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IPL Plastics Inc.

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PRESENTATION

Operator

Good morning. My name is Leonie, and I will be your conference Operator today. At this time, I would to welcome everyone to the IPL Plastics Inc. Second Quarter 2018 Financial Results Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press *, then the number 2. Thank you.

Mr. Walsh, you may begin you conference.

Alan Walsh — Chief Executive Officer, IPL Plastics Inc.

Thank you, Leonie, and good morning, everyone. Welcome to IPL Plastics Inc.'s first conference call since we completed our IPO on the TSX at the end of June. We are grateful that you've taken the time to join us this morning. For those who don't know me, I'm Alan Walsh, Chief Executive Officer. I'm joined by Pat Dalton, our Chief Financial Officer.

I will begin by providing an overview of our second quarter results and recent events at our company. It has obviously been a busy time for us. Pat will then discuss the financial results in greater detail, and I'll conclude with some comments about our outlook and strategy. After that, we will be pleased to answer any questions that you have.

Before we begin, I need to remind listeners that certain statements about future events made on this conference call are forward-looking in nature and are based on certain assumptions and analysis made by the Company. Please refer to the cautionary statements on forward-looking information on Slide 2 for more information.

Also, please note that we will discuss several non-IFRS financial measures this morning, and that all dollar figures are in US dollars unless we state otherwise.

First of all, I'd just like to say that we're very excited to be here. This has been a truly circular journey for IPL, which was a publicly traded company in Canada for 25 years up until 2010. In the subsequent eight years, we went through a series of acquisitions and restructurings that greatly strengthened our global business. And today, with the support of our key Quebec shareholders, Caisse de dépôt and Fonds de solidarité, we're glad to be back on the Canadian Stock Exchange.

Our company today is significantly stronger than the IPL you might remember from eight years ago. Back then, we had 900 employees; today we have 2,400. We operate 14 state-of-the-art manufacturing facilities and 320 molding machines across North America, Europe, and Asia. We have three profitable business units, including our new Returnable Packaging Solutions unit. We have leading market positions for many of our key products, and we believe our ability to innovate and respond to the needs of our customers is a significant competitive advantage.

We are very pleased with the results of our IPO. As you're probably aware, we raised C$191.7 million. During the second quarter, we also entered into a 494.3 million global refinancing, and we have subsequently paid down debt by approximately 105 million. These measures have significantly strengthened our balance sheet. We are now in an ideal competitive position to grow both organically and through acquisitions. So the future is very exciting for us.

Meanwhile, our current financial performance is solid. Pat will take you through the second quarter numbers in more detail shortly. I would like to touch on a few of the highlights now.

Revenue increased 34.7 percent from a year ago to 178.3 million, driven by strong organic growth and our Macro Plastics acquisition. Adjusted EBITDA rose 9.8 percent to 22.8 million due to higher revenue, including a full quarter of contribution from Macro Plastics which we acquired in June 2017. And adjusted net income was 8.7 million, similar to the 8.8 million we reported last year.

It should be noted that we achieved these results despite difficult market conditions. During the past 12 months, prices for resin and freight increased significantly, and impacted our gross profit and adjusted EBITDA margins. North American resin prices increased by an average of approximately 13 percent in the first six months of 2018 compared to the same period last year. And freight costs, expressed as a percentage of cost of sales, rose more than 20 percent. In his remarks, Pat will comment more on resin costs and the measures we've taken, which we expect to have a positive impact on our financial results over the next 12 months.

During the second quarter, we also continued our capital expenditure program that we began during fiscal 2016. We have invested more than 100 million in our operations through this program. We have upgraded our facilities, increased automation, and expanded our manufacturing capacity and capabilities. This is driving substantial organic growth in our business. We plan to invest 120 million to 140 million in our operations between 2018 and 2021, furthering our goal of ensuring they are absolute best-in-class facilities.

So my messages today are pretty straightforward. We're delighted to be now on the TSX, we're performing well despite some significant cost pressures in our industry, and we're in an ideal position to capitalize on internal and external growth opportunities as they emerge.

I'll now invite Pat to discuss our financial results and balance sheet in greater detail.

Pat Dalton — Chief Financial Officer, IPL Plastics Inc.

