

## **CORPORATE PARTICIPANTS**

**Greg Yull**  
*Chief Executive Officer*

**Jeff Crystal**  
*Chief Financial Officer*

## **CONFERENCE CALL PARTICIPANTS**

**Walter Spracklin**  
*RBC Capital Markets*

**Michael Doumet**  
*Scotiabank*

**Neil Linsdell**  
*Industrial Alliance Securities*

**Zachary Evershed**  
*National Bank Financial*

**Ben Jekic**  
*GMP Securities*

**Maggie MacDougall**  
*Cormark Securities*

## **PRESENTATION**

### **Operator**

Ladies and gentlemen, thank you for standing by. Welcome to Intertape Polymer Group's First Quarter 2019 Conference Call and Webcast.

During the call, all participants will be in a listen-only mode. Afterwards, we will conduct a question-and-answer session. In order to maximize the efficiency of this event, the question period will be open to financial professionals only. At that time, those with questions should press star followed by the number one on their telephone keypad.

If at any time during the conference you need to reach an operator, please press star followed by zero.

Your speakers for today are Greg Yull, Chief Executive Officer, and Jeff Crystal, Chief Financial Officer.

I would like to caution all participants that in response to your questions and in our prepared remarks today we will be making forward-looking statements which reflect

management's beliefs and assumptions regarding future events based on the information available today. The company undertakes no duty to update this information, including its earnings outlook, even though its situation may change in the future. You are therefore cautioned to not place undue reliance on these forward-looking statements, as they are not a guarantee of future performance and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those expected.

An extensive list of these risks and uncertainties are identified in the company's annual report on Form 20-F for the year ended December 31, 2018 and subsequent statements and factors contained in the company's filings with the Canadian Securities Regulators and the US Securities and Exchange Commission.

During this call may also be referring to certain non-GAAP financial measures as defined under the SEC rules, including adjusted EBITDA, adjusted EBITDA margins, adjusted net earnings, adjusted earnings per share, secured net leverage ratio, total leverage ratio, and free cash flows. A reconciliation of the non-GAAP financial measures to the most directly comparable GAAP measures is available on our website at [www.itape.com](http://www.itape.com) and are included in its filings, including the MD&A filed today.

Please also note that variance ratio and percentage changes referred to during this call are based on unrounded numbers and all dollar amounts are in US dollars unless otherwise noted.

I would like to remind everyone that this conference is being recorded today, May 9, 2019, at ten o'clock 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 2019 first 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 good quarter. Revenue was up more than 17% and adjusted EBITDA increased almost 27% to \$38.3 million. We are building a business position as a global leader in packaging and protective solutions.

Our customers value scale, breadth of product offering, quality, service, and cost competitiveness. With this in mind, we have focused on strengthening our unique product bundle, expanding geographically and driving improvements in our operations. In the past two years we have invested in our world-class, low-cost assets and expanded our business through a series of acquisitions. That investment cycle is now winding down. Today we announced the completion of the commissioning of our new Capstone woven products facility in India. Earlier this year, we announced the completion of our second water-activated tape line at our Midland, North Carolina facility. Our third major capital project, the new Powerband greenfield tape facility in India, is expected to begin producing commercial tapes in the second quarter and complete its commissioning later this year.

Before I address the ramp up and optimization of these facilities, it's important to highlight how we got to this stage. In 2016 we made a decision to effectively double the rate of our CapEx investments in 2017 and 2018. You can see that on the chart on slide five. That cycle is now winding down with our CapEx in 2019 expected to be between \$45 million and \$55 million. We invested approximately \$18 million in the first quarter and we are on track to meet the \$45 million to \$55 million range at year end. Of that capital deployed in the past two years, approximately \$67 million was invested in the three major capital projects coming online this year, the second Midland line and the two greenfield facilities in India. That is capital that we are carrying on our balance sheet with no material contribution to income at this stage outside of the preliminary production from the second Midland line. We believe this sets us up in a great position to generate returns starting in the second half of 2019 and kicking in at a more robust level in 2020. With the capital deployed and the commissioning either complete, as in the case for Midland and the Indian woven products facility, or expected soon, as in the case of the Indian tapes facility, we are transitioning from a cycle of investment to a period of execution.

