north America and also having that in India, the low cost level will give us to opportunity to potential venture to other markets like European market where we currently sell acrylic carbon sealing. We definitely see opportunity but again it's going to be a more gradual ramp.

Maggie McDougall, Cormark

Okay, so based on all the conversations on the call today around what's going to happen next year in India, turning these plants on, it sounds to me as though, correct me if this isn't accurate, seems to me as though you have fairly good visibility to break even when they become operational, simply, because it's got some base loading capacity in house that you are going to be moving over into the Indian facility, is that the correct way to think about this?

Greg Yull, Chief Executive Officer

Yes, we feel pretty good that we will be operating profitably on those plants and as I mentioned earlier in terms of the real start up in efficiency, and the word efficiency are usually in that commissioning process when you're really starting up the machines, calibrating everything, and those costs specifically capitalize so you will not see that slowing into the PNL that will be part of the capital cost, which shouldn't be significant, so by the time we are operating we should be operating on the profitable level.

Okay, thanks a lot. Just one final housekeeping question, I noticed that you guys started calculating an adjusted earnings per share this quarter which is not something you have done in the past, not an unusual thing for a company to do, I'm just curious as of why you decided to make that change today?

Greg Yull, Chief Executive Officer

Again you know, it feels like just in our EBITDA it certainly you see these kind of one-time fluctuations things that sort of skew the results, and really don't properly portray the underlying performance of the business, so we have a better idea of having a full penile view of an adjusted number that really better reflects the underlying performances just like our adjusted EBITDA does.

Maggie McDougall, Cormark

Okay, thanks a lot have a great day.

You too.

Operator

Mister Yull, there are no further questions at this time, turn to call back to you, please continue with your presentation and closing remarks.

Greg Yull, Chief Executive Officer

Thank you for participating in today's call, we look forward in updating you in the upcoming months, thank you very much.