Thanks, Alan. Turning to Slide 4 of the presentation. Revenue in the second quarter of 2018 was 178.3 million, an increase of 34.7 percent from last year. This was driven by the acquisition of Macro Plastics in June of 2017, which contributed 27.6 million of additional revenue. It is also the result of strong organic growth across all three of our business units.

On a pro forma basis, which is adjusted to include Macro's performance for the entire of Q2 2017 period, including the period prior to its acquisition in June of 2017, and excluding the effects of resin cost pass-through and price adjustments and foreign exchange movements, our Q2 2018 revenue increased by approximately 12.4 percent.

Gross profit in the second quarter was 31 million, up 11.1 percent from 27.9 million last year. And adjusted EBITDA was 22.8 million, an increase of 9.8 percent from 20.8 million last year.

The improvement in both metrics reflect our increased revenue and the full quarter contribution from Macro.

As you can see from the table, gross profit margin and adjusted EBITDA margin both declined. This was due to the impact of resin and freight cost pressures. Gross margin declined to 17.4 percent in Q2 2018 from 21.1 percent a year ago, and adjusted EBITDA margin was 12.8 percent compared to 15.7 percent last year.

Q2 adjusted net income was 8.7 million, similar to 8.8 million last year. The growth we generated in adjusted EBITDA was essentially offset by increases in depreciation and finance costs which primarily arose from the internal financing of the acquisition of Macro in June of 2017.

Pro forma adjusted diluted earnings per share were $0.16 compared to $0.17 last year, and we reported a net loss of 2.6 million in the quarter compared to a net income of 10.9 million in Q2 2017. This net loss was primarily due to a onetime cost associated with our IPO, as well as bank refinancing costs, and to a lesser extent, disruption costs arising from the start-up and integration of a major capital expansion program at our Forsyth, Georgia facility.

The first half of the year closed with strong revenue growth overall of 33.3 percent and adjusted EBITDA growth of 12.6 percent, despite some resin and freight headwinds.

Turning to Slide 5, you can see that revenue and adjusted EBITDA bridges for both the second quarter and half year on a pro forma or like-for-like basis. You can see that our Q2 revenue increase was primarily driven by increased sales volumes. We've had some benefit from higher prices and favourable currency movements during the second quarter, but the bulk of it was volume growth as we expanded our capacity and our customer relationships. That really demonstrates our ability to generate organic growth across each of our divisions.

On the adjusted EBITDA charts, you can see the impact of the higher cost of goods sold due to the resin and freight pressures. As we go forward into the second half of the year, we have an opportunity to improve our business margins as we continue to pass on more of those costs.

Turning to Slide 6 illustrates the year-on-year change in adjusted EBITDA margins. As highlighted, the 13 percent increase in resin costs in the first half of 2018 was the primary reason for the margin decline, with the increase in freight costs also a factor. We have moved aggressively to offset the cost increases by continuing the process of passing through the increased resin cost to customers where contractual pass-through arrangements are in place. We've also entered into revised contractual arrangements with new and existing customers, and we are seeking to negotiate general price increases with customers. And we are also in the process of refining freight procurement processes.

Turning to Slide 7. Now in this section, I would like to talk some more about the performance of each of our three business divisions. Let me start by providing you with a brief overview of each division.

In the Consumer Packaging Solutions division, we had strong organic growth due to the rollout of our new dairy business in North America, as well as higher demand from our largest customer in Europe.

Large Format Packaging and Environmental Products (sic) [Solutions] division generated strong organic growth in both packaging and environmental products. And this division was also successful in securing a high volume of new tenders for environmental products in Europe.

And our newest division, Returnable Packaging Solutions, benefitted from the introduction of new specialty bin technology for the automotive and apple markets, partially offset by lower sales in the cherry and citrus markets in California due to poor weather that reduced crop yields. I’d also note that we have an exceptionally high order backlog for agricultural product containers.

Every division was impacted by industry-wide cost pressures, as shown on Slide 6, but each division’s underlying performance was solid, with strong organic growth across our key markets.

Turning to Slide 8. In the Large Format and Environmental division, revenue increased by 10.8 percent year over year to 86.7 million in Q2 2018, driven by volume growth in the large format pails and environmental products areas.

