Intertape Polymer Group Investor Day
Midland, North Carolina facility
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Presenters:

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Gregory Yull, President and CEO, Intertape Polymer Group (IPG): Okay, good morning, everyone. For those of you that are here on site, welcome to Intertape's Investor Day on our--in our Midland, North Carolina facility. Welcome to those of you that are joining us via webcast as well. It's great to have you here. You know, we're in a facility that started up in Q4 of 2017. We're very proud of this facility. And for those of you here, we'll be lucky enough to do a tour of this facility.

Just to refresh everyone's memory, this facility Phase 1 cost us approximately $48 million. It was a greenfield. And we just implemented or executed on Phase 2 of this facility, basically doubling the capacity of this facility for $15 million.

So, when you think of the leverage on Phase 2, it's pretty significant.

A couple stats. We employ 70 people here. That's it. You think of labor costs here--less than 2 percent of our revenue dollar. So, when you think of--when we talk about world-class, low-cost assets, this is one of the ones that we definitely align to that strategy as we move forward.

This plant ships to three continents, ships to--ships obviously to North America, it ships to Europe, and it also ships to Asia, and it follows our customers in the e-commerce side to those locations. So, it's a very efficient facility. And we are very proud of it, again, and we're very proud of the people that work here, both from a leadership perspective and on the floor--world-class without question, you know.

And it's important to just talk about--you know, we have a very differentiated approach with our customers. We talk a lot about the bundle. You know, today you'll have the opportunity to hear from two of our customers talk about why--what they see in the industry, why we're an important vendor to them, how they feel about our bundle approach.

There are four key areas for the agenda today, and these are going to be the areas that we're going to focus on. Number one is M&A, and our integration of M&A, our process around M&A. We have built up a lot of capabilities in this company as we have evolved over the last three to five years. And today, we're going to talk about those capabilities--the leadership of some of those initiatives--and it should be insightful.

So number one is M&A. Number two, we're going to talk about how we operate our facilities. Again, facilities need process, and they need repetitivity to them. And we're going to talk about how we operate these plants, how we get employee engagement, and how we deliver consistent results out of our plants.

Number three, we're going to talk about CapEx, specifically around our major CapEx project--how we manage the process, the cadence, the rigor, the metrics around that. And again, this is all capabilities that, when I look back five years ago, the company did not have, okay? And this is learned capabilities that we brought into the company and made part of our DNA. So, we're going to spend time talking about that.

And last but not least, it's focused around two of our customers that will give you a perspective of the industry we participate in, what changes they have seen in the past, what changes they foresee in the future, and the relationship with us and some other vendors.

You know, at the end of the day, the goal here is to give comfort to our investors, to our shareholders, that we are good stewards of capital, and we're making good decisions, and that we can manage larger deals, larger CapEx projects, and deliver on increased cash flow.

Again, there's a couple key things that you're going to hear a lot of today--process, cadence, metrics, okay, and that is embedded in our DNA. And we think about M&A. You know, we're buying companies that have different cultures, right? This is part of the rigor that we need to bring into those companies and we're bringing into those companies around those three key areas.

And this is something that is a commitment from the company as it relates to--on a go-forward basis. This is not a fly-by-night. This is an every day, every shift--and Dave Bennett will be talking about some of the management around that as it relates to getting a high degree of employee engagement. At the end of the day, that's what you need. We need 3,600 people going the same way, right, and they need to understand what their role is in getting that alignment.

So, that's the overview of the day. We're going to start with a presentation around the M&A side. Jai is going to be presenting to you where we are, where we've been, and where we're going and some of the tools that we use.

But, just to give you a little background on Jai--graduated Master's of Engineering from University of Texas. Jai led Operational Excellence at Dell across multiple facilities, drove the Lean Transformation, Six Sigma Black Belt Continuous Improvement Champion, coached over 50 executive leaders. And I would count myself as one of them. He has been very instrumental in my personal learnings around Lean, Continuous Improvement, so it's been very beneficial for me.

He led the Business Strategy and Development and Governance Model at Dell for a $30 billion commercial sales organization. He led the Acquisition Integration Playbook at Dell. They did 25 deals totaling $12 million in organic investments. So--he is currently leading our Business Transformation Office. He has been for the last four years.

He's responsible for driving organic capital investments, so all of our large projects run through his group. So, that would be our facilities in India, that would be this facility, that would be some of our larger capital projects--you know, stretch lines going into Danville, things of that nature. And he is very--he is tied in--100 percent into the integration of our M&A.

So with that said, I'm going to pass it over to Jai, and he is going to walk you through, you know, a presentation that articulates specifically around the M&A side for now.

Jai Sundararam, VP of Business Office Transformation, IPG: Thank you, Greg, for the wonderful introduction. And thanks for being a great student. So, let me start off here. Why does the Business Transformation Office exist? Who are we and what we do and how we go about helping the company transform?

As you all know, shareholder value is created when strategy and execution align. Typically, the execution is the missing link between aspiration and delivering results. When IPG set out out the bold agenda of doubling the revenue to $1.5 billion in five to seven years and hitting a $225 million EBITDA market--target, the key here was like its recognition that we need to focus on execution in delivering the results.

The formation of the Business Transformation Office is the beginning of it. In the past, it was a loose configuration of project engineers running capital projects on top of their daily jobs. That you could do if you are doing one-off projects. But, if you are systematically changing it, transforming, and deploying your $250 million in CapEx over the last four years--and probably $350 million-plus in organic investments--we know that we need to set aside a framework and an office to go and manage that.

So, that's what this group is doing. So, I've got three different areas. One is around the acquisition integration. What we have here is like a team of--a couple of project, I would say, acquisition integration leads who are responsible for cross-functional governance, setting up the process, and working with all the functional leads in delivering on the business case.

And then, on the capital engineering--or the capital projects corporate engineering team--we've got a group of teams that we will talk about as part of the CapEx process. So, the goal here is to develop an end-to-end thinking, disciplined execution, and relentless focus on process improvement.

So, we'll talk about the acquisition approach. So, let me start off with the results. Where are we now? We did seven acquisitions in the last four years. Here's where we are trending. We are in the middle of it, as you can see, but we are on track--or exceeding--target on the acquisitions from an integration standpoint.

Considering the industry statistic that 70 percent of the acquisitions fail to maintain or realize their synergy targets, I would say we're doing something good here. And what we want to share is like--we are in the middle, so I'll talk about the Better Packages and Tear Tape results.

So, we've achieved post-synergy multiples in over three to four times our purchase price in two to three years of integration. What I also want to highlight is the strategic alignment on the acquisitions. These are aligned with our strategic pillars that we outlined on how we are going to transform.

So, if you think about the product bundle, our portfolio is now much richer and better, thanks to the acquisition strategy again aligned with the strategic intention. And then, if you think about the geographical expansion, we now have a low-cost manufacturing beachhead in low-cost locations like India. It is--acquisitions are tied to the strategy of the company.

Now--so, how do we go about delivering these results? We established overarching integration principles. There is no one size that fits all. It has to be customized for the different acquisitions that we buy in, be it on the consolidation side or on a cross-selling perspective. And we have to unpack the value that the acquisition brings to the table.

So, for example, when we acquired Better Packages, we found that their engineering team was solid, and they had a very good reputation in the market on the reliability of their machines.

So, what did we do? We reverse integrated our systems process into their company--so made them as the lead champion on the systems engineering side.

And what was the result of that? We achieved--accelerated our returns and also on the multiples of what we had hoped to achieved with the synergy targets.

The other one I want to say is like it's about preserving the value drivers and investing and growing them. For each acquisition that we buy in, we know there are certain investments we have to make to grow and harvest the talent and also the capabilities that they bring to the table.

We have a very disciplined integration approach. I think the key here is like--if I were to highlight, it's focused on value driver integration or planning. This process starts during the diligence phase.

One thing I would call out that's different that we do with respect to the overall process is the deal team and the integration team are attached at the hip, even at the diligence phase. Typically, what happens is like your diligence team does their diligence--and then throw it over the wall and then good luck, integration guys.

Usually we have to raise the (unintelligible) because we don't know what happened. But, that's not the case. That's not how we do it here. So, we're attached at the hip. We identify the value drivers, work through the process, and we track it through the execution for three years.

I'll go into the capability building process over the three domains. This is critical for us to understand. So, if we are doing a programmatic approach, we need to be able to build competency across the organization.

M&A is one of those areas where integrations fail because it's death by a thousand cuts (SP). You've got a lot of things going on across the organization. And every function has to play a role--IT, finance, HR.

So, how do we go about building capabilities? Let me talk about on the people side. As Greg pointed out, so we've got the executive buy-in and commitment to invest in resources to go about executing on these acquisitions. So first and foremost, you say like we have 5 dedicated resources and 25-plus semi-dedicated resources across the functions.

So, all the dedicated resources--of course, in my Business Transformation Office, we have the project leads, integration leads who lead. But also on the IT side, if you think about--it's a big change. You've got to systems integrate based on our strategy--and also on the finance side because the way the costing works is different than how it is done.

And if you are accelerating the value of the deal, we need to make sure that we are able to invest in the right resources and available to execute on these acquisitions.

Now, let me go and walk you through the process steps on how we go about creating a repeatable outcome from and M&A playbooks and process perspective. In the next few slides, I'll walk you through different examples.

So, if you think about the playbooks, these are the fundamental foundations for a repeatable outcome. How can you guarantee? You can't guarantee on an M&A. But, how much can you mitigate risk and repeat the process, so you are learning from it?

So, if you think about the synergy models, we currently now have 11 different types of synergy models on how best to identify the raw material synergies, pricing synergies, consolidation, right, lessons learned from the previous--on what we can use to estimate from a synergy models perspective.

And then, if you think about the integration strategy templates--so, people need to have a process and a framework for repeating it. So for example, if your product rationalization--because you are going to come in, there is an opportunity. What is it, and how do you go about doing it?

And think about it from pre-built planning and consolidation. What are the templates and frameworks? Now, we have probably more than 30--50-plus templates defined and identified across different functional organizations that are put in place for people to use for every acquisition.

The next--if you think about it, it's like the tight coupling that needs to happen on realizing your value driver. So, the whole integration I will walk you through. It's coupled tightly with the goal of accelerating and delivering on the value drivers.

So, what are the value drivers? So, here is an example of--example of a deal at a glance. Okay. If you are a functional team coming in, (unintelligible) and IT are an accounting team over (SP) the sales. Why are we doing this deal? What is the value proposition? And what do we hope to attain?

So, this is the front and center for the people to see, that this is what we are going to deliver on. So, here are your goals, here are your numbers, and here are some of your leading indicators. And then, what we do is like--as part of the process, now that we have the rationale and value drivers established, you build your bottoms-up business case.

Okay, what do we need to achieve? It's not just the risk mitigation as part of the diligence process. If you know what the goal is, what we have to do in terms of either increasing the cross-selling or consolidating, what do we need to put in as part of the business cost or the integration cost?

Each functional team provides an integration cost during the diligence process that is incorporated as part of the business plan. So, what this ensures is like you know that you have the resources and support and have the conflicts (SP) and discussion upfront, so you can execute on the business case, so you are able to deliver it on time.

And the first thing we do after we finish--this also helps in alignment and keeping people functionally accountable--here is an example of how we do a bottoms-up validation. So, this is the first thing that we do.

Okay, we decided this is how the process works. These are the value drivers. Here are my investment PCs and integration costs. Now, first 90 days, let's--now that we are part of one team together--let's come together and understand and validate our hypothesis. How much are we right, where are we, and what is done--and incorporate that--and if there are any surprises.

And it's a very detailed process. So, we've got templates and frameworks done, so people know what to use to go about it, because by definition in diligence you get only--depending on--either a few days or a few moments of peek view into what's going on. So, this is the first exercise we do, and we have templates to validate them.

Now that we are done there, the next step is the plan of record. So, if you think about it like the--we have your value drivers, you've got your cost numbers. Now comes, what are the key decisions we are making upfront because this is all you could do? So, for example, in the Better Packages case, it's an opportunity for cross-selling and growing the business.