On slide six we've laid out our high-priority objectives. I'll address each of these individually, but from a high level. First is e-commerce. E-commerce is the highest growth vertical we service and our investments at Midland and the acquisition of Polyair significantly address this market. Second is the start-up, baseloading, and optimization of two new facilities in India. And third is the progress we're making on the integration of our recent acquisitions; specifically, Cantech, Polyair, and Maiweave. Executing on these three initiatives should generate improved profit margins and free cash flow. From a capital allocation perspective, our number one priority at this stage is paying down debt. We believe we will be in a position to improve our secured leverage ratio,

which currently stands at 1.9 times, through the end of 2019 and again in 2020.

On the e-commerce front, we expect the second water-activated tape line in Midland to address demand growth from our e-commerce accounts. At the time we commissioned the first line in Midland in 2017, our Menasha facility was running at or really above capacity. As a result, the first Midland line ramped up production quickly. Our second line, which is now fully operational and producing product, was an investment in future demand growth. As we grow with our e-commerce accounts, the second line will ensure we can service that demand.

At the two new Indian facilities we are baseloading production from within the business in these two facilities, but we anticipate the ramp-up will be different between the two. New facilities are not simple light switches. They do not turn on and operate at optimal levels immediately. Timelines vary by project but, generally speaking, on larger projects like our facilities in India, it can take up to 12 to 18 months to reach optimal efficiency. During this period and in parallel we will be also working to build our order book for each of the facilities.

We expect the woven products facility to ramp up more quickly than the tapes facility. Keep in mind, the main rationale for investing in India was price competitiveness based on lower cost raw materials, specifically polypropylene, which has generally been cheaper in Asia than in North America. The India capacity also provides us optionality, allowing us to produce where we can achieve the best cost base for select tapes and woven product lines by managing capacity levels between North America and India.

At the woven products facility, we are baseloading production with some of the higher volume, less complex materials that was previously sourced from high-cost suppliers in Asia. The more complex and specialized woven product lines will continue to be manufactured at our North American locations. With the acquisition of Maiweave, we are also able to baseload the woven facility with product that Maiweave was also procuring from third parties in Asia. This creates an immediate benefit to both Maiweave and the production ramp-up in India and should move the needle in terms of delivering synergies from the Maiweave acquisition. Maiweave has already begun using product produced in India with good results. We are ramping up production at the woven products facility and more product is in transit to North America. We expect contribution from that facility to be reported in our results in the second half of 2019 with very little contribution in the second quarter due to transit and inventory turnover timelines.

At our carton sealing tape facility in India, we anticipate producing commercial tapes in the second quarter. We are in the process of building our order book for production out of that facility and initial volumes will be primarily based on selling into the European market with some limited baseloading of volume transferred from the Cantech facilities. We anticipate full commissioning later this year once we have completed testing of all products planned for manufacturing at this facility. We expect the production ramp at the carton sealing tape facility to be more gradual than the woven products facility due to a longer time to commission all manufacturing activities, less baseloading opportunity, and a gradual ramping up of sales from the European market. And as a result, we expect to see more significant contributions from this facility in 2020.

The commissioning of the Powerband tape facility in India will represent the completion of our current strategic CapEx program. The \$67 million we invested in these three major projects is on track to come in line in the range of our allocated budget, which we believe is a great outcome given the complexity of the assets and the construction and commissioning process.

The final priority from an execution perspective is our integration process at our recent acquisitions. We believe the acquisitions we made will be important contributors to the growth targets we outlined for 2022 of \$1.5 billion in revenue, \$225 million in adjusted EBITDA, and 15% plus adjusted EBITDA margin. Specifically, on the last point of adjusted EBITDA margin, each of the three recent acquisitions were running at adjusted EBITDA margins below IPG margins, with Polyair and Maiweave at approximately 10% and Cantech at approximately 12%. As a result, in the short term, these acquisitions have been dilutive to our overall adjusted EBITDA margin. In making these acquisitions, we believe our scale and our operations expertise should enable us to improve the margin profile of our acquisitions to our IPG standard through cost improvements and cost selling opportunities. The successful integration of these acquisitions is a high priority for senior management and process is proceeding substantially as planned.

Last month we informed our team members at the Cantech facility in Montreal that we will be closing the facility at the end of 2019. We expect to achieve \$1 million to \$1.5 million in annual cost savings based on that decision. These cost savings were included in our original synergy estimate so they do not increase the total synergies expected. We expect to achieve overall cost savings from Cantech of between \$3.5 million to \$6 million. We are confident in our ability to achieve that target by the latter part of this year on a run rate basis. We believe the Cantech acquisition is representative of our capabilities to successfully integrate consolidation

targets that service a similar customer base with a comparable product offering.