Gross profit of 11.9 million and adjusted EBITDA of 8.6 million were both lower compared to last year, as were the margins. This was primarily due to resin and freight cost increases in North America. In addition, adjusted EBITDA margin was negatively impacted by the sales mix in Europe, as sales of lower-margin products were relatively high in the quarter.

Turning to Slide 9. In our Consumer Packaging Solutions, revenue was 49.4 million in the second quarter, an increase of 19.1 percent from the 41.5 million recorded last year, driven primarily by the rollout of the new business in North America and additional demand from our largest customer in Europe.

Gross profit was 9.5 million and adjusted EBITDA was 8.7 million, which were both higher than Q2 last year. However, margins declined due primarily to increased revenue from our lower-margin dairy business, and to a lesser extent, increased freight, resin, and logistics costs.

Turning to Slide 10. In our Returnable Packaging Solutions division, revenue increased by a factor of more than four times to 34.7 million. This was driven primarily by the timing of the Macro Plastics acquisition, which was our entry into this business. We acquired Macro on June 9th of last year so it only made a small contribution to our Q2 2017 results.

To provide investors with a better understanding of the performance of this business, we've provided Macro's pro forma results for the entire Q2 of 2017 period, including the period prior to the acquisition. As you can see, revenue for that period was 28.5 million, so our revenue increased on a like-for-like basis by 6.2 million in Q2 2018, meaning we had very strong organic growth of 21.8 percent in this division, driven primarily by the introduction of new specialty bin technology for both the automotive logistics market and the aftermarket.

Our Q2 gross profit of 7.4 million and the respective margin was below those pro forma results for last year. This was primarily due to resin price increases, product mix, and automotive business start-up costs and operating expenses.

Our adjusted EBITDA of 5.6 million was higher than last year's pro forma of 5.4 million, where the margin was lower for reasons previously noted. You can see that margins were also higher in the stub period of Q2 2017 period, but this was primarily attributable to the timing of sales.

Turning to Slide 11 to take a look at our balance sheet. Working capital as at 30th of June was 96.1 million compared to 53.2 million at the end of December of 2017. It increased due to the nature and seasonality of our business, whereby working capital typically peaks during the first half of the year and unwinds during the remainder of the year.

Total assets as at June 30th were 905.2 million and shareholders' equity was 332.4 million. Both numbers improved from December, primarily due to the issuance of common shares as part of the Canadian IPO and the resulting proceeds raised.

Our net debt declined to 230.2 million from 276.3 million at year-end, primarily as a result of the IPO proceeds. Our net debt to equity ratio declined to 0.66 from 1.14 at the 2017 year-end, and our net debt to adjusted EBITDA ratio declined to a ratio of 2.72 times from 3.45 at the end of December. Our interest coverage ratio was 4.03 compared to 5.97 at the end of December 2017.

Since year-end, we've used—since the IPO, we've used 104.7 million of the cash balance held at 30th of June to repay debt during the third quarter. This will help to reduce our finance costs in the second half of the year.

During the second quarter of 2018, we also completed a 494.3 million global refinancing. We now have a five-year, multicurrency facility with a syndicate of international banks. This new facility replaces our previous arrangement, which consists of separate Irish and Canadian bank facilities which were ring-fenced from each other. This new facility has very much improved terms and is more appropriate for our global business.

Turning next to Slide 12. As you can see, we calculated—this slide shows how we calculate adjusted free cash flow. We had an outflow of 3.7 million in the second quarter compared to an inflow of 5.6 million in Q2 last year. This was largely due to an increase in working capital, which was driven primarily by higher trade receivables from the revenue growth and by additional inventory built up in respect of Q3 2018 demand. We also had increased maintenance capital expenditures which totalled $2.3 million. For the year to date, our cash outflow increased by 13 million from last year, driven primarily by higher levels of working capital, as outlined above.

On Slide 13, I'd like to talk briefly about our CapEx. In 2018, so far we've spent a total of 34.5 million compared to 23 million last year. This is part of the major capital investment program we initiated in 2016 and represents a critical component of our future performance. Of the 34.5 million spent so far in 2018, 29.6 million related to strategic and development capital expenditure, while the remaining 4.9 million was maintenance CapEx. Our CapEx forecast for the full year is 52.5 million, though the pace of spending will slow down in the second half of the year.