Now, the question is like, “Hey, do I need to invest in IT and integrate the systems upfront? What is it that I need to do now to support hitting my business case?” The one thing that we said in this case--like I want a unified report. That needs to be available as soon as possible because people need to know how much of my part I’m selling along with the bundle.

But, we also consciously made a decision on not taking--integrating the ERP upfront because all I need to is to make sure that I have this reporting functionality available to deliver on my business case.

Again, these are key decisions that are made upfront, and we hold people accountable to deliver on this. And part of that--the next step is like, “Okay, what’s your day-one strategy, interim strategy, and your end-state strategy,” so make sure that people know what they’ll be getting at what time, and does that align with delivering on the business value?

Here is an example. When we talked about templates and process, here’s from a sales perspective. So, if you are a sales lead coming onto the deal, you have never been to this rodeo before because we’ve done seven--okay, first time you’re coming out, what do I do now?

Because this is now--we have been in the ECP business, we have gone into Better Packages, different areas of the business, different sales leads coming on. Okay, here is a tool, here is the process, here are some of the expectations, here is your starting point. And that we will customize based on the deal, so that they have a process to start off with.

And we have a very structured governance process that we tightly run to make some decision-making. I think we have multiple levels here. One is for the--for us, the IPG team, because if you think about it, most of the companies--they play multiple hats. The same person has--does the accounting, does the safety, does the operations whereas we will have different people asking for input.

So, we have separate target integration meetings, keeping their impact minimum. We also have our own functional integration meetings and a specific one focused on the value drivers. Am I getting raw material synergies (SP), is it consolidation, is it cross-selling focused, how are we going about doing that--and then the steering team that Greg, Jeff, and the business sponsor--in making some of the critical decisions. Or if we uncovered some surprises, how are we doing, and what is it--what do we have to pivot to?

One thing I would say is like this company is very unique--IPG--in the sense--I have Greg and Jeff to pop in on some of our weekly integration meetings because that helps in making the decisions faster and pushing forward. So, that shows the commitment from the senior management in delivering on the business case and pushing the things forward and removing any roadblocks.

Acquisitions, you learn (unintelligible) question is like you better not bleed to death in your first one. The key here is like, we do learn, we put on our bandages, we earn our (unintelligible), we come along. So, we have a data base that we currently have in place that we use for learning and incorporating the lessons learned into a process.

So, it comes from your weekly meetings, daily execution, and a structured post-integration review. What we do with that is like--the first one is around refining the deal model. I'll give you a simple example. So, one of the first things we did, like we thought we would get our raw materials synergies early, only to find out that the contract piece--they had a little more inventory than what we had anticipated. There was a contract that we couldn't get off of--as quickly as possible--a simple example.

So, in this case, we want to make sure like we validate certain elements of those and incorporate that--and that goes into your deal model--or we uncover like, "Hey, the underinvestment that has been happening--there are not much investments going on for period of time." We didn't really get a good peek at all the machines, so we'll need to upgrade it to our safety standards from a CapEx perspective. So, we set aside the dollars as part of our deal integration costs.

The second one is like process improvements. Okay, so we need to do the pre-build planning. You don't have your usual set of tools that you are used to at your disposal in IPG. You don't have your same planning tools. They have been running with paper and pen. So, how are you going to go do this?

So, we need to create a framework or a process. It's more of advanced planning from our side on how--because this is what we're going to encounter next time because this is the type of deal we are getting into. So, how do we go about doing it and planning it, incorporating it into our playbook? So, that's the functional process improvement. The third is like, "Okay, this happens once in a while, guys. This is just for your efforts," right?

So, with this said, the whole thing--the process--is governed using the IBM M&A Accelerator. For those who know in this industry acquisition, they are the leaders in the acquisition, managing the integration process.

We leverage the tool. This is a cloud-based program management tool. The good thing about this is like it gives visibility to everyone across the functional themes, so they know what they are supposed to do or how there operate it. We manage the risk, we mitigate the risk, we erase the issues. So, it's a fairly collaborative tool on how we go about managing and governing the process.

So what? We have done all these things. What is it all about? Number one, we are delivering on the business case. As we started off saying, like we are beating our numbers on--we already beat our numbers on Tear Tape and Better Packages. We're on track to hit our synergy targets for most of the acquisitions that we have laid out. So, the key here is like delivering on the business cases enabled by the process and people capability development that we have put in play, okay?

With that said, I'll take questions after the session. Thanks, guys.

Gregory Yull: Thanks, Jai. So, we're going to move on. We're going to introduce Mark Dinwiddie to you. Mark has been a longtime customer of Intertape's, and he is out of Indianapolis. And we're going to just kind of do a little discussion. I'm going to ask Mark some questions about his business. We've got some slides up. But, Mark, maybe it's best to start with--you know, give us a little background on your company, FlexPAC. You know, how long have you been in business, general scale, product lines you sell, things of that nature.

Mark Dinwiddie: Do you want me to go up here?

Gregory Yull: You can go up here. Yeah, come on.

Mark Dinwiddie, CEO, FlexPAC: Well, I had the good fortune of working for some really poor companies--distributing companies--and then working for a really good company in the packaging business. So--and that company was bought by a large English conglomerate, and almost immediately the culture changed. And my wife got tired of hearing me bitch about how much I hated my job, even though I was making pretty good money.

She said, "Why don't you just start your own business?" So, in June of 1985, I went out on my own and started FlexPAC. I was the only employee for the first seven or eight months. And I started selling Intertape. It wasn't Intertape Polymer. It was just Intertape. It was made--Greg's dad started it up in Canada, and so he worked through manufacturer reps.

And if you wonder why I decided on selling Intertape, it was really simple. They were the only company that would sell me. So, we started out, and both Intertape and FlexPAC were struggling young companies, but the similarity between both of us--we continued to reinvest and look for new products to sell.

And that was kind of how it started. We have--we're located in Indianapolis. Last year we did $71.25 million, 120 employees--our purpose to make everything we touch better and try and define and solve problems. If we can do that, we think that we can be successful.

We have three branches outside of Indianapolis, one in Rock Island, Illinois, which is on the Iowa, Illinois border, Elkhart, Indiana, and Dayton, Ohio. So, it's mainly a Midwestern footprint.

The--when we started selling Intertape, it was basically just tape--cart and sealing tape, pressure-sensitive tape, strapping tape, duct tape, that type of thing. And I believe it was 1993 that you developed Shrink Film.

Gregory Yull: Yeah, yeah.

Mark Dinwiddie: And we wanted to add more of that. When they entered that market, there were two huge manufacturers, Cryovac and Clysar. They had probably 90 percent of the market share. So, here Intertape said, "We're going to enter this market." And they had to come to the--really, the second, third tier of distribution because Cryovac and Clysar had these large companies that had been in business for 70, 80, 100 years.

So, we kind of grew with Intertape. Today, we feel like Intertape Shrink Film is far and away the best product in the market. And to give you an example--and this kind of ties why we think so much of Intertape--this just happened a week and a half ago.

We've been trying to get this business--40 years they've been buying Carryover film. And they needed a product. Their product comes out of the shrink--is everybody familiar with shrink film? It's the over wrap on maybe games, puzzles, whatever.

Gregory Yull: Things of that nature.

Mark Dinwiddie: And they needed--their product that was coming out of the shrink tunnel was very hot. They were immediately putting it into a box. And they needed hot slip. It needed to be slippery when it was hot. And it was a big problem for them.

Intertape said, "You know what? I think the film we make in Portugal might work." We just tested it a week and a half ago. We didn't sell it on price. It was sold on it would work better.

They actually are paying more money for it. But, it works so much better for us. So, it's going to be a lower cost--end use cost--but that--we've been trying to get that business for a long time.

What that will open up for us is all the other verticals that we have. Like Intertape with their bundle of products as a distributor, we have to try to go out and sell as many different products as we can. So, we bought a little janitorial supply company, so we could get into the toilet paper, paper towels, chemicals, can liners.

We hired a safety guy that owns his own safety company. You heard, you know, safety talk. We never thought of safety as being that important. It is hugely important to the safety manager, and that can get us in.

We also have an automation division, which--we can go out, and in this day and age with the economy being as good as it is, people are looking to automate, if they can reduce manual labor. So, that is kind of our value proposition that we have.

One of the things about Intertape that we value is that they are bringing new items to us all the time, and they, like us--they want us to buy more products because it makes it easier for them, and we want to buy more products from them because it makes it easier for us. If we could buy a truckload of product every other day, it makes it a heck of a lot easier for us.

We have one vendor, one invoice to pay, that type of thing. And that's the same thing that we want to do for our customer. Everyone is talking about supply chain optimization. And that is what we're trying to accomplish. Where did Ross go? If I get like too much time, just--.

Gregory Yull: --I'll give you hook--.

Mark Dinwiddie: --Kind of give me the hook.

Gregory Yull: I'll give you the hook.

Mark Dinwiddie: My wife does that all the time. One of the things is--that Intertape has asked us--why--or considering our purchasing habits when we base decisions on cost, quality, customer service, reliability, or something else.

And all of those factors are important. And when Greg asked me to come in and speak for a little while, I asked our head of purchasing, what is it that you like about Intertape, what is it you don't like? And she immediately said, "Intertape has the best customer service rep of anyone we deal with." And her name--I've got think of her name--Karen Langoff (SP).

Gregory Yull: Langoff, yeah.

Mark Dinwiddie: So, if you can clone Karen, you're going to have a lot happier customers. So--and that is hugely important. The other thing is the reliability of Intertape. And we have a lot of trust in Intertape. When they say they can do something, they follow through and do it. And that wasn't always the case.

I mean, early on, when they just sold tape and hand-held stretch film and inexpensive shrink film, that wasn't the case. And it is today. So, that's very important to us.

There was one thing that--because I call it kind of the old Intertape Polymer and the new IPG. And Intertape sells to a lot of different distributors in our market. And this was a case back in early 2002 or 2003. And one of our competitors had gone into a good account. And they had quoted the exact, same tape we were selling them at about our cost.

It made us look bad. We were very upset. Greg had just taken over the leadership of the company. He came into our office, and he said, "We're going to make this right." He said, "I'm going to be honest with you." He said, "There are some distributors that we lose money on every roll of tape we sell." And he said, "That is going to stop."

And to his credit, they stopped that. They--that's why I look at the new IPG. They no longer said, "We've got to be the lowest in the market. We're going to be the best in the market, and we're going to sell our products at a valued price."

The only problem Intertape has is there are a lot of distribution companies out there that don't understand that. And that is the problem. There are a lot of really bad distributor sales people. So, it's our job to train them to go in and sell the right way, to sell value. And that's how we can win.

Gregory Yull: You've seen--you've seen--Mark, you've seen the--you've seen the competitive environment change, though, like when you think of kind of where the industry was 20 years ago, who we were competing with, who even you were competing with--.

Mark Dinwiddie: --Yeah--.

Gregory Yull: --It has changed over the last 20 years.

Mark Dinwiddie: And it's going to change more. You have new players that have never been in this business--for Amazon, Staples, Home Depot Supply, companies like Uline that sell everything. And they sell a lot of it.

So, that is going to continue, I think. More and more--we're going to see more consolidation at the manufacturing level, more consolidation at the distributor level, and more consolidation at the end-user level. We just had a very good customer bought out by Data (SP).

And we were only selling them one market segment because they had another buyer, and they had a long relationship. We couldn't sell anything else.

We just met with the Data supply chain person, and she happened to be very excited about all the different verticals we have. She said, "Gee, if I can do--buy all of these different product segments from one customer, it makes my life a lot easier, and then I can concentrate on more critical things."

So, it's an opportunity for us. But, sometimes a company that we're dealing with gets bought out, and they go, "We have a relationship with somebody else." So, we have to always be on top of that because there's going to be more and more consolidation. It's just going to happen.

But, you know, the Amazon effect--it's there. And--but we think if we go to market the right way, it's going to be harder and harder for Amazon to sell an automation line to show somebody how they can automate their Stretch Film and then packaging line and that type of thing.