It is the same case at Maiweave. They manufacture woven products similar to our offering but have a strong footprint and customer base in the southeast United States, which was a region where we had little presence. They had strong relationships in the building construction market. As I mentioned earlier, our ability to backward integrate their production into the new woven products facility in India, which they were procuring from a third-party prior to the acquisition, positions us to deliver meaningful synergies.

At Polyair, our integration is proceeding as planned. We are seeing significant achievements in our cost synergy initiatives, including operations at the facilities. We expect our cross-selling opportunities to grow over time. Overall, we're confident in how the integration is progressing.

On the operational efficiency front, our plants continue to perform very well. The changes in the roles and responsibilities of some of the team that I addressed at our year-end call have certainly played a role, but it's clear from what we are seeing that this is a true team effort and it's having a positive impact on our business.

As a recap, our team is clear on the priorities for the remainder of 2019. Number one, build our order book and ramp production of our three new facilities; number two, continue to execute on the integration of our recent acquisitions, building their adjusted EBITDA margin profile to our IPG standard; and number three, use the flexibility we have with the completion of the significant CapEx program and resulting free cash flow position to pay down debt.

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

---

**Jeff Crystal, Chief Financial Officer**

Thank you, Greg.

On page 10 of the presentation we present an analysis of our revenue for the first quarter. Revenue increased more than 17% to \$277.8 million compared to the same period in 2018. The \$40.6 million increase was primarily due to the Polyair, Maiweave, and Airtrax acquisition as well as a benefit from higher selling prices. These improvements were partially offset by an unfavourable foreign exchange impact of 1% and volume and mix effects, which were one half of 1%.

Volume and mix were negatively impacted by decline in a retail product mine and timing of orders, such as the price

increase we announced in the first quarter of 2018, which mobilized buying in that same quarter prior to it being implemented. However, despite some of those headwinds in the quarter, we are pleased that we are seeing above average volume and mix growth in water-activated tape, certain carton sealing tapes, woven products, and films, which are each product categories that are directly related to our strategic CapEx and M&A initiatives.

For 2019 forward we have modified our reporting of organic growth, reporting price and foreign exchange separately and reporting volume combined with mix. We believe this method provides investors with a more representative view of our true organic revenue growth than our previous reporting practice, which consisted of separating volume on its own and then price combined with mix. This new practice assists in multiple ways.

One, by reporting price individually, it provides a better read through on the major driver of price, movements in raw material input, which is dependent to the levers we control on organic growth. We managed our spread between the input costs and our sell price, which is critical, so with this new reporting format, when there is volatility in raw material input, the effect on revenue can be more visible. It also eliminates the potential for higher or lower volumes of a product with lower average sales price to disproportionately impact our reported volume growth. Under the old reporting, all volume was treated as equal, when it's not. The units are different, metres squared or pounds, and the price points can be vastly different. A great example is our acrylic carton sealing tapes, which continue to grow in volume but are a lower price and under the old practice resulted in an outsized benefit to the reported volume and a drag on our price mix metric. By reporting volume and mix together, we achieve a more transparent view of the impact of a product category with either a higher or lower price point on our organic growth. Lastly, separating foreign exchange, although normally not very significant to us, improves that transparency as well. We appreciate investors are looking for greater transparency on organic growth given the impact of our acquisitions and we believe this new reporting method is a better representation of our actual production on that front.

Turning to page 11, gross margin was 20.8% in the first quarter compared to 21.3% in the same period in 2018. The change was primarily due to the dilutive impact of the acquisitions that Greg mentioned earlier, specifically Polyair and Maiweave, as well as the unfavourable product mix, including higher volumes of certain tapes that are lower on the spectrum than our overall tapes margin, like acrylic tape. The unfavourable impact of these items was partially offset by an increase in the

spread between selling prices and combined raw material and freight costs.

Adjusted EBITDA increased by 26.7% to \$38.3 million in the first quarter compared to the same period in 2018. The improvement in the quarterly period was primarily due to the Polyair and Maiweave acquisitions, organic growth in gross profit, and the favourable impact of operating lease payments totalling \$1.7 million that were capitalized in the first quarter of 2019 in accordance with new lease accounting guidance implemented on January 1, 2019.