I'll now turn it back to Alan to talk about our business outlook and our strategy.

Alan Walsh

Okay. Thanks, Pat. We're very optimistic about the performance of our business in the remainder of 2018 on the [audio gap] Company continues to experience strong growth and demand for its products across all three operating segments, and we continue to organically grow revenues, given the significant customer and market opportunities available to us.

The results for 2018 continue to be adversely impacted by increases in resin costs, freight and logistics, and labour costs. As a result, we expect similar pressure on our gross margin and adjusted EBITDA margin percentages in the second half of 2018 compared with the prior year. Notwithstanding, these input cost pressures, some of which are cyclical, we believe that as resin prices stabilize, we will be able to realign our cost of sales to return our business margins to normalized profitability levels.

We expect to incur total cash outflow in respect of capital purchases of property, plant, and equipment for fiscal 2018 of approximately 52.5 million. This estimate is based on the following assumptions. Our major capital investment projects are completed on time and on budget, the US dollar to Canadian dollar exchange rate of 1 to 1.27, and interest and inflation rates consistent with historical levels.

Finally, I'd like to take a moment to talk about our M&A outlook now because that is a key part of our strategy. If you follow the global packaging industry, you are aware that it is highly fragmented. There are few competitors in our target markets with significant scale. Consolidation is an important industry dynamic and we always have our eye out for potential accretive opportunities.

As we noted during our IPO process, we have a proven track record of successfully acquiring and integrating high-value assets. We have acquired four major plastic companies since 2014 with a combined enterprise value of more than 420 million. And after our recent debt repayments, we have a stronger balance sheet with which we can pursue opportunities. We will continue to consider complementary acquisitions that make sound strategic sense, that fit within our disciplined acquisition parameters, and that are accretive to shareholder value.

During 2018, up to the date of the IPO, the management team invested significant time and effort in restructuring the shareholding structure of the Company, completing the bank refinancing in April 2018, and preparing and completing the IPO process. On having successfully completed that process at the end of June, and having appropriately capitalized the Company, we are now turning all of our focus to the implementation of our business strategy, including optimizing the efficiencies from the recent significant capital investment program.

Despite the significant cost pressures from resin and freight, IPL is strongly positioned for continued growth. We are a packaging industry leader with a strong focus on sustainability and a customer-based innovation model. We have a track record of business growth, operational excellence, acquisition expertise, and an experienced global management team.

That concludes our remarks this morning and we are now pleased to answer any questions that you may have. So Operator, please open the line for questions.

Q&A

Operator

Thank you. Ladies and gentlemen on the phone lines, should you have a question, please press *, followed by 1 on your touch-tone phone. If you're using a speakerphone, please lift your handset before pressing any keys. One moment please for your first question.

Your first question is from Walter Spracklin from RBC Capital Markets. Walter, please go ahead.

Walter Spracklin — RBC Capital Markets

Thank you very much, Operator. Hi, Alan. Hi, Pat. How are you doing?

Alan Walsh

Hi, Walter.

Walter Spracklin

So I guess I'll start my first question on your growth profile. It was pretty impressive in the quarter. Certainly during the IPO process, you were framing your growth opportunity in the mid to high single-digits, which obviously is faster than industry. But 12.4 percent on a core basis was quite strong. Can you indicate whether that is due to unexpected trends, positive trends that came into the quarter? Was it due to seasonality that might lighten up in the back half of the year? Or is it something that is probably a little bit more sustainable as we go forward?

Alan Walsh

Yeah. I don't think it was related to seasonality, Walter, per se. I think that the bulk of that outperformance in growth really would have come from our Consumer Packaging Solutions division and our Returnable Packaging Solutions segment. We have experienced strong growth in Europe, as you'll see in the MD&A analysis on Page 19, albeit that's a small component of the group. And we've also experienced strong growth in Consumer Packaging Solutions in North America, largely driven by the new dairy business in particular that we rolled out during the first half of this year that we would have discussed during the IPO process.