So, there will always be a place, I think, for the distributor. And, I mean, Intertape can't sell direct to everybody--impossible. So, that is what's important on our side of it.

Gregory Yull: Good, good. So, I'm happy to open it up for questions for Mark. I think that gives us a good kind of--.

Mark Dinwiddie: --I want to mention one other thing I had forgotten about is one of the reasons we value Intertape. We had a good customer that was buying a lot of products from us, buy they weren't buying tape. It was a specialty tape that they use in their manufacturing process.

And it just happened that our VP of sales was Rashan Nelson (SP), and Shan (SP) would say, "What--you know, what can be doing to help you?" And he said, "You know, we've got a tape that we can't find anywhere--they're not happy with the manufacturer, they're letting them down." And we sent (unintelligible), "Well, let me take a look at it."

And we sent him a sample of the tape. They said, "You know, we can make this tape." And they went to work on it, they sent us samples. We now sell that customer--it's a nice piece of business. But, that's the type of thing that--Intertape is willing to take a look at new opportunities all the time. They're not stuck in and say, "Well, we don't make that, and you need to go somewhere else." So, that's important to us.

Gregory Yull: Any questions from our--Neil?

Neil Linsdell, IA: I'm just wondering when you look at the other suppliers that you deal with, what's the biggest product service offering that somebody else supplies that Intertape doesn't?

Mark Dinwiddie: We buy from a lot of different companies. But, there are some very big players. And I think Sealed Air, Pactive--or Pregis, I mean--Intertape Polymer. And some of them sell similar products, and some of them sell other, you know, products. But, we buy from all those people, but if it's equal, we're going to buy from IPG just because of the relationship we have with them.

Neil: Right. So, I'm just wondering, what are some of the features, or why do you buy from some of these other players when you--is it because Intertape doesn't offer the product that your end customer is looking for?

Mark Dinwiddie: Well, for example, right now, before Intertape bought Polyair, we bought a lot of our bubble and foam and some of those things from Sealed Air. And eventually that will change. Again, if we can buy more things from Intertape, we're going to try to do that. But, there are other items that they don't have that we have to buy from somebody else. I mean, it's just--that's all there is to it, but--.

Neil: --But, you have cases where you have sources--.

Gregory Yull: --Oh, product line, right? I think--and most people do, right, from a distribution perspective, where they'll have--for the major product categories they'll have two suppliers there from a distribution standpoint.

It was interesting before--you know, I don't know if we showed the slide of the product offerings that you sell. I think if I remember correctly, there's five key product offerings there. The only one that we don't participate in as a company is corrugate. I don't know if you have that slide.

Mark Dinwiddie: Well, it--we think a service--all of those things are very important. But, for example, the way we go to market, if we call on somebody, and they're buying Intertape tape, we don't try to sell them that same, exact tape. We will either sell a different brand or we will sell them--we will try to--we will try to show them that if they go to maybe a more expensive tape that it will run better, they will have--corrugated right now is--everybody is trying to make their corrugated cheaper, so they make it with more recycled fiber.

It's hard with some of the old tapes. They just don't have the adhesion, so it won't close their boxes well. So, sometimes going to a more expensive tape will be less expensive in the long run because they will have a lot less failure.

That's one of the reasons that I think the water-activated tape is doing so well now because corrugated has been so much cheaper and--because that's the biggest spend of any company--is corrugated. Maybe I'll buy a corrugated company.

Unidentified Man: Tell that to the banker.

Gregory Yull: Any other questions? Great. Mark, thank you very much. I appreciate it.

Mark Dinwiddie: Thanks.

Gregory Yull: So, our next presentation is going to be around what we call Intertape Performance System. That's the way we manage our facilities. Dave Bennett is going to give you the presentation. Dave has been with the company for 32 years. He is Employee 001 for Intertape in the U.S.

And he was there when we broke ground in Danville, Virginia, and he has been in a leadership role specifically for that plant plus a lot of other plants for many years. Danville by far is our biggest plant, okay? So, when you think--and I always say to you, all of our plants are not created equal as it relates to size and scale. Danville is our biggest plant, and Dave is leading that operation plus three other of our facilities plus our distribution center.

So, with that said, Dave, I'll pass it off to you.

David Bennett, VP Operations, IPG: Thank you, Greg. I'm excited to walk you through our Intertape Performance System and how we use it to drive efficiencies in our world-class operations. Intertape Performance System is sometimes referred to as IPS, or the Bridge to Excellence.

It's fitting that--talking about this process--because it's easy to come to a plant and see the assets run. And there's a lot that goes on around that, a lot of meetings, a lot of training, and Jason and his team make it look easy. But, some of the visual cues I kind of put together today--a flavor of some of the things that drive IPS. And you'll see some of these things--visual cues--as you go through the plant.

We had a good start when we started down this road six-plus years ago. We had a lot of safety initiatives working. We had Six Sigma, Lean, High Performance work teams. But, we needed something to tie it altogether and get everyone in the plant involved.

We needed common measurements. We had many different ways to measure tape productivity. We had so many ways we needed a conversion chart just to get through the day. As you see on the slide, we had many company cultures. Now with six-plus years under our belt, IPS is the way we run our operations.

One of my favorite pictures of Albert (SP). We needed common behaviors, structured culture, and engagement to get everyone involved. And I think throughout this presentation, I'm going to be saying engagement so many times you're going to finally get it.

IPS is an operating culture with six basic principles. I just want to point out, too, engagement number one and use of zero base losses. The use of zero base losses is, before you start to improve something, you ask the question, what if you have no waste, no down time, what would the possibilities, what would the opportunity be?

So, how does it work? Engagement and the pillars are listed in order of importance. So, we have pillars--safety, quality, visual, communication, equipment optimization, organizational development. But, the most important pillar is continuous improvement, who kind of ties it altogether. And this will make a little bit more sense as I get a little further in the presentation.

So, the how. The process takes two paths. When we first start into a plant with this performance system, we first have to have rigorous communication, we have to develop leader standard work, or cadence, in the plant, where every day we have meetings at the same time, we review results at the same time, and we have a response to any deficiencies.

We also have to train the people, and we have to communicate. We have to establish the pillars in the plant. And so, after all of this is done, the second path is we deploy what we've learned on a model machine.

So, we go out in the factory, and we start to deploy what we've learned through the pillars. We select a model machine, we go out and we do some machine cleans. And I will show you how that works in a future slide.

So, this is our graphic for the Intertape Performance System. It's called the Bridge to Excellence. And what's important about this graphic is that we have three foundations holding up this bridge. The bridge is going from the current state on the left to the future state on the right.

We have three foundations--safety, strategic alignment, and stewardship. And then, we have all of the other pillars above. And at the top, we use A3 methodology, and we use zero loss thinking.

A3 methods is simply a template that we use to do projects and keep us aligned. Zero loss thinking, as I explained before, is what are the possibilities if you had no stops, if you had no waste, if this machine ran perfectly, if it ran the way--or even faster--than we purchased--than it was specified.

So, I have talked about engagement. So, what are some techniques to get employees involved? You get employees involved with things that they care about. And I've listed some things on the slide--you know, safety obviously is always paramount--quality.

But, one particular one that I really enjoy doing with the employees the safety treasure hunt. And with the treasure hunt, we go out on the site, we look for potential safety issues, and implement countermeasures to correct those.

The photo on the right, some of the things--employees love to see the number of days. We have visual aids, we help them in (unintelligible), we have them in the parking lot.

Some other examples of letting employees work on what their passionate about is an example of sub-pillars underneath our--one of our plant's steering--one of our plant's safety pillars.

So, in this one--I'll just pick one, material handling, for instance. There's a group of employees that said, "Hey, I want to work on material handling." You know, we have a lot of assets rolling around out in our plant. It looks dangerous, it feels dangerous, what can we do about it?

And through that, you know, I'm proud to say that employees self-imposed a lot of rules--a lot of speed rules--implemented a lot of things that you will see in the plant like safety lights on trucks that, as you approach a truck, you'll see a blue light that says, "Hey, I'm in the zone of a material handling truck."

Also on here, some sub-teams--lotto (SP), which is the Energy Isolation Program or it stands for Lock-out, Tag-out--obviously the thing that we see are results. And I'm going to show you some results as we go through.

But, this is the Intertape injury rate and severity. The injury rate is on the top, severity is on the bottom. Obviously, there has been significant improvement. And as I talk about, you know, we had a good start on this before we implemented IPS.

One of the things that's very important to any program is to have a steering team. So, Jason has a steering team here at the plant. They meet every week. They hear from the pillars. The pillars report out, you know, how they're doing with their projects, how they're doing with their productivity.

And then, there's pillars that meet--there are steering teams that meet for the pillars, and they meet pretty much on a monthly basis. And what that does is ensures alignment across the organization. So, for instance, the quality pillar--all the quality pillar leaders come together on a conference call and some face-to-face.

And then, there's a corporate steering team where all of the pillars come together to create alignment. So throughout the--throughout this, the steering team is very important.

The visual management. This is one of my favorites. Throughout the facility, you'll see boards--you'll see floor boards at the machine side. We call that Tier 1. You'll see boards in the break rooms, boards in other areas of the plant. And what those are is the opportunity for a group of employees to have a standard cadence meeting every morning or at shift change.

I've got some examples of this. But, a good--a good example is I'll walk through the plant--and this is actually what the board should look like. We have a Tier 1 board on the left--is safety, delivery, our key performance indicators, audits for 5S, DTM, and other information such as maybe a one-point lesson. So, that's the layout.

This is kind of what it really looks like. And what's important here is the red and green dots, the color coding, so the operator is interactive with this. This is real time. So, I'll walk through the plant, and I'll walk up to a board, and it's all green. And the operators feel like pointing to it and giving a thumbs up.

But, if we see the reds, right, we go and we see, you know, what resources we can help them with, you know, what things can we help them get back on track because obviously we want our assets to be green. Other things on the boards are the audits. And, you know, I'll go through and look at audits and makes sure that we're getting the audit scores that we need.

But, this is--as Greg put it, this is our water cooler. So, you know, when you go by, and you want to see if you're winning or losing at a machine center, you stop, and you have a conversation with the operator, plus there's a formal meeting every shift at the Tier 1.

So, this is an example of those tier meetings. And this happens to be one here in Midland. And the--this happens every morning at shift change and--or just after shift change--and then every afternoon before shift change. And they go through what's going on at the machine center.

There's also a roll up for daily, and there's also a roll up for a weekly score in the plant, so you can see how the plant is running for the week.

So, we call this R&R, which is Review & Response. And it's important that the right people are at these meetings. So, you have your maintenance leaders, your engineering, possibly somebody from your supply chain. And your operators to tell you what's going on.

Just another example--this is a 24-hour roll up in another plant. So, get back into RPS (SP) just a little bit. So, when we start this journey in a facility, obviously, as I said, most of the facilities have a head start.

The first three to five months is that education period--is the establishing of the period of the pillars. It's putting up these tier boards, it's creating the zero loss thinking, and doing a whole lot of work in the forefront.

The next level is seven to nine months. We call it the bronze level. And once we demonstrate that we can achieve the results on that machine, we all get together and celebrate. And we've achieved the bronze level.

And we actually invite corporate leadership to a plant, and we cook burgers and have a good time. And we hear the operators give their projects. They have their story boards. And some of these are actually quite emotional because the results are achieved.

So then, the next two layers are cut and paste or replication. So, what happens is for the next 12 to 14 months--50 percent of your operating assets are done. And then after that, 100 percent of your operating assets are done. So, it's cut and paste. But, the bronze level is probably the most important to demonstrate those tactical areas.

And you'd be surprised, once you do one machine, you have operators meeting you in the plant, saying, "When are we going to do my machine," because it actually is very neat to see the transformation.

This is the start of what's called a machine clean. What's important here is we have plant management, engineering, maintenance, operators, and others out working to clean the machine to as-delivered condition.

Along the way, as they run into something--a loose wire or a broken part, contamination--we put on what's called a red tag. And that's what you see--some of these little red spots in the photograph. So, the red tag--you can see it at the top--there may be a safety problem, there may be at the bottom here hard to access or hard to inspect or hard to clean.