The effective tax rate was 27.9% for the first quarter compared to 21.6% in the same period in 2018. The change is primarily due to the elimination of certain tax benefits as a result of the US Tax Cuts and Jobs Act related to inter-company debt as well as an unfavourable change in the mix of earnings between jurisdictions.

Cash flows from operating activities improved by \$1.6 million to an outflow of \$18.5 million in the first quarter compared to an outflow of \$20.1 million in the same period in 2018. As a reminder, our business has a natural seasonality as we build inventory in the first half of the year in advance of both the higher volume third and fourth quarter periods from a retail activity perspective as well as our planned factory maintenance schedule, which occurs primarily at mid-year. In the fourth quarter that build unravels with the seasonal nature of higher retail activity.

Free cash flows improved by \$2.2 million to negative \$36.3 million in the first quarter compared to negative \$38.5 million in the same period of 2018. The improvement was primarily due to the decrease in capital expenditures, which Greg referenced earlier, as our strategic CapEx program winds down, and an increase in our cash flows from operating activities. Also included in free cash flow in the first quarter of 2019 was the favourable impact of operating lease payments totalling \$1.7 million that are now presented in cash flows from financing activities in accordance with new lease accounting guidance implemented on January 1, 2019.

Our unsecured senior note offering in late 2018 enabled us to lower our secured leverage ratio, which now stands at 1.9 times. The secured leverage ratio was the most important ratio that is relevant to our banking covenants; therefore, we view it as the highest priority. Our total leverage ratio, including the unsecured debt, is 3.5 times. These ratios move higher in the quarter based on the normal working capital seasonality of our business I just referenced. And that impact will naturally unwind in the second half of the year.

As Greg mentioned earlier, our highest priority for capital allocation at this stage is debt repayment. We expect to see a significant reduction in capital expenditures in 2019 to a range of approximately \$45 million to \$55 million. As you can see on slide 13, we expect this to significantly improve our ability to generate free cash flow compared to 2017 and 2018 and we intend to prioritize a portion of that cash toward the repayment of debt, which would further lower our leverage ratio.

The company had cash and loan availability of \$338.8 million as of March 31, 2019 compared to \$393.9 million as of December 31, 2018.

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

---

**Greg Yull, Chief Executive Officer**

Thanks, Jeff.

With this morning's earning report we are reconfirming our outlook for 2019 revenue and adjusted EBITDA. Based on our first quarter results, we remain on track to achieve our targeted 2019 revenue, which we believe will be between \$1.18 billion and \$1.22 billion, representing growth of 14%, at the midpoint of the range. We're also on track to achieve our targeted 2019 adjusted EBITDA, which we believe will be between \$164 million and \$174 million.

One question that we hear from investors is our exposure to the ongoing trade war with China. We have extremely low exposure to China as it relates to sales and input. The only exposure worth noting, although not significant on our consolidated results, is that we have historically been procuring third-party woven product from China. However, with Capstone coming online, we have essentially eliminated our exposure to existing and future US tariffs on China, which, based on the current political climate, is great timing from our perspective.

In closing, we continue to execute on our vision to be a global leader in packaging and protective solutions. We are investing in our world-class, low-cost asset base and driving efficiencies in the business. We have strengthened our unique product bundle and improved our competitive position. We are executing a strategy to deliver long-term value for our shareholders.

I have two final initiatives that I wanted to share. As a matter of our day-to-day business, we are in constant contact with our customers, both distributors and end users, in pursuit of feedback, trends, and future demand. As part of this process, during the course of the past year, we've increased our data collection on sustainability. We are planning on issuing our first

sustainability report next month, which is an area of increasing interest when we meet with investors. We have long recognized the importance of sustainability to our customers and in the ability to run an efficient operation. As an example, we've actively worked to implement-solvent free technologies, reduce emissions, optimize energy usage, and recover and recycle manufacturing waste at our facilities. For example, we've been an EPA ENERGY STAR Sustained Excellence Award winner for 10 consecutive years. In this sense, we have been conducting our business with the firm view of sustainability. So the goal of our first report is to highlight and improve our reporting practice in this area. I'd encourage you to read it next month, once it's published, as we are very proud of what we have accomplished to date and our path forward in regards to sustainability.