In Returnable Packaging Solutions, the growth there is driven twofold. As Pat mentioned, we have the highest ever backlog in our RPS segment that that business has ever had at this point in time, and that's driven by what was the core agricultural part of that business where we've got strong demands across a number of the subsegments in there, but also driven by the new automotive logistics product that we launched in December 2017, and that's probably exceeded our expectations a little bit in terms of the demand there. So they're the two biggest drivers, but also in Large Format Packaging, pretty decent growth in that segment as well overall. So we're seeing the growth across the three divisions. I wouldn’t say it’s due to seasonality. Is some of it unexpected? Perhaps a little bit. There’s probably been a bit more demand in certain areas than we maybe anticipated during the IPO, but overall, we’re pretty happy with the top-line growth rate.

Walter Spracklin

That’s fantastic. Looking at your agriculture business, you mentioned your backlog is at an all-time high here, and certainly you’re taking on new business for your automotive customer. I’m just curious as to whether this is still—is it bringing your capacity? Do you still have room to be able to accommodate both the higher agriculture backlog as well the rollout of your new bins for the automotive customer? And have you had any further discussions with your existing or your new automotive customers with respect to further penetrating in new geographies for those customers?

Alan Walsh

Yes. I’ll deal with the two parts there first. So firstly, on the agricultural side of things, we have sufficient capacity to deal with the growth that we’re witnessing and the order backlog that we have in that segment. Turning to the automotive logistics segment, and obviously one of the key capital investments that we’re making which is being commissioned at this point in time is a $10 million investment in our facility in Kentucky, which again, we would have discussed during our IPO process. So that is coming on line at the moment.

With the deal with the demands that we have there, we are setting up production capabilities in our UK manufacturing locations to deal with some of the increased demand that we’re experiencing from that particular product. But to answer your question on range, customers—all that demand is still focused around one single customer. We've started the process of going to secure sales from other customers but that's where would have a capacity challenge in the short term.

Walter Spracklin

That makes sense. And last question from me on resin prices. Alan, you mentioned, and Pat as well, that you're putting in place the arrangements to pass on resin price increases on to your customer. Can you give us a ballpark just generally, how much of the resin price has been passed on to date? And certainly, there'll be a lag. And when we get through that lag and should you see some new pass-throughs built into any new arrangements you have, how much do you expect to recover down the road if we see resin prices say stabilize at current levels?

Alan Walsh

Walter, firstly, just in terms of that one of the significant issues in terms of resin pricing has been the fact that the momentum has been continuously in a particularly upward movement, so we haven't had effectively a stabilization of resin pricing just yet. But we are—certainly the outlook for resin pricing in the latter half of 2018 is that polyethylene would stabilize and polypropylene would come down somewhat. So as we look forward, there certainly should be some relief at this point in time. But certainly, when you look at the polypropylene, there were certainly significant increases in May and June, and those would be up 9 percent in each of the two months. And those, we could see a pass-through happening for July and August definitely for those two components.

The other point I guess to mention is that in respect of our overall component, our business uses somewhere in the order of about 60 percent polyethylene and about 40 percent polypropylene. And if you carve out kind of recycled out of that, we're about 45/55 in terms of how our business uses. And so polypropylene, we're passing on somewhere just at the order of—in terms of our contractual pass-through arrangements—pretty close to around 50 percent we have in terms of the polypropylene pass-through. So you could expect to see certainly an increase in our revenues driven by for the pass-through of polypropylene in July, August, and September.

Walter Spracklin

Okay. That's fantastic. Thanks very much for your time.

Operator

Thank you.

Alan Walsh

Thank you, Walter.

Operator

Your next question is from Elizabeth Johnston from Laurentian Bank Securities. Elizabeth, please go ahead.

Elizabeth Johnston — Laurentian Bank Securities

Hi. Good morning.

Alan Walsh

Morning, Elizabeth.

Elizabeth Johnston

Just to continue on briefly on the discussion of resin, you mentioned the expectation I believe for some stabilization. Can you give us a sense of what makes you feel that would take place in the second half of this year, certainly in the context of 2017 where we saw prices, as far as I can recall, increase the entire year?

Alan Walsh

Yeah. I think part of the driver in the continuous increase in resin pricing in 2017 was certainly driven by the hurricanes around July, August 2017, which caused a number of outages and supply constraints in the industry which would've put upward pressure on pricing. What we're seeing—just to elaborate on the point that Pat made—we've seen some stability in PE pricing over the last couple of months. PP pricing has been increasing pretty significantly for the first two quarters of the year in reality at this point. And so just to elaborate, we're exposed there.