So, we collect these red tags. And during the process--some of these machine centers may take two or three days to do this--we may collect about 300 tags. And I would say about 80 percent of those get dealt with during that period, and then the other 20 percent are put on a list and prioritized. And sometimes there may be a safety item or something that would just keep us from moving forward.

So, here are some examples of red tags. The one on the left--particularly know about this one--this is contamination. And, you know, we actually put some countermeasures in to keep that from happening. So now there are some better covers on this, and there are some Lexan and plexiglass, so it's kind of neat to see that.

And on some other areas where you may have contamination, you may actually put that on what's called the daily maintenance checklist, so the operator keeps it clean. This is the result of--

after a machine clean, I snapped a photo. We have some red tags. Those red tags will remain on the machine until the problems there are resolved.

Just a couple other areas. What's important to keep IPS working is auditing. So throughout a facility, you'll see an audit schedule with various people's names. And these folks go out and audit quality, safety, DTM, and 5S housekeeping, and give it a score.

So, this is an example of a quality audit. It's a checklist--checklist-type thing--so we can actually give it a score. And once we give it a score, we keep up with that to see if the plant is progressing in those areas.

So, through quality, obviously what you want to do is eliminate root causes. You may--you want to predict the possibility of defects recurring, so that's what, you know, the auditing really does for us.

So, one thing that I wanted to show you that I'm particularly proud of is some results for one machine asset, or one center. It's a coding line. And over a six-year period, we did a lot of things with this coding line, and IPS was very important to the results.

We improved the waste and quality, we improved the speed on this line over 40 percent, we improved the up time from 85 percent to 93 percent. That's big. That's a huge improvement. We increased the width of the machine.

And when I say width, we increased the width of the substrate that we put on the equipment 6 percent. So, what that really means is every time a machine turns around, we get another roll of tape out, which is fantastic. We did 12 Six Sigma projects, we did 29 A3 projects, and we had a significant improvement in that particular coders product line gross margin.

Another plant that I'm very proud of is our plant out west. And these guys just knock it out of the park. They have seen--since they have started IPS, their quality has improved tremendously.

This plant has actually won the quality cup--which is a coveted award at IPG--four years running, which you can see--their quality returns as a percent of sales is kind of down in the decimal dust (SP) here for this year. They have done remarkably well.

Another area that I'm particularly proud of with the same plant is their productivity. And you can see their productivity is just--over the last four years just continues to rise. And these are widgets or rolls. Or, you know, we'll tell--we'll let you imagine what they are.

So, just a couple of things to talk about. When you go down the continuous improvement road, you always look to benchmark, you look for best practices. And one thing that we found is the industry week's best plant contest is a really good benchmark for us.

So, we have almost all of our plants apply for the Industry Week Best Plants competition. The Best Plants competition is a significant improvement in safety, quality, delivery, and supply chain over a three-year period.

So, we've had winners, and we just finished celebrating in Pittsburgh with the Blakewood team. Tremonton, Utah won in 2017, and Danville won in 2016. That's a tremendous accomplishment, and we'll continue to participate in that program.

Lastly, on the left is what people think operational excellence looks like. You plug it in, you go right uphill with it. Unfortunately, there's a lot of course corrections along the way. So--but, you know what? At the end of the day, you get the result, right?

So, I will take questions later.

Gregory Yull: Yeah.

David Bennett: Or through Greg.

Gregory Yull: Yeah.

David Bennett: Right? Do I need to like back up to--.

Gregory Yull: --Back it up to (unintelligible).

David Bennett: He's going to do that.

Gregory Yull: Thank you, Dave. One thing I just want to make a comment on. You know, this system that we choose to manage our plants on, it's really important that we all understand that--and I've mentioned it to many of you over the years--is that when we look at the acquisitions typically that we buy, they are not utilizing systems like this.

So, when I talk about managing at--the Intertape way--this is what we're talking about implementing into those facilities--the cadence, the rigor, the metrics, right, so universal platform, high employee engagement. And I think that drives a significant improvement to the financial performance of those acquisitions. So when we think of Polyair, we think of Cantech, that's right in their wheelhouse as it relates to being able to cash a check, okay?

So with that, Kirk Fischer is going to give us a presentation. Kirk is from Shorr Packaging. Thank you very much for being here with us. I'll pass it over to you. Thanks.

Kirk Fischer, Chief Supply Chain Officer, Shorr Packaging Corp.: Thanks, Greg. I'll kick it off here a little bit, spend probably 15 minutes or so, and then leave some time for questions and answers. Shorr Packaging Corporation--we're going to follow through a little bit here and look at where we've been, where we're at, where we're going, talk about what we're seeing in the industry from an e-comm standpoint, digital--whatever company you talk to, they are using different terms--and then go through questions.

It started in the 1920s in Chicago, Illinois. Basically, they were a job shop, they were putting together runs for candy, notations, things like that that was used back in the '20s--paper bags, janitorial supplies--a hundred percent employee owned currently.

Sustained growth and stability. (Unintelligible) one of the largest independent packaging companies in the United States. We continue to see double-digit growth year-over-year. We eclipsed $100 million in revenue in 2008, $200 million in 2014, $300 million in 2017, and we're well on our way for $500 million in 2020.

As you look here, you can see that a portion of the sales falls into quite a few different buckets as we talk about where our bundle fits in regards to IPG and what type of customers that we fulfill.

E-commerce, of course, is our largest piece--and continuing to grow. Five years ago, that accounted for less than 25 percent of our total sales. Distribution--3PL manufacturing, food and pharma--fill out the offerings.

Revenue by product category falls in a little bit differently. Corrugated, of course, is our largest piece with the box business that we utilize to ship through all of our e-comm, ship from store-type programs. Protective packaging, which would be bubble wrap, craft paper, peanuts, air pillows, pallet unitization, which would be stretch film, pallet covers, slip sheets, tapes and adhesives, pretty straightforward tape, water-activated tape and glue.

And then, flexible packaging would be bags, craft mailers, items like that. Equipment is an entry point for us to be able to go in and sell a piece of equipment and then follow it up with the consumables.

National footprint--you see 30 locations--just went up to 31 as of yesterday. We're adding Columbus, Ohio starting on August 1. The red locations indicate the Shorr Rand (SP) facilities. They started in the Midwest.

We're heavier in the Midwest--the yellow or orange locations, our 3PLs, vendor partners of ours, that we utilize throughout the United States to be able to fulfill the products to our end users. The red continue to grow as we get to a strategic square footage, roughly 100,000 square feet. We'll convert that over to a Shorr or Rand location from being a 3PL.

Continue to drive job growth--2012 we were at 180 employees. As of September 30, we're at 362 employees. We also have a key metric that we look at--is the number of dollars generated per employee. If you look back on the slide--future or past slides--the 180 employees in 2012 generated $845,000 per employee. Currently, we're at $1.245 million per employee and continuing to go up.

So, where do we see our future? As we continue to have minimal sales growth of 12 percent, we continue to transform ourselves from a regional distributor into a national distributor. We will continue to invest in our people, facilities, infrastructure, and technology--well on our way to be a billion-dollar company by 2025.

One of the other key programs for us that we utilize is our Shorr preferred supplier program. IPG happened to be one of the founding members of this with us. It's an easy way for us to go to market, knowing what our partner looks like, how they go to market, and how we're able to communicate with each other and buy openly. We continue to grow, and IPG continues to grow with us.

We optimize the partnership, the supply chains, the use of technology between the two companies to drive down costs, and then we utilize joint marketing--whether it be trade shows or marketing--that we go to our customers with on behalf of IPG.

So, a lot of the growth, as you saw, was driven by e-comm. I grabbed a couple of different examples here of some of the information. At a high level, this states where we were two years ago and where at least this particular individual believes we'll be in a couple years from now.

I believe that those numbers are light. We're seeing growth--some of our e-comm customers--target this morning, reported 42 percent year-over-year digital growth--continues to have that type of growth with other e-comm customers that we serve as well.

A few things we'll talk about on the next slide--sustainable packaging, speed to everything, technology, and unique or convenient packaging trends.

As we look at sustainability, we look at paper over here, curbside recyclability. Cold chain is going from water pack--or from gel packs to water packs--to be able to be put into the drain and coolers that can be sent to the curb fully recycled.

Right size in packaging--ship-ready packaging--from the manufacturers--there's a trend out there right now to not have to utilize a box on top of a box to send to a customer's home. There's products out there that can seal the product and be ship-ready, also reducing the dim waiting by 20 to 40 percent.

So as you look at the costs, we're looking at an ROI in weeks or months where things used to last a lot longer than that--and sometimes years.

Second, life packaging--maybe it's a crate, maybe it's something that you keep the appliance in--maybe it's a hard case, those types of things, so the package can be shipped out that way versus utilization of a box.

And then, just more right-sizing--the sustainability, the corrugators, or changing boxes from a C-flute to a B-flute. It's lighter, it costs less, and it's easier to recycle. So, they are reducing their carbon footprint through that manner.

Alternative goods to the customer packaging--again, take a pair of shoes. A pair of shoes typically will go in a shoebox in another box that will be delivered to your house. We now can utilize films to go directly over that box and have no additional weight and no additional charges from the FedEx, UPS, LTL sides of the world.

Next-day delivery and same day--you know, we're looking at same-day deliveries going through delivery networks, we're looking at what we have to do to support that back room of the store, how we can get our products through, what automation can be used through the pack stations, all of those types of things.

Nontraditional service operations--the 9 to 5 type mentality--is not going to cut it anymore. We have to be able to deliver to those stores 24 hours a day, 7 days a week. An order comes in at noon today, we have to service 3,000 stores a week by the following day--so continue to have changes in the supply chain.

Connective packaging--brands that the customer relates to. What does that packaging trend look like? How do they know that that's a brand that they want to buy? Also, connected packaging, QR Codes--we're seeing more QR Codes inside the box where the consumer can open the box, be able to scan it, and be able to have a discount, buy another product, all that type of information. So, it's real time.

Intelligent packaging--we're investigating utilization of RFID tags in all of our packaging to be able to track consumption on a real-time basis. That's an important thing for us to be able to have the packaging supplies that are needed at that customer within a short period of time and to be able to shave time off of the order cycle through VMI programs or real-time tracking of those products.

Convenience--don't really need to go into--here too much--easy to open, easy to understand, easy to use, easy to replenish, what we talked about, easy to return.

Unique and customizable packaging--smaller orders with numerous graphic changes. The traditional brown box or the traditional printed film and large quantities is going away. Manufacturers want to be able to see--or retailers or manufacturers want to be able to see their name or the product on that package in a real-time basis, therefore shorter runs for the manufacturers.

The guest consumer experience--we're seeing printing inside the box, the cosmetic industry especially, where the guest experience of opening those types of products and the brand identity pays for some additional costs. With that, I'll leave it open for some questions.

Questioner: Thanks very much. So, you have outlined a lot of e-commerce trends. That's really helpful. If you were to kind of highlight one or two that are significant and might be really difficult to implement, given the systems and practices that are existing today to convert over to a new trend, what one or two would they be?

Kirk Fischer: Probably from a technology standpoint, it's going to be the time to replenish the packaging materials that are shipped from store location. A typical ship-from-store location will have one to four pack-out stations. They can ship out anywhere--1,500 to 2,000 orders per day.

For us to be able to have the room in the back of that store to be able to store anything from corrugated to stretch film to shrink film to air pillows to paper, we have to know exactly what is taking place inside that store. We don't have the time to be able to have an order placed and three days later have it show up. It's going to be real time.

Gregory Yull: Neil, did you have a question?

Neil Linsdell: So, yeah, you spoke about sustainable packaging. In your opinion, what does sustainable packaging mean to your business three, four years out from now?

Kirk Fischer: I would say that sustainable packaging will be a reduction of the packaging or the shipping container that's used. A good example is, think of a toaster oven that would come out through an e-comm provider right now. It's got a box that has foam inside that's already ship-ready, but we continue to put another box over the top of that with air pillows--maybe some paper, water-activated tape over the top of that.