On May 22<sup>nd</sup> we will be holding an Investor Day at our facility in Midland, North Carolina for research analysts and institutional investors. We'll be addressing our process and framework for capital projects and acquisition integrations as we will also have invited several customers to address how we work with them to deliver value. The event will be webcast live and available on our website so everyone that is interested can listen.

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

---

**QUESTION AND ANSWER SESSION**

**Operator**

Thank you. Ladies and gentlemen, we will now conduct the question-and-answer period for analysts. If analysts would like to register a question, please press star followed by the number one on your telephone keypad. You will hear a two-tone prompt to acknowledge your request. If your question has been answered and you 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.

Your first question comes from the line of Walter Spracklin from RBC Capital Markets. Please proceed with your question.

---

**Walter Spracklin, RBC Capital Markets**

Thanks very much. Good morning, everyone. So I'd like to focus first on your revenue guidance and the quarter trend, it looks like your, call it, organic ex-M&A was fairly flattish. Just curious if you see this now reversing going

forward to hit that target or can you look at flat organic and still, well, I guess it will be a bit more difficult to hit that target range if we're looking at flat through the year. Just curious as to what was going on to keep the organic flat speaking either to volume price or mix.

---

**Jeff Crystal, Chief Financial Officer**

Yeah, I mean we still feel very confident with our revenue range, just on that point, so we don't feel like this quarter was somewhat of a problem there from that perspective. And then we think about the growth going forward, as we mentioned, a couple of the headwind in this specific quarter. There was a specific retail product line that was somewhat of a higher volume in Q1 of last year and lower this year, and that's something that, you know, it was a tough comp, I guess, from a last year perspective and not so much through the balance of the remainder of the year. And the other thing is we mentioned that order timing. That really played a factor in some of our carton sealing tapes where we had price increases, as we discussed last year, related input costs that drove some pre-buying from our customers into that first quarter of last year, and so we feel that that also is something somewhat of a one-time nature when you think of a growth rate. So we still feel pretty good about the rest of the year.

---

**Walter Spracklin, RBC Capital Markets**

Okay, that makes sense. Appreciate that clarity. In terms of optimization, I know, Greg, you mentioned 12 to 18 months on some of the more greenfield operations. So this dilution then you would expect, the dilution we saw on the gross margin in the first quarter, to probably continue for the next couple of quarters before we start to see it start to move up? Or should the first quarter be the low watermark and while 12 to 18 months is what it takes to get to full run rate we should still see sequential margin improvement or year-over-year margin improvement as we go through the remainder of the year?

---

**Greg Yull, Chief Executive Officer**

Yes. So, at a very high level, there are lot of initiatives or catalysts within that margin line above and beyond what's happening in India. When we talk about that margin line, we talk about the acquisitions that we purchased and working through some of the cost saving initiatives and the cross-selling opportunities within that, that certainly will have an effect on that. And when we talk about the ramp up and getting to optimal levels within 12 to 18 months, you're talking about, in some cases, of working yields from, let's say, a 95% yield to a 98% yield. I mean

it's not, in some cases it's not a huge move, but certainly it has a material impact. So I would expect, as we move through the year, with what we know right now, that we should see margin move positively as we move through the year.

---

**Walter Spracklin, RBC Capital Markets**

Okay. That's helpful. And then the last question I have is on M&A and kind of where you're centering your attention. With Polyair, obviously you refocused a little or you focused a bit more on the e-commerce. Should we expect future acquisitions to have that as a focus? And if so, how far off your current kind of core competency are you willing to go to capture e-commerce growth but still keep it within your wheelhouse of competency? Just getting a general sense, you know, if you could also provide the overall climate for M&A in the current context as well.

---

**Greg Yull, Chief Executive Officer**

So, as we mentioned in the last couple of quarters, I mean certainly we've seen on the sell side, the multiples and the valuations the company has increase, and we've articulated that from that perspective we're not going to chase anything. Certainly, when we think of M&A right now, we're mostly interested in kind of those bolt-on M&A opportunities.

And I would say as it relates to far afield, we're very cognizant of our channel and very cognizant of staying within our channel as we look at broadening product offerings, and very cognizant of staying within our product lines per se. The protective packaging entry was a logical place for us to end up, a lot of similarities in the channel, a lot of similarities in some cases in the manufacturing process, raw material process, and certainly on the customer-facing side, so that made a lot of sense. Certainly in our tapes category there are areas that we could expand in there that would make a lot of sense. But we are, as a management team, very focused as it relates to making sure that we stay within our core competencies or within our core channel areas and not get very far afield from our DNA.