If I just elaborate on the RPS segment for a second as far as we said we have the highest ever order backlog, which is a big positive. And no, that business unit is performing very well. But that backlog within a continuous PP rising market to date, obviously we're not seeing the full benefit of the increase in sales that we'd like to see at that point in time. But we are seeing some stability now appearing in the PP market. There are anticipated reductions in PP pricing for August and possibly into September, so we do think that situation will flatten out and improve going into the back half of the year.

But I mean we are heading into hurricane season as well, as everybody knows, so you do get a one-off force majeure type event that can happen in those situations as well. But as we stand today, we anticipate PP pricing coming down into the end of the year, and we do anticipate some improvement in that.

Elizabeth Johnston

Okay. Great. That's helpful. Thanks. And just continuing on on the RPS segment since you mentioned it there, in terms of the backlog. Can you remind us about the competitive environment, particularly in that segment for you? And what that—the industry for those products look like? And whether they contributed to the backlog again?

Alan Walsh

Yeah. We're the number-one player in that space in North America. The competitive environment, in reality, there are some smaller competitors but we're really competing against wooden boxes. So that's our main competition there and certainly what we're seeing in the market and have seen over the last number of years, and probably accelerating a little bit is the migration from wooden boxes to plastic boxes for a whole variety of functional use reasons. So I think that's what driving that order backlog as we're continuously converting customers from wooden boxes to plastic boxes.

And just to mention while we're talking about resin and order backlog and the automotive logistics segment, we have full pass-through, as seen in our contract with that customer, albeit there's a three-month time lag in there as well. So we are protected but there is a time lag effect.

Elizabeth Johnston

Okay. Great. Thank you. And just turning over to the CPS segment, in particular the dairy business. In terms of this business being, I believe you mentioned being lower-margin, is there something specific about this contract that you won recently that is lower-margin? Or is it just generally dairy overall is lower-margin compared to the other business in that segment?

Alan Walsh

No. I think we've secured a number of contracts in that segment in the first half of this year which have started production or will start to roll out shortly. I think it's just a function of we had a niche, very high-margin business before we made a strategic decision to expand into that segment, and the margins are just lower than what we would have had historically in that business unit. So you're seeing some dilution in the margins of that division overall as a result of that. It's not that we're necessarily taking on new business as artificially low margins. I think that they're competitive processes but we're taking on that business at industry-standard margins.

Elizabeth Johnston

Okay. That's helpful. Thanks. And when it comes to those kinds of contract wins, is there any contract that the customer gets locked up with you over a period of a few years? Or is it really on an order-by-order basis that you're doing this work?

Alan Walsh

No. They're all minimum three-year contracts, but which typically we have one- or two-year extension options.

Elizabeth Johnston

Okay. Great. And just and finally for me in terms of the CapEx, I know you talked about how much you've spent already to date and how the second half will be less intensive versus the first half. But maybe more qualitatively if you could discuss some of the progress so far and what's left to complete more specifically this year.

Pat Dalton

I think the—just to deal with that. In terms of the CapEx, typically with the suppliers of equipment, we normally have kind of deferred payments such that they kind of defer payments rolled out in normally in January or February of each year, so hence, you get the up-fronting of the CapEx into the first half of the year in terms of the timing of cash flows. But at the moment, in terms of the overall CapEx, if you look at that overall CapEx program in terms of strategic that we talked about, we talked about it being an overall about 80 million of the CapEx program. At this point in time, we have actually 60 million of that paid out at this point in time. So in terms of the overall size of that CapEx program, it's beginning to dwindle down as we see it here.

The key pieces of it to come onstream at this point in time would be the RPS facility in Kentucky, in Shelbyville, Kentucky, which is mentioned in the IPO prospectus. The second key piece of it would be an expansion of the St-Damien facility, and the third piece of it is an expansion of the Lee's Summit facility. The Edmundston facility is pretty well up and running at this point in time, with that dairy business now coming on board.

But I guess what it does give us at this point in time is good visibility, and back to the question earlier, we have good visibility around the customers that effectively we've come on board as soon as we start supplying from those CapEx projects as they're being commissioned. So in terms of our run rate for organic growth into the future, we have good visibility about that.