So, I think it's going to be that the retailers are going to drive the initiatives for a manufacturer to be able to produce a product that can be shipped through UPS and FedEx without having to be over-packed.

Questioner: I may be showing my age, but this sounds like it's a very overwhelming amount of stuff that we're going to see in the next few years as far as changes to the packaging, so if you're talking about your packaging business was basically, what--so e-commerce was a quarter five years ago?

Kirk Fischer: Um-hmm.

Questioner: In the last 5 or 10 years, as you've seen that grow, have you seen these amount of changes, or did it seem as overwhelming at the time? Or has it suddenly in the last few years gotten so much faster?

Kirk Fischer: I would say it's just the speed that it's taken in the last few years. E-comm continues to transform a lot of the retailers that we work with. Their ship-from-store e-comm programs account for less than 5--far less than 5 percent of their total sales.

And they are having 40-plus percent year-over-year growth.

So, I believe that you're going to see that 40 to 50 percent year-over-year growth continue, and it will just be that much of a bigger piece of the pie.

Questioner: And all these technologies that you're talking about with the QR Codes, RSID, whatever you're putting in the box, are all these things realistic or are you looking at this from your experience, saying, "You know, there's a lot of assets (SP) out there, but realistically it's not going to be implemented as fast as people think?" Or is it just you have to meet that demand because somebody else is going to do it if you don't?

Kirk Fischer: Probably the latter. I believe that there's a lot of competition out there that's looking ahead to see where they believe that the e-comm world or the digital world is going to be in five years. I honestly don't believe that anybody has got the correct answer of where it's going to be. It's transforming, and we need to stay up with the technology to be able to support the growth that we want to maintain.

Questioner: Wondering if any of the learnings you have taken from this big growth in your e-commerce business is applicable to any of the other industries that you serve, where you can help those customers do things a bit more efficiently.

Kirk Fischer: Yes. We're seeing it in parts, automotive, being able to look at reduced ways for OEMs to be able to ship in a headlight or be able to ship in a windshield. Where before the packaging was a significant portion of the cost of the goods, we're able to drive down a lot of the cost where the packaging can be reduced and save the manufacturer money.

Gregory Yull: Okay. Thank you very much, Kirk. One more? Okay. We've got one more.

Questioner: I'm just wondering with the--with your end customers consolidated and growing, I mean, where are you seeing the most pressure in the business, in the distribution--at the distribution level and then both at the manufacturing level as well?

Kirk Fischer: Where are we seeing the pain?

Questioner: Yeah, the most pain. I mean, however you describe it--most pressure--either it's cost, it's faster delivery. I mean, what are they asking you more of, and what's getting harder to do?

Kirk Fischer: For us, it's probably the number of locations. For us, to be able to service next day to the consumer or to the retailer we have to open up more brick-and-mortar locations to support the inventory, to have it on site. So, we're opening three to four new locations every year. I see that--probably five to six new locations over the next four to five years, so just continuing to invest in the infrastructure to support the growth.

Questioner: Are the suppliers--are your suppliers being asked to do the same thing?

Kirk Fischer: The suppliers will go through those facilities.

Questioner: Okay.

Kirk Fischer: As a distributor, the supplier will ship us the product, then we will ship it onto the retailer.

Gregory Yull: Okay, if there's no other questions--.

Kirk Fischer: --Appreciate your time.

Gregory Yull: Thank you very much, Kirk. All right. So, I think next on the agenda, we have Jai coming back to talk to us about our capital expenditure management process. As he spoke earlier, touching on the M&A process and how we integrate, we have a very similar rigorous methodology around CapEx. So, I'll pass it on to you, Jai.

Jai Sundararam: Hello again. So, I thought like--I think this was very (inaudible). Okay. You know, I've been listening in on the investor earnings calls. Most of you have been asking questions--probing questions--on what's going on with this integration, what's going on with that capital project?

But then, Greg and Jeff decided, "Okay, let's just give it to them." What is it that we do behind the scenes in making sure that we are delivering on our investments? Yeah? So, what we will see here--let me start off first with the first slide, the results, a very good track record in executing our large capital projects, right?

If you think about it, the completed project--so the plan that we are in now--the Midland was completed on time, on budget. That's our first greenfield project in a while, right?

If you look at the investments, we made like $20 million, $30 million and then suddenly ramping up--I think this is--a question is like, "Hey, how are you executing?" You're here. So, Midland is living proof of--that we have been able to successfully execute.

Not only that, it's on time, on budget, but not only us. Our customers are relying on us to execute on our projects, so that they are able to meet their Q4 demand. We talked about the e-commerce sector. And for them to trust and rely on us to execute on our capital investment strategy, so that they could fulfill their customers, that's the kind of trust that we have been able to establish with our programs.

The next one I want to touch on is like the stretch film project. So, this is one of the new technologies. It's a nine-layer technology that we have implemented again--on time, on budget, a completely new, brand-new technology--still managed to do it on time ahead of schedule, slightly ahead of schedule on that project--perspective.

So, walking you through, how do we go about doing it? What is--what is the management process around how we classify capital projects and governance?

There are three ways to look at it. One is your basic run the capital--run capital. This is what we call like your maintenance capital--keep the lights on. So, we spend anywhere between $15 million to $20 million for these projects that includes safety and environmental-related activities.

The next one is your gross margin improvements or productivity improvement projects. This is your grow projects. So, you saw how IPS leveraged not only the tools from the IPS, Intertape Performance System or Continuous Improvement Processes, but also leveraged CapEx to drive productivity improvements.

And last but not least is the transform. These are your strategic projects, the three greenfields we built, the brownfield expansion we did in Danville, the regional distribution center that we expanded again. All these are your strategic projects that also include your new lines or new technology.

So, how do we go about deciding which project to fund, which CapEx? How do we allocate? We employ a very rigorous financial diligence done to prioritize the projects.

Across the plants, we have identified--we have a running list of a three-year road map on what the run capitals are, what are--the gross margin opportunity projects are, and some of the strategic opportunities.

It all follows the same process filter-wise. If you think about it from a business case validation, we start understanding, what's the market opportunity analysis? So, we heard about from our customers that the e-commerce market is growing significantly as you--it kind of goes back to like validation of like this CapEx investment in Midland and the second phase expansion.

The key here is like the--understanding the opportunity and understanding the competitive landscape. What do we have, or what kind of pricing pressures will we encounter, or what kind of volumes are we looking at?

The second is the detail, the financial modeling. The idea here is like we want to identify the list of key assumptions, key factors that we think are happening, from the freight cars to raw material cars--and also the tariffs. What could change, what could be the impact, because we now have investments across the continents? Those are included when we do our sensitivity analysis and understand what is the return going to be?

And the next one is like around the projected plan capacity. If things change, if the mix changes, if the volume changes, what happens, so that this also incorporates the efficiency--start-up efficiency curve.

This one is critical because not all lines--new technologies or new lines or greenfields--are made the same. There are some plants or some equipment (SP) that could start up in a few days. There are some that take a few weeks or months because that's the nature of the beast. It takes time to ramp up some of these big, large projects.

So, those are accounted for as part of our overall modeling calculation in identifying what comes out of our--what gets prioritized to get funded.

Similar to the M&A side, we have a very robust and structured execution framework on how we run these projects with defined phase gates (SP). When we touch on the front-end loading aspect of it--if you think about it like this is where your initial business case is validated--we also spend some money upfront to do some pre-engineering design work, so we understand what the cost estimates are going to be and how we can draw down on our contingency as we go through the project.

The other part is like we also do the--evaluate technology options. Part of this is like we incorporate into the design safety features, control features, what specific standards that IPG wants to follow and administer, and this--across the plants, it's incorporated as an input as part of the corporate standards.

This, then, later on moves into the--once all these design inputs are incorporated, that goes as part of your business case validation, so that you're not surprised later. One of the reasons why you see green (SP) across is like this pre-engineering work is done, and the cost is baked in. And that is accounted for as part of your overall business case validation.

Once approved, then it goes into the detailed process and execution. And the last step is the transfer to operations and hand off. Part of this is also we do reliability. Do these machines perform the way they're supposed to, the entire systems are working the way we had intended--validated before the hand off happens.

So, how do we go about doing this? So, we establish a center of excellence--the capital engineering, corporate engineering team responsible for driving this execution--and process excellence across 29 plants.

So, we have identified key talent across the company and onboarded into the Business Transformation Office. So, there are specialists and experts in converting, in coding, in printing, mixing. And where we had gaps in the talent pool within the company, we hired from external talent to bring onboard.

For example, we have now a project director of engineering for managing all the construction projects, all the greenfield projects, with international experience because we know there is a gap there--we onboarded. We also now have a process engineering expert on setting the controls with statistical background, so this will help in putting these processes in play.

The role they play is three-fold. One is on the strategic projects because you will have project engineers assigned, part of this team to go lead those large-scale greenfield projects. That's number one.

Second, they are the subject matter experts on the individual plan projects, where they provide the phase gate reviews on, "These are the controls." Is all the operations aligned the same way? Did we get the checks right before we send it to our suppliers?

The third role they play is also from a continuous improvement and IPS standpoint as the top leadership in providing expertise and support, "Okay, you've done your improvements. Now, you've got to go to the next breakthrough. You've got to bring in experts from the outside, from the plants, to take advantage of--and moving forward with those projects."

Here is an example of a structure that we have put in place for large greenfield projects. So in this case, this is a sample for what we did with Midland. So, Dave and myself are the project champions because it's jointly led. It's not engineering done and then throw it off to operations, "Good luck. Hopefully, you can run those machines."

They are very much part of the design process from the beginning. And we did it fast (SP), something very unique with this particular execution. So, Jason Brauch, the Operations lead that you're going to meet, was an engineer, and we brought him on to the Business Transformation Office.

Part of that like provided the structure. Because you're in operations or engineering doesn't necessarily mean that you can run large-scale projects. So, you bring them on, provide the umbrella, give them the tools, but they are part of each of these steps in the decision-making process.

So, you are very much involved in what goes on in the design, you are very much involved in the risks and how much--how best to mitigate them. And then, we provide the expert support--the technical leads--for the different areas, the converting, the mixing, etc.

So, this is a very unique model that we have adopted and that's proved very successful for us. And now, Jason is transitioned once the project is commissioned--moved on from my group into Dave Bennett's group and running the operations for the facility. Okay?

It's an (unintelligible) just to give you a flavor, like the idea here is like not only for the greenfield projects but for other projects based on the complexity--technology complexity--or the effort needed. We have identified resources not only from my team but also across the plants. We've got a lot of talented people across the company, so 1,000-plus years of engineering experience.

We created a skills data base to understand who has done what because, for example, a chiller system will not replaced every year. So, you probably do it every 5, 10, 15 years. So, we now know who amongst the company has knowledge about that, and we could go tap them as part of the process, so that we don't learn it over and over again. We codify it--part of our process--and provide the support for each of the plants for the implementation.

The improvements made here--so, we have a fairly rigorous process on how we go about managing the project, identifying improvements. You'll see when you go on the floor the machine improvements that have been made, things that have been automated, automated--automatic rewind and unwind, automated batch glue mixing process that helps in improving the quality of the process, things that have been done quite a bit as part of the improvements.

And what we also do is like once we have improved upon it as part of a new greenfield or a new line, we take that learning back and drive it back to our IPS process and CapEx process for the other plants that are running some of our older lines and see if we can incorporate and get the benefit back.

Quality management is critical. So, if you think about this plant, we have to deliver in Q4 to support our largest customer. We cannot afford to have a quality issue associated with that.

So, how do we go about doing it? It's a very proactive risk analysis and management of the different functions, from machines to different processes, (unintelligible) our risk priority number, evaluate the probability of risk, and manage that and mitigate it--proactively take action.

So, a lot of the first things that we did when we finalized the site selection of Midland--because we were looking at multiple sites, multiple options--when we finalized the Midland, the first thing--even before we broke ground, the first thing we did was like take the water from here--

took it all the way to the other plant that makes the water-activated tape--and use this water to make the adhesive or the glue.