---

**Walter Spracklin, RBC Capital Markets**

So, if you want to keep in the core and, as you mentioned, the prices go up significantly and you're not going to chase, obviously your debt level will come down to a level where it's below your thresholds or your run rate. What would be your preference absent any acquisition opportunities? Would it just be to just keep

going into it lower and lower net debt levels or would you consider and which would you prioritize between a buyback and increased dividend?

---

**Jeff Crystal, Chief Financial Officer**

I mean, as we said, our focus right now is to pay down debt, generate free cash flow, pay down debt, and as we move out into latter years, I mean we'll will have the opportunity potentially to make that decision and that will be based on kind of what we know at that time. It's hard to speculate right now between a buyback and a dividend, if those are the two choices. Certainly, from my perspective, I'd like to invest in the business. But certainly, as we move forward and de-lever the company and get to a more normalized kind of debt level total, in a total perspective, those become options that the company can look at.

---

**Walter Spracklin, RBC Capital Markets**

Okay. That's all my questions. Thank you very much.

---

**Operator**

Your next question comes from the line of Michael Doumet with Scotiabank. Please proceed with your question.

---

**Michael Doumet, Scotiabank**

Hey. Good morning, guys. I'll start with a quick one. Just the favourable impact to revenue from pricing, that was a positive. Just given the cost environment, what should we expect for the remainder of the year?

---

**Jeff Crystal, Chief Financial Officer**

I mean we haven't given guidance on that, so what I would say is that certainly we have put price increases in place, as you know, really to input costs. And again, a lot of this has to do with what do input costs do through the rest of the year. I mean, certainly we're in more of a stable environment this year than we were last year, so let's assume it's stable. You certainly have a pickup from last year. But again, like we've discussed in the past, with input costs have come off at the end of the year a little bit, there's certainly a little more pressure when you look at areas like films where you've got more transparency, as we've discussed in the past, where a customer sees, hey, I'm buying a certain amount of film per pound and I

see that polyethylene has gone down per pound, so there is little more pressure there on price, whereas in the tape market it's a little harder to make that determination. So, again, I can't give you exact guidance on that, but I can certainly say that we've had some tailwind from last year's price increases but there might be some headwinds in some of the areas like film.

---

**Michael Doumet, Scotiabank**

Okay. No, that's good colour. And maybe just to get a little granular here, bear with me, if you take the adjusted EBITDA that you reported this quarter and you subtract, call it, the IFRS 16 contribution and the, you know, an estimate from what your acquisitions contributed based on the margin guidance that you just talked about, I calculate EBITDA growth of about \$2 million on an organic basis. That's 6% year over year despite the organic growth on the top line being relatively flat. So it looks like there was a margin pickup, call it, on the base business based on that quick math. Any way you can maybe break that out for us if it's, call it, a price cost capture or if there's just efficiencies that you're seeing in the base business?

---

**Greg Yull, Chief Executive Officer**

I think the two areas that I would focus on, I don't have the exact number for sure, but I would say material spread to revenue. So that spread analysis between selling price and material cost. And certainly our plants. I want to just emphasize again our plants are performing well and that had a material impact as well on the quarter.

---

**Michael Doumet, Scotiabank**

Okay. I'll leave it there, guys. Thanks. Good quarter.

---

**Operator**

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

---

**Neil Linsdell, Industrial Alliance Securities**

Hey. Good morning, guys. Just on the priority to pay down the debt, do you have a target leverage ratio that you'd like to get in or the percentage of free cash flow that we should expect to go directly into debt repayment?

**Greg Yull, Chief Executive Officer**

First I think it's important to say we're comfortable where we are right now with our total leverage and with our secured leverage. We've articulated before that, in a normalized state, we're comfortable operating this business or we want to operate this business somewhere around 2.5 times total leverage. So that's where we would see ourselves getting to if nothing else happened as it relates to opportunities to invest. But again, we're comfortable where we are right now. We can operate well. We've structured the capital in a very flexible position with the secured and the non-secured facility.

**Neil Linsdell, Industrial Alliance Securities**

Okay. Perfect. And just as we're talking about the ramp-up as we get everything up to full capacity in India. Previously, you can have problems with optimizing production lines of that. Any kind of learnings you can share from previous ramp-ups to the staffing that you have now in India that gives you more confidence that you're going to continue on with something—it looks like it's gone extremely well so far, on budget, on plan; any concern or additional confidence you can give us in it continuing that way?