Elizabeth Johnston

Okay. Great. Those are all my questions. Thank you very much.

Alan Walsh

Thank you.

Pat Dalton

Thank you.

Operator

Thank you. Your next question is from Flor O'Donoghue from Davy. Flor, please go ahead.

Flor O'Donoghue — Davy

Thanks very much. I just have a couple. The first one is just on the cost side. One of the costs you've mentioned as a kind of a near-term headwind is labour in I think in the US in particular. Just an update on that in terms of I think availability is an issue at present. And the second one is just on your guidance. I'm I guess looking for a bit of clarification around your EBITDA guidance for H2. If I understand it correctly, EBITDA margin as per the numbers was down 290 bips in Q2. Is that the kind of magnitude we're looking at year-on-year in terms of our modelling for the second half of the year? And just to confirm, in that context, if I'm right in saying that the H2 EBITDA margin last year was circa 100 bips higher than the first half one. Thank you.

Pat Dalton

Thank you. First of all, just to deal with the labour cost pressure issues. I think we see the labour cost pressure issues from three perspectives. First of all, in terms of the availability of labour, we see it impacting our freight costs, because as you're aware, the new truck driver regulations that came into force earlier this year in the US resulted in some of the existing operators of trucks obviously leaving the freight industry and moving to alternatives in plant. And that obviously resulted in a reduction in availability of freight drivers, and leading to an increase in prices and freight costs.

The second issue I guess we see is really generally around a general increase in labour cost generally across both the US and Canada in particular. Though I would say that in particular, in Canada, we are pretty well-protected because we have recently renegotiated our collective bargaining agreement both in each of our two Canadian facilities, and we have some level of security and confidence around the availability of our labour and the price of that labour for the next four-year period.

The third issue then really relates to the availability of labour in particular in the US, and where you've got effectively a more transitory labour operative force in terms of the availability for shifts and patterns, and that obviously is a more difficult area to determine. At this point in time, we don't see labour as being effectively a key driver of cost increases or cost pressures as we go forward. It is where it is at this point in time, but we certainly don't see it increasing as we see it here.

The second point, Flor, in terms of your H2 margin issue and in terms of the overall cost pressures, I think maybe let's go back in terms of the actions that we're taking at this point in time. Firstly, the pass-through arrangements, we should certainly see those pass-throughs starting to kick in in the second half of the year. And effectively, what we're waiting and looking for is stabilization of resin input prices, where effectively we can catch up to the increases that have happened to date.

The second issue that we're doing across our business is some general price increases to deal with both resin arrangements where we don't have pass-through in place, to deal with freight increase costs, and to deal with some labour costs. We would expect that those general price increases would start to take effect and we would start to see the upside from those in Q2 and Q3—sorry—Q3 and Q4 of 2018. And generally, our volume increases, again, we would expect to see those materializing in the second half of the year.

So I think it's difficult to answer your question in terms of the overall impact on margin, but certainly, I think that we would say there are some upside drivers in terms of where our margin will emerge at the second half of the year versus the first half of the year.

Flor O'Donoghue

That's great, Pat. Thanks very much. That's crystal clear. Thank you.

Pat Dalton

Thank you.

Operator

Thank you. Your next question is from Anojja Shah from BMO Capital Markets. Anojja, please go ahead.

Anojja Shah — BMO Capital Markets

Hi. Good morning. I just wanted to go back to that resin question. I know you recently started a more global resin purchasing program. Has that been helping at all in this environment of increasing resins? Or not really?

Pat Dalton

The answer to your question is that when we renegotiated pretty much most of our resin contracts at the back end of last year, we did at that point in time secure a fairly significant improvement in our cost inputs, net cost input of resin of at that point in time. Unfortunately, what has transpired since then is the fairly significant increase in overall resin pricing. So net-net, it hasn't really affected us or helped us in terms of our overall profitability, though if we didn't have it, clearly our margins would have been worse than what they are. So it's kind of a very difficult question to answer. It would have been a help had resin prices not moved, but the issue being is that resin pricing has moved up significantly.

Anojja Shah

Right, right. Okay. Next question for me is, you had