Because the last thing you want to find out is like you put the--build the construction, put--the machines erected--and then find out that the water here does not behave the same way as the water out there, and you're now in a bind. I'm just giving you an idea--example--of what kind of process we have in place from a quality and a risk mitigation standpoint.

And the reliability--the idea here is, we do not want to have--we want to make sure that we own--people take a lot of pride. So, the team is phenomenal. They take pride in their own execution--design and execution. This cuts across operations, engineering, R&D, everybody.

So, the key here is like when you have defined and designed a machine, okay, how do you know that it's working reliably? So in the past, what it used to be is like a few days of trial, and the machine works. You're good to go. You transfer it, and then, okay, operations, it's now in your hands.

What we've done is like created a statistical approach, okay, within--create a reliability metric. Okay, within--over a period of time, are you able to demonstrate that the machines are running properly?

This is done not only to help our operations team and to hold ourselves accountable but also hold our suppliers accountable on what they are expected to deliver as part of the process.

The next topic is around onboarding. So, this is critical. So, when you are starting up a new plant with new technology, how are we going to go about doing this? So, the key here is like we have identified proactively, what does it take from an inter-plant resource to start up a plant?

Again, you're under the gun and coming out quick and delivering without any quality issues. How do you go about doing it? So, in this case, we have identified resources from engineering--different plant resources, specialists, to support the ramp up of the operation.

We also have elimentaries, so operations==when you are starting up, you know what you need to do, how you're going to be trained. And then, we evaluate that over 45 days. And the skill building happens throughout the year, depending on the nature of the job that you do.

They are also introduced first to safety but also the IPS way of doing this. How do we go about running operations, what are you accountable for, and how do we do process improvement? Again, it begins from day one. The mindset starts from day one.

One thing I would say, doing all these things, so, what did it do for us? Let me tell you this. When you go out there, you'll see all these machines. There is this glue-mixing tank right where you mix product things and then the glue comes out.

The first batch of glue met our specifications. The proactive planning, risk mitigation, and cross-functional execution means the first batch of glue worked, right? This is just to give you a flavor for the process that we have in place in managing this.

We have a very strong governance process, and people feel very comfortable in speaking out. One of the things I said, like we got the first batch of glue right. Do you know why?

Because in one of the cross-functional meetings, our R&D team--because this plant needed a bigger sized reactor than what we have in the other plant because of the size we were doing--one of the things this R&D said was, "Hey, that's good, but your dimensions for the diameter and the height needs to be maintained the same as the other one because that's going to affect the reaction kinetics."

That's not something an engineer may know--may, maybe not. But again, we took that input and then made sure that it was incorporated. So, these cross-functional design reviews and meetings are very critical, and that ensures the success--or mitigating the risk. That's on the front end.

And then, on the back end, once we start ramping up, one of the key questions that gets asked is around like, "Okay, well, how do you know that your volumes are coming?"

The first step is on the pre end (SP), "Okay, here are the products or the (unintelligible) the initial estimates, and the volume." Now, on the back end, now we are starting to ramp up. We have a process and a governance in play in terms of understanding, "Has anything changed?" Because if you think about a greenfield, it's a year, year and a half before the product comes out.

What has changed, how do we keep track of the changing dynamics in the marketplace, and how do we keep ramping up and meeting the customer expectations, incorporating that as part of the process?

We use the same IBM program management tool for tracking the projects for the capital projects as well. So, this is used across 29 plants. And we use it for the mid-sized, medium-sized capital but also the strategic capital.

So what, right? At the end of the day, we do all these things--the idea here to deliver on the business case. So, we want to make sure both the organic and the inorganic investments--we spent $250 million plus (SP) $350 million. You know there is a process methodology, capability building, that is done to make sure that we deliver on the returns, okay? Thanks.

Jeff Crystal, Chief Financial Officer, IPG: Thank you, Jai. So, before we get to, I guess, some Q&A, I'll just leave you with a few thoughts to kind of some of the stuff that we've heard today. So, I mean, I think, you know, a lot of you--actually all of you--should have heard us talk about, what are our priorities now?

And really you are hearing it here, and this is why we presented these topics to you. It's about execution. So, you know, as you know, we've gone through a couple years now of significant investments, both in CapEx and M&A, and certainly we appreciate your patience in executing on that.

And we feel like this is the year where things start--you know, the rubber starts to hit the road. Certainly heading into 2020, we--you know, we expect to be at a higher run rate in terms of whether it's the synergies on our acquisitions or the benefits that we're getting from our capital expenditures.

But right now, you know, that's the priority of the company. And that's why we've invested in these resources, you know, in the business transformation office, which was formed, as you heard, about four years ago, in all of the way we manage our plants as well, implementing that methodology that has been perfected in some of these, you know, older plants and bringing that to our new acquisitions.

So right now, as we've discussed in the past, I mean, our priorities for this year--and, you know, in the near term--is really about, you know, focusing around that e-commerce side, right?

So, that's why we're here. We're in a plant here that's really focused on e-commerce, producing water-activated tape, really building that bundle. You heard from some of our customers there talking about, you know, the exponential growth that they are seeing in their business.

Certainly, we want to ride that wave and ride that trend. And as you heard--you know, we've said this before--it's not going to be one product. It's going to be a multitude of products that these e-commerce customers are going to use. And we want to have that product bundle.

And we feel we've got a very strong product bundle, you know, between our tape offerings, our protective packaging, and our films to service that--those accounts and the trends that are coming up in that vertical. So, certainly this plant is centered around that. You know, our Polyair integration is centered around that and just building out that product bundle.

And then secondly, you know, ramping up those Indian facilities--we've talked about that. You know, we're very happy with the progress we've made specifically on Capstone. As you know, we finished commissioning that in Q1 of this year. We are very excited about the benefits that we want to see and that plant coming through the second half of the year. So, we're certainly going to see some nice cash flow and benefit coming into this year and certainly with a nicer run rate going into next year. So, we're really excited about that.

And then, certainly on the (unintelligible) tape side as well. You know, we have commercialized certain products there, and we expect to see, you know, nice progress through the back half of the year into next year as well.

And then lastly, you know, getting those M&A integrations complete and getting that--those benefits on our P&L, you know, the Polyair acquisition, it's still kind of early days. You know, we did this in August--but seeing nice progress there, certainly on the cross-selling side.

We feel that we're ahead of the game on the cost side. As we articulated, we've done some things to vertically integrate some production on that side to really get advantage and cash a check early on on those cost synergies.

And then, we're working through, as we speak, our integration through Cantech. You know, we implemented an ERP there in February of this year--working through that, you know, making these operational changes.

And you--and I hope you can appreciate, you know, the complexity behind this program and then, you know, adapting that to a completely different culture that was in a business that was run in a very different way. So, we're working through that as well. And certainly there's a nice check to be cashed in that regard, too.

And then, you have, lastly, the Maiweave acquisition that we did in December, which is again early days--but seeing really good progress there in being able to integrate--vertically integrate--some of their volume back into our Capstone plant in India in those woven products--so really excited about that and feel we're on the right track.

So again, you know, I really--my hat is off to the groups that have participated in this because this methodology--I mean, while it may sound theoretical in presenting it here, it's really real, and it's really yielding benefits for the company.

And all that to say, you know, this year--of course, like we've said in some other calls, we want to start seeing free cash flow being generated from these investments starting to pay down debt. I mean, that's right now our priority.

And, you know, when you look forward, certainly beyond this year, again, like I said, hitting a run rate of EBITDA coming out of this year, we expect to be on a nice level. We expect to be on a nice path towards our goals that we've set out for 2022.

You know, certainly, as we've said, M&A will have to be a factor there, but again, we're seeing nice benefit from these projects that we've already invested in and feel we're well on our way.

So again, thank you everyone for attending, everyone that is here in person and on the phone. I certainly thank our presenters, you know, Jai and Dave on our side, and the work that they have done as well as our customers who took time out of their day to come here and talk to you. And I hope you learned something about some of the businesses that they have. So I think at this point, you know, we'll turn it over to some Q&A, anything you want to ask Greg or I, Jai, or Dave.

Walter Spracklin, RBC Capital Markets: Yeah, I guess my first question is for Greg. Kirk outlined before a lot of these trends that are going on in e-commerce. As long as people are buying more on the Internet and that growth continues, that's going to be good for your business. Is there any offsets there that we heard--some of the things like, you know, packaging on top of packaging, if we can get rid of that?

I mean, that sounds like a good business for you. You know, that's a trend you might not want to get rid of. Are there any things that he highlighted that you say, "Wow, if that really happens, that could be a dampener on our growth?"

Gregory Yull: Yeah, look. I mean, I think when you take a look--and you have to remember when we look at the combination between packaging cost, dim weight, sustainability, reducing kind of the packaging footprint, you know, the dim weight and the weight piece is going to drive the biggest portion of the savings financially for people, right?

The sustainability piece will drive some decision-making, depending on what side you are, whether that's a paper or plastic answer or not, right, because there's people there that would support plastic versus paper and vice versa.

When you start talking about the elimination--like for us, when you start talking about the elimination of box within a box for an individual item, we love that because we make the shrink film to go over that box, right?

So, when we look at our portfolio of products, it's really important that when I look at the changing landscape, the packaging requirements in this channel are going to change. And they are probably going to have to utilize all different types of packaging to get to where they need to be, whether that's, you know, mailers, whether that's shrink--ship in your own container--whether that's a once a week consolidated delivery in a box.

You know, I just think that we're well-positioned to take advantage of that, and also we're well advantaged because of our relationship to be tied into what's next, you know, because we have the relationship with the large people, we're talking to them and participating in, what are you working on, how can we help you in working on that, and how do we move the ball forward as it relates to our product portfolio to address your challenges, right?

So, look, it's a fast-changing world, like you asked the question--or I think someone else asked the question--but, you know, what's the rate of change compared to what the rate of change is? I feel like the rate of change is faster now--like I do, right?

And it's really important for us. And that's why the Polyair acquisition was really strategic for us because it helped us manage and leverage that pace of change. So, I hope that answers your question.

Walter Spracklin: Yeah, that does. Yeah, thanks, Greg. And a question for Jai. You had some check marks on hitting targets for EBITDA and revenue and so forth, both on CapEx and on acquisitions. But obviously there's a spectrum of that. There are some that you probably did really, really well, and some that you just made it, and then there was, you know, one there that didn't make it.

Can you highlight an example where--either CapEx or acquisition--where you really blew the lights out, it came in well above expectations? And what were the drivers of that? And then, maybe on the other side, what were the ones that came in below expectations, and what did you learn from that experience?

Jai Sundararam: I will highlight high level, and then I will leave the numbers to Jeff to speak to. So, if you think about Better Pac and Tear Tape, both of them blew the numbers in terms of our synergy targets, right? The key there is like the value driver. The most important aspect in that is how we approach integration. We recognized the engineering progress of the team that we acquired and let them lead with their systems.

And then, we reverse-integrated into the Better Packages for that systems product. That's critical. That's one. And then, if you think about it, not only that, it's a chain-on (SP) effect.

Now that we have Polyair coming onboard, we are finding out like they were developing a system, but we could accelerate with the Better Packages' engineering on what product they were doing (SP). So, we were able to accelerate the time to market with a better product with the engineers behind it--just a simple example on two acquisitions.

So, if you think about the CapEx, Midland is a classic example. So, we not only were able to meet the numbers, but we accelerated our Phase 2 implementation. If you think about our original plan, it was a little further out. But, based on the demand that you're seeing and what you have been hearing on the e-commerce side, we not only accelerated the Phase 2 implementation--and those numbers are also going to be better than what we originally planned or faster than what we originally planned. I'll leave the actual numbers for Jeff.

Jeff Crystal: Yeah. No, I mean, to add onto that, I mean, like, you know, I remember we disclosed on the Tear Tape (SP) side. I mean, certainly, you know, that was--that was a home run that you've seen publicly. You know, we had--we thought about 1.6 million of EBITDA for about $11 million--turned it into about 5.6 million of EBITDA, you know.

So, that's--that was certainly a home run, you know. Better Packages is running over two and a half to three times the EBITDA that we bought at the time, you know, so again, you know, a serious home run.