**Greg Yull, Chief Executive Officer**

I think from a colour perspective, I mean just a back up, we instituted a business transformation office in this company approximately three years ago to help us with major projects like this. It was the skill set that we did not have in the company. And they also help us with integration process of acquisitions. And I think we've matured significantly as a company as it relates to developing the plan and working the plan on a go-forward basis.

The other kind of comment that I would make is the technology that we're utilizing in the Indian facilities is technology that we, as a company, have been utilizing for anywhere between 30 years to almost 40 years. Certainly they're upgraded, they're faster equipment, more sophisticated equipment, but the principal technology is the same that we're utilizing in those cases. We are still in a start-up mode. We'll have a fair amount of employees. We had a lot of cross training happening between employees visiting North America into some of our facilities here spending a training period here with equipment, with processes here, before we started up there. So I'm confident on the path forward here and, as we said last quarter, we were there, Jeff and I were there in the first quarter and were duly impressed with our

management teams that are in place and that the operations that are in place.

**Neil Linsdell, Industrial Alliance Securities**

Okay. Any comment on the number of employees that you have in those facilities or any problems getting the required staff?

**Jeff Crystal, Chief Financial Officer**

No, no problems. I mean we have probably close to 200 people in our tapes facility in Powerband. That's the old one. The new one is still ramping up, so that will ultimately end up somewhat less than that to start and we'll ramp up over time. And then you have the woven facility. That new facility will probably house about 300 people when all is said and done.

**Neil Linsdell, Industrial Alliance Securities**

All right, great. And just lastly, you've talked about your bundling strategy before and, you know, owning the packing table type thing. Have you achieved everything that you think you can out of that or is there more benefit to squeeze out?

**Greg Yull, Chief Executive Officer**

No, I think there's a lot more to squeeze out. I mean, as we discuss all the time with the Polyair acquisition, right, and that happened in August of last year, I mean we're less than a year into that. And in that acquisition we also introduced some significant new products as it relates to system selling, whether that's bubble on-demand, paper void fill, and a new air pillow machine. So we have new systems and new products that we're selling in that, so I would say that we're early in that initiative.

**Neil Linsdell, Industrial Alliance Securities**

Okay, great. Thanks. That's it for me.

**Operator**

Your next question comes from the line of Zachary Evershed with National Bank Financial. Please proceed with your question.



**Zachary Evershed, National Bank Financial**

Good morning. Hoping you could provide an update on the Utah shrink film projects timeline and budget.

---

**Jeff Crystal, Chief Financial Officer**

So that's basically online. Again, a smaller project, but ramping up as well, you know, working through the start-up phases of that project. It came in on budget. I don't have the exact number but it was somewhere in the \$9 million range or so, \$10 million. So that's proceeding on plan.

---

**Zachary Evershed, National Bank Financial**

Excellent. Thank you. And the Powerband greenfield manufacturing facility, the equipment modification costs, I was wondering if you could give us a little bit more colour on that and why that came up.

---

**Jeff Crystal, Chief Financial Officer**

Yeah, so that's just the matter of tweaking things to make sure that we could fit our line into that footprint. So there were some modifications that were made because of the footprint of the property versus the way we have it set up in North America. In Danville, Virginia, that's our hot melt coating line is today, just the setup is a little different so they had to make some modifications to the equipment to essentially fit within the footprint in the hedge facility.

---

**Zachary Evershed, National Bank Financial**

Thank you very much. That's helpful. I'll turn it over.

---

**Operator**

Your next question comes from the line of Ben Jekic from GMP Securities. please proceed with your question.

---

**Ben Jekic, GMP Securities**

Good morning. Good quarter, guys. Just a modelling question for me, and apologies if I missed it: What was IFRS 16 contribution to net debt or total assets and the contribution to EBITDA if we compare it to first quarter of 2018?

**Jeff Crystal, Chief Financial Officer**

There is actually a note in the financial statements, I think it's Note 2, that should give you a pretty good overview. But basically you're talking about, let's see here, about \$30 million of the assets and lease liabilities, you can see there, about \$36 million at the end of March. But if you look at Note 2 of the financial statements you'll find a good description of essentially all the impacts of the new lease accounting. And on EBITDA we basically saw an additional pickup of \$1.7 million, as we've stated before. And that's just because basically you're converting the rent expense in depreciation and interest. That's basically what's happening.