And all that, again, was integrated using the methodologies that Jai talked about. And when you think about the CapEx, you know, it's sort of--at this point, what we could really say is the large-scale CapEx, you know, is still in process. So, we talk about our hurdle rate, 50 percent IRR. And as you rightly mentioned, Walter, you know, it's a hurdle rate. So, yes, we could better than that. You know, you could be there, you could do better than that, you could be closer or further away from that.

When you think of the larger scale CapEx, like a greenfield, in that first phase certainly it's a hard thing to get to a way high number, right, because you're talking about a serious amount of CapEx. But like we said, when you talk about then adding on a second line for $15 million, obviously, you know, your rate of return could be much higher.

So, when you think of those types of simple ads, you have a much bigger opportunity to blow the socks off or blow the business case out of the water. A good example of that that we have completed is the stretch film in Danville. So, that line--I mean, that started up in days. We were running at--.

David Bennett: --A commercial product within days.

Jeff Crystal: Dave could answer to this, but we were a commercial product within a couple days, you know, knocking the lights out. You know, (unintelligible) have been strong in our product category, as we mentioned. Even in Q1 this year, stretch foam was very strong. So there, I mean, we've certainly hit and exceeded our targets.

But, when you think of the other ones, certainly a lot of them have come online, and we're still in the midst of working through--but what we do is we have this rigorous following of that business case. And we look at, "Okay, what were our targets into Q1, Q2, Q3? And we're following that and making sure, are we there, are we ahead, are we behind?

And I can tell you we're certainly there right now. So--so, we feel good about those returns that we've talked about, but again, it will be, you know, another year, another little bit until we really get to those run rates, right?

Walter Spracklin: What didn't perform well?

Jai Sundararam: Well, Polyband is a classic example of an integration starting off, going off the rails, starting out with the cultural aspect of it. So, whenever you have an integration go off the rails, it takes time to bring it back because now you've got to first of all deploy your resources because we thought we were going to operate (SP) with a local partner. That didn't work out.

So, the moment that happens, now you have to take ownership and start understanding. So, some of the costs that you found that we were adding in, part of this is also like our team going in and building it up to the right standards, making sure that we're not--we're covering all the bases and understanding the local operations.

So, it will be a delay, but the fact of the matter is like lessons learned. That didn't stop us from going in and investing in Capstone, which is now on track because lessons learned. There were certain processes we chose not to follow through with respect to the rigor that you have seen on the CapEx or the integration because the way the Powerban (SP) deal was structured and how we want the local operating partner to have more of a say in dealing with the local operations.

There were lessons learned. With Capstone, we put in our resources, we validated, we went back to our playbook and made sure that now we are on track, and we are hitting our numbers--on track to hit our 2020 numbers with respect to Capstone (unintelligible).

Gregory Yull: I'll give another--I just want to give another example, like this is not of a case where it doesn't work but it's a case of where we learn, right, on the way through. So, you mentioned it earlier--the cultural aspect, right--so, the cultural aspect of an M&A acquisition and not having a rigor or a cadence around running the company or the plant, right?

So, when we think of specifically the Cantech acquisition, we went into their Cornwall facility, which is their largest facility, and loaded them up with too much, okay? We implemented IPS, all those safety pillars, too quickly, too fast, right?

So, when we--when we look at it, we know for sure it's the right thing to do, okay? There's no question in my mind it's the right thing to do. But, when you talk about like what we did in Capstone, it changed because of what we did at Cantech--and learned, right, saying there's only so much that people can handle from a change management perspective, right?

If you have been doing something for 25 years the same way, you can't come in and have practitioners start executing on IPS, you know, on day one. You're going to overwhelm them, right?

So, those are all kind of like lessons learned. I mean, we'll get there. But, we stumbled a bit, like--and we always said these businesses are somewhat lumpy. But, that business and the Polyair business--with that kind of system implemented in there, it will show dramatic improvement on the margin side.

Questioner: So, I wanted to ask about your IPS system and just first--this is the first time really I've heard a lot about it. And I'm wondering, how far along are you in terms of implementing that company-wide? Do you consider it done sort of piece of equipment by piece of equipment or facility by facility? How do you measure sort of getting to a goal for the whole company on that?

David Bennett: I'll answer it and then let Greg fill in. The legacy plant, prior to the recent acquisition, are (unintelligible) away. We have put parts and pieces into Polyair and doing that measured, and we're getting some great results. We also, as Greg just explained, we--those parts and pieces we thought would pay (SP) off into Cantech, and we're still working that and fanning that flame.

On the other side, the new operations--it's easier to start day one with an IPS-type strategy. Here--it's working out very well here in Midland, and I'm very surprised that--the operational team in India is doing a great job. They have got their boards up, they have got a cadence. And they are actually--based on the meetings I attended last week, that team is going to challenge us to--they are going to hold the bar pretty high.

Gregory Yull: So, you know, from my perspective--and I've said this to many people before--is that you know, culture in a plant and the ability of people to accept change and drive change varies on where you go, right? So, when we look at our Danville, Virginia facility--very welcoming to accepting change, involvement, things like that.

When we go up to the rust belt, okay, in the Michigan, into Wisconsin--a lot harder to drive the change. So, in those plants, they are nowhere near where like Danville, Virginia is. So, that's kind of on the legacy side of our business, right? In the Polyair side, we're specifically focused on three key plants, right? We've got Atlanta, Chicago, and California.

And a lot of that is driven by management's ability there--or our interpretation of management's ability--to accept the change and lead the change, right, because if you don't have a leader that's willing to do it, you might as well forget about it, right?

So, we're going to get some wins in those cases, but certainly very early stages, right? Cantech, early stages of Cornwall, so there's a lot more upside to be had, in my opinion, even within the legacy plants of Intertape.

Questioner: I have two questions for Greg. The first question is, could you provide us with the color on some--the demand trend and the growth trend in your end market and customers because the box shipment data is a bit weak recently. And also I understand like the margin story is pretty clear here, but organically at the organic growth level what should we expect to like reach a 2020 target?

And the second question is really--I don't know whether you are already receiving orders--but how are we progressing in the (unintelligible) for your Capstone and Midland facilities?

Gregory Yull: Okay, so, you know, when we spoke about volumes and on a path forward with specifically 2019, we feel very good about our guidance on a go-forward basis--certainly some data coming out of some box shipments. I think March was down 3 percent year-over-year. There has been some pretty weak box data, right?

So, from our perspective, you know, our business for the most part is going to grow with GDP with the exception of pockets like e-commerce and areas like that where we'll have out-sized growth, and certainly we'll have out-sized growth driven by the capital expenditures that we've made over time, so certainly hard to kind of go much further than kind of the 2019 guidance on that. We did see weakness--and I'm sure you saw weakness--from some of our pseudo peers as it relates to kind of organic growth Q1 to Q1 this year.

As it relates to Capstone specifically, we--and I mentioned this on the call--we are running material from Capstone in Maiweave, which is kind of interesting, right? So, we're running product there now. Containers are starting to hit our inventory here in Delta, British Columbia and into Truro, Novia Scotia on a lesser extent.

So, we're running that material now. The impact on the P&L is staggered as our inventory as we FIFO the product that's coming in. So, you know, as Jeff said, we'll continue to see--like we should see an improvement as we move through the year as it relates to the margin side of that business and the impact on the company. Does that answer your question?

Questioner: And the organic level, I'm just wondering from now (inaudible) organic M&A like what kind of magnitude does M&A--.

Jeff Crystal: --Yeah. We haven't split it out, you know, in that way, given the uncertainty around the M&A, but certainly we feel that we probably need to do, you know, two to three bolt-on deals to get to our target. We don't think we'll get there just through organic growth.

You know, and then like Greg said, I mean--because you have most of our business still growing at GDP levels, and so you're going to be hampered by that. You know, certainly we're trying to focus our efforts around that e-commerce, just like our customers are, and certainly you're seeing the growth rates there. But that's still not a huge percentage of the business, you know. So, at the end of the day, that won't get us there, but we feel still that there's a market for M&A. We still feel good about it.

And, look, we're not going to chase--you know, we're not going to chase deals just to get to that target. We feel--you know, we want to grow prudently, we want to add value--create value--for the shareholder. And, you know, we feel good about what we've done, and we think that even with what we've done, it should get us a good ways there.

Questioner: Hey, guys, just want to talk about your internal rate of returns. You have your three pockets of CapEx, you have your run, you're growing your transform. Transform obviously clears the 15 percent internal rate of return hurdle. How much of your grow projects would clear that hurdle? And do you have another figure in mind when you're evaluating those projects?

Jeff Crystal: Yeah.

Unidentified Man: Yeah, just repeat the question.

Jeff Crystal: Okay, so the question was basically out of our, you know, run, grow, and transform projects, how we look at the internal rate of return and whether that 15 percent applies in all three categories. You know, obviously I--you know, as you can imagine in the run category, the maintenance, that doesn't apply.

And I should--well, I should say that--I should say that because it's an avoidance, right? So of course, you know, you could say that in a maintenance project or operate--you are replacing a machine that's old and tired. You're avoiding potential problems, right, which could give you a significant return.

But--you know, but obviously that's not the way we measure it. When we look at grow projects, I would tell you that a lot of them do. I wouldn't say necessarily that that is an absolute hurdle, but a lot of them do, so certainly when we look at them, we do look at that as a prioritization of capital.

A lot of--you know, a lot of what we do in terms of taking our cost and our business, I mean, some of it involves that CapEx, which we will evaluate--versus that hurdle rate. A lot of it is just process improvement, you know, and looking at other ways of doing things. But certainly, yes, that would be the majority of it--would probably be evaluated on the same basis.

Questioner: And then, circling back to your acquisitions and change management through corporate culture, has there ever been a case of corporate culture being a deal breaker for an acquisition that you're vetting?

Gregory Yull: Hmm, good. I would say pretty close. We had--we had--.

Unidentified Man: --That's a good word.

Gregory Yull: We had--we had one where we were had a value issue, but we had a value issue because of the culture issue, so not completely tied, but the culture made us value the business for less. And the seller did not like that. So, that's--I'm sorry.

Unidentified Man: Repeat the question.

Gregory Yull: Yeah, so the question is, have we ever walked away from a deal because of the culture of the target? And the answer to that is, you know, loosely yes, we have. Yeah.

Questioner: Just going on the IPS maybe for Dave, maybe for Jeff. You talked about some--the coding line, where you increased the speed, you increased the throughput of these machines. Do you go and--Jeff, do you actually measure what the dollar savings or value is of these--.

Jeff: --Yeah--.

Questioner: --Because you say that just doing on the base level of CapEx, you don't really have or you can't measure your 15 percent IRR. So, do you have a--.

Jeff Crystal: --We actually--yeah, so good question. So, we actually do. So, we actually have a process where we actually will go back and look at some of those, call it the grow projects. And we will evaluate. So, we have our team. So, basically our plant accounting team will go back and actually, you know--let's say after it has been live for let's say a year or so, so we can actually see a run rate, we'll go back and actually measure that person to business case and see, did we actually achieve those targets?

And we'll do that, you know, for large projects obviously, but we'll also do that for those smaller projects, even $50,000, $100,000, $200,000 projects, to make sure that, is our business case sort of playing out the way we think? And we'll go through, and we'll randomly sample that throughout the period.

Gregory Yull: Any project that costs more than a million dollars of CapEx in its first year of commercialization, we will review on a quarterly basis at the board.

Questioner: Any kind of major wins that you can think of off the top of your head as far as, "You know, we got a 50 percent, 200 percent return off doing this or that?"

Jai Sundararam: Well, one that would mean something, too, is that stretch film line. I won't disclose the exact percentage, but it's significant.

Questioner: Okay.

Jai Sundararam: Yeah.

Questioner: You can tell me later.

Questioner: I'll go ahead. So, the question--you definitely built the skill set to execute on large greenfield projects, you have built the team. But, on the flip side, you're committing to lower CapEx levels for two years. So, I mean, cycle questions aside, balance sheet questions aside--maybe that plays in--but is the plate full right now, or is the opportunity in your opinion more on the inorganic front and maybe just how that equation balances out, in your opinion?

Jai Sundararam: I would say like it's--we are executing, so now--the point there is like success in execution. We are on the execution side. We still have another year to two before we start cashing the check, making sure we don't take our eyes off in some other big projects and recommit the resources because the resources are fully utilized now between the two greenfield start-ups in India and the other projects that you saw. So, that's one. So, the resources are tied to making sure that we are following through on the execution.

Number two, I think these opportunities--I think we are constantly reviewing the strategic opportunities. That's what we called out as guidance. But, the key here is like, as the opportunities show up we know we have the skill set and the resources to redeploy and go after those opportunities.

Unidentified Man: (Unintelligible) jump in.

Questioner: So, it feels more like a pause. Is that the way we should interpret it?

Unidentified Man: When you say pause, tell me what you mean by pause? Pause for what?

Questioner: In terms of greenfield and--.

Gregory Yull: --Yeah, listen, I mean, I--listen, greenfields--we've got enough greenfields. We just built three. Okay, that's enough, you know, until like--so there's no plans for that. But, as it relates to, you know, specifically Jai and his team from a transformation perspective, there is lots of stuff for us to get accomplished with what we have right now.

And certainly when you start talking about the integration of the M&A side and the implementation of IPS further in the legacy plants and initiating in the M&A plants, there's a lot of work to be done, right--left to do. But, as it relates to greenfields, no.

Questioner: Okay.

Jai Sundararam: So, just to add, right--the key here is the greenfield. You start filling out the greenfield--it takes time. It doesn't happen overnight. It's year two, right? That's number one.

Number two, as you pointed out we still have low hanging opportunities across acquisitions. What we have done with the

upfront during your diligence process--that we are cashing the check on.

Now we have a string of assets across the continents. What else can we do with those assets and how we can leverage these low cost assets and put our continuous improvement process in play and leverage our technology leadership in driving some improvements?

We haven't even gone there because we're already busy with the big CapEx projects. As Greg was pointed out, the next wave is in like, "Okay, ask me--fill out the plans, and get the greenfield up and running fully." We will start focusing on the second order (SP) synergies because that's year two, extra synergy, so come in in terms of how we get to capitalize on the assets and the people.

Gregory Yull: And the other comment I'd just add, just connected to that. So, when you look at this site here, okay, we plan this for further expansion, right? So, you know, we just need to blow the wall out, pour concrete. The infrastructure for the most part is here, right? So, that would be an expansion. You know, when we did, you know, our Indian facility, same thing, right?

We can move a wall out, and that's a lot easier obviously than going greenfield, right? So, when I think of kind of growth, and I think of levers that we can pull for growth, if the demand shows up in our facility that we've built, we've built the capabilities to quickly add on, and we've strategically planned the land and the infrastructure to deal with that, right?

So, again, like this one is easy. When you walk out there, we just push that wall out, and we start dropping lines in. And it works, right? The material flow all comes--it's raw materials coming in this way, finished goods coming out that way.

Questioner: Okay, great. And maybe one more question on the M&A side. You've talked about sort of a template, and you're hitting your targets on a number of the deals that you've made. Does that change the view now with a little bit of success in terms of how you approach other companies in terms of what you're willing to pay now--that you're a little bit more comfortable with what you're able to realize on the synergy levels--and maybe just even about the size of the deals that you're looking at versus previously?

Jeff Crystal: Well, you know, what I would say is it gives me a lot of comfort around the skill set that we have. You know, what we've articulated, as you know, is we've seen multiples of bigger companies go up, and that gap between our trading multiple and theirs increase, right? And we're seeing a company in process right now where, you know, all there is in the process is private equity. They are not even inviting strategics (SP), right, because they can't at the end of the day compete.

We're going to be very diligent as it relates to executing on acquisitions from a value perspective. Obviously, we're diligent as it relates to the integration side. I think where we are right now in the M&A market, where we are with leverage, we're certainly comfortable with bolt-ons. You know, that Maiweave acquisition in December, I think, will be a fantastic deal for us--and for our shareholders, more importantly.

Those kind of deals I think we'll execute on. Do we have the capability to do a bigger deal? Absolutely. We've got the cadence, we've got the process, we've got the people to do that, yes. But, I'm not sure it's going to happen right now.

Questioner: I'll jump in here. We've got a couple of examples of dispensing equipment in the room here. Just wondering if you can touch on how these factor into your business today and how you see that evolving, going forward.

Gregory Yull: Yeah, okay. So, good. So, one of the things when you think of just protective packaging as a whole and you think of air cushioning specifically, right, you're shipping a lot of air. You're basically extruding plastic in a rooftop and shipping a lot of air.

And when you think of systems, what systems provide, right, is the mechanism, certainly in the air inflation side, to inflate on site, so a lot of savings as it relates to cost in the supply chain, a lot of savings as it relates to warehousing and things of that nature. So, the value of real estate goes--as it goes up, you know, you need to shift your mix more into systems selling.

And when we look forward, our mix of products that we sell within the legacy Polyair business will be more systems and less what I would call traditional air cushioning material, right? And that would mean as you move along less rooftops, lower freight cost, you know--I think Trent was telling me earlier that if you take a pallet of film, okay, and put it on a truck, it's the equivalent of a full truckload of inflated bubble. I mean, it's amazing, right? So--and that--that truckload of bubble might be worth $3,000.

Questioner: Where are you on that today? Are you--is it--it sounds like it's first inning or not even?

Gregory Yull: Well, I would say--I would say, you know, we bought a business from Polyair that--they had a nice position in the inflatable side, so they had one of three of the types of products that we're selling right now on the systems side. So, they had one. They were successful with it. They had it in large e-commerce retailers.

And what--one of the reasons why the acquisition really made sense to us is that we felt like between this paper solution, that we'll show you later, and our bubble-on-demand solution--

we felt we could take--Intertape could take products and give them to Polyair and expand their portfolio in the systems side.

So, when we go to distributors now, we go to end users now. We're offering much broader products within that system perspective than pre-Polyair acquisition by Intertape, right?
And at the end of the day, the margin profile is way different here, okay? So, we drive sales here, margin goes up, gross profit goes up, rooftop requirements go down. So, it's a really good play longer term.

Questioner: I had a question for Dave. That IPS implementation timeline that you had where the plants and their machines graduate into silver and gold and so on.

David Bennett: Yeah.

Questioner: I know when I did a plant tour with you guys before, it's a big deal for each of those plants, and I think it's a really rigorous process that you have. So, it would be interesting to--you know, I don't know if you guys can provide updates as to what percentage of your plants are at gold (unintelligible) at silver, and then, you know, kind of update us as we go along, where that graduation occurs, and give us a sense of, you know, how that improvement is going along.

And maybe to that extent, do you have a rough sense of where your plants are currently in that kind of graduated tier and where they were maybe a year ago or how many are starting to improve into the gold from the silver and the silver from the bronze and so forth?

David Bennett: Yeah, actually the legacy plants--like I said earlier, we're well on our way. The--we're roughly about 60 percent there through the levels. We do have a couple of plants that we elected not to go into. They are smaller and maybe don't have the resources.

We're just beginning to get into Polyair and Cantech. Some of the--I will say, though, some of the plants actually have implemented all the way to the gold level in less than that three-year time line, so, yes, it's a big deal. It depends on the resources, it depends on the situation. Those plants that I showed you that were the best plants winners obviously have excelled and exceeded in those areas.

Questioner: This might be tough to answer, but I'm wondering, when you look at your long-term margin target to get to 15 percent of EBITDA, if you were to categorize sales mix, your IPS system and then CapEx, that you're spending on vertical integration or improving your cost profile, and think about those categories and how they contribute to that margin expansion over time, what would be the largest contributor of the three, or are they all fairly similar or important?

David Bennett: Yeah. I mean, I would say the strategic (unintelligible). You know, you're talking about larger scale, you know, obviously just bigger dollars, more meaningful changes. But, you know, the grow project certainly can add. I mean there, you know, certainly what we face every year is obviously we face--we're in the hole every year when we start the year. You know, we talk about inflation.

So, you know, last year we saw over 30 percent inflation in medical costs. I mean, it's just, you know, off the charts sometimes. And then, you've got to deal with, you know, labor inflation, things you know that are coming, right? And so, part of the way we manage that is we mandate our operations to say, "Hey, you know, we need to take out cost every year to pay for some of that or all of that or hopefully more than that--that inflation."

So, you know, when we think about, yes, you know, you're getting good returns out of those things, but a lot of that is to mitigate a lot of the increase--just operating costs in the business, right? So, I wouldn't say you are going to see that same lift that you see from the--those strategic CapEx.

Gregory Yull: Maybe I can answer it--like I think you were asking a bit of a different question as well, like--so when I think of bridging between kind of where we are to our margin goal on EBITDA, right, because that's really the driver, okay?

Questioner: Yes.

Gregory Yull: And I think of, okay, so like what's my line of sight from--getting from where we are to the plus-15 percent, okay? I think of two things all day long, right? And I'm not going to put numbers to it because I don't know.

Number one is manage the plants better, okay--operational improvements within the facilities--okay? The rigor, the cadence, the--you know, get everyone on board with what's the goal, what's your role in obtaining the goal at a shift level? Remember what Dave said. Every shift has a hand off, right? So, you're walking in, you've got a score card right there. You know what you're walking into, you know how the shift before did, you're communicating with them as they leave about the problem areas they are having.

That is not happening in our acquisition plants. It's not, right? So, that whole piece is going to drive a substantial uptick in margin, in my opinion. I mean, just think of what that example was with that one coder that Dave articulated.

Then, the other piece is the cost takeout piece. What we found in some of these acquisitions--and I'll mainly align to kind of Cantech and Polyair--is capital starved, okay, like I remember doing the first tour to all the facilities when we first bought them. And there were one-year buy-backs there for small money that they wouldn't do--six-month buy-backs they wouldn't do because their culture didn't allow them to do it, right?

So, when you think of the ability to deploy capital in those cases with those kind of returns, that drives significant margin improvement, right? And Jeff also mentioned, you know, the vertical integration in Polyair. They were sourcing product, very similar to what woven products was doing with Asia. They were sourcing product from a 3PL. You know, we basically have brought that into house with minimal capital requirement from a CapEx perspective and have integrated that--and cashing a substantial check.

They should have done that earlier, right--like it's crazy. And so, when I think of like Cantech, and I think of, you know, closing Johnson City, closing Montreal, not good--not easy decisions to make, right, because at the end of the day, it affects people. But, they should have been done before, right, like they--it's such a high return project that they should have done it before.

And these are things that as we work through these acquisitions, it's going to have a dramatic impact on the margin. I'll say it again. There's no reason why those acquisitions can't perform at Intertape plus legacy margins for EBITDA, which is 15 percent or greater.

Questioner: I have two questions. First one, relatively simple--just want to establish that--what the e-commerce exposure of the company is. Is it simply Midland plus Wisconsin plus Polyair, or are there bits and pieces? I'll stop--.

Gregory Yull: --No, there would be some in other plants, too. I mean, like when you think of--you think of films, we have some exposure there or some products going in there, but those would be the biggest ones, the Polyair here and (unintelligible).

Questioner: Right. And then, my second question, in terms of the organic growth rate--and, of course, I'm not asking for any, you know, numerical quantification. But, would--are you at the level where maybe the piece that's e-commerce would sort of take over and increase that organic growth rate? Would maybe the two or three bolt-ons that you're looking for sort of get you there? Or are you still far from having e-commerce sort of dominate?

Jeff Crystal: Yeah, I mean, like we said, e-commerce is not a huge percentage of the business, right? So, it is something that affects our growth rate, so there's no question we're seeing out-sized growth in those product categories that you mentioned before. And it does bring our overall growth rate up. But, it's still not a big enough percentage of our business to say that we're going to grow at e-commerce rates. We're not there.

Questioner: Okay, thank you.

Gregory Yull: Okay, if there are no more questions, thank you very much, everyone. We're going to end the webcast, so thank you, everyone, and have a good day.