---

**Ben Jekic, GMP Securities**

Perfect. Thank you very much. That's it for me.

---

**Operator**

Once again, if analysts would like to register a question, please press star followed by the number one on your telephone keypad.

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

---

**Maggie MacDougall, Cormark Securities**

Wondering if you could walk through the sales process that you're looking ahead at to build the sales books for the Indian facilities, both the carton sealing and the woven?

---

**Greg Yull, Chief Executive Officer**

Yeah, so, it's not all that (inaudible). I mean basically in the woven side we've gone into market, and we made comments on this before, where we've pre-sold some products that we will move over to or have moved over to Capstone. So we have gone back and recaptured share that we've lost in the woven product area over the last four or five years and taken it at minimal margin as we move it into our Indian operation. So that has been a pretty focused effort in that area.

Certainly on the tape side, very similar. We've got targeted customers, certainly in Europe we have customers that we have relationships with there that buy product from our other Indian operations and we are

soliciting them. So we have quite a few samples right now in place in Europe where the customers are sampling the product and our sales force will engage with the customers and go through the sales cycle on that. So that's at the early stages on the tape side, more advanced, as we said on the woven side, definitely.

---

**Maggie MacDougall, Cormark Securities**

Okay. And the sales cycle on the tape side, is that fairly similar to the rest of your business or is it shorter or longer?

---

**Greg Yull, Chief Executive Officer**

It's very similar to the rest of our business.

---

**Maggie MacDougall, Cormark Securities**

Okay. And then just a point of clarification: When you speak about the process taking about 12 to 18 months to reach optimal levels, are you talking about basically getting those facilities to a point where they're at or better than breakeven? Or are you more or so talking about optimizing the equipment such that the production as is efficient as it can be?

---

**Greg Yull, Chief Executive Officer**

The latter, getting the equipment as efficient as it can be. As we called out, we expect to have a financial impact in the second half of 2019 from the woven facility in India and then from a tape facility, we expect that at the beginning of 2020.

---

**Maggie MacDougall, Cormark Securities**

Okay. One final question: Looking ahead at how your P&L may go once you've got both of those facilities commercialized and you're building the sales book, will there be any shift in OpEx resulting from that, either positive or negative, knowing that you've got teams in place to build them out but then also you're likely undertaking a sales effort?

---

**Jeff Crystal, Chief Financial Officer**

I mean there's some build out. I mean we have some limited sales resources that we've hired in the tape side. It's very limited. Because when we think of mostly what

they're doing, so today, when we think of the tape side, they're mostly trying to sell, as Greg said, through channels that they already have. So it's relationships we already have in India through the current team that's in the Powerband business and then selling through our North American team over here in the tape side in North America. So there are no additional resources required there. And then on the woven side, essentially the idea there is also that they're not a sales force, so essentially what they're doing is they do have a small domestic business, which they are supporting with the people they have, and then really all they're doing other than that is being a supplier to us in North America through our sales force. So really, from an OpEx perspective, if you think like SG&A type of thing, there's some limited addition, but not very much.

---

**Maggie MacDougall, Cormark Securities**

Okay, thanks. Sorry, one final question. I'm just curious if you could characterize what would be a reasonable timeline to achieve your 15% ROIC target on the new water-activated tape line and the two Indian facilities?

---

**Greg Yull, Chief Executive Officer**

I mean look, normally, as we've said, I mean we talk about the ramp-up of these plants and then the ramp-up of the sales, and again, it's somewhat different depending on which one you're looking at. But overall, it's obviously at discounted value and you look at it over the full ramp up and then the ramp up of the sales, you're probably talking about a couple of years to realize, you know, to really be at that run rate, on a discounted basis.

---

**Maggie MacDougall, Cormark Securities**

Okay. Thanks a lot. Appreciate you taking my questions.

---

**Operator**

Mr. Yull, there are no further questions at this time. I'll now turn the call back to you. Please continue with your presentation or closing remarks.

---

**Greg Yull, Chief Executive Officer**

Thank you for participating in today's call. We look forward to speaking with you again following the release of our second quarter 2019 results in August. Thank you.

**Operator**

Please note that a replay of this call can be accessed as of one o'clock p.m. today Eastern Time at 855-859-2056.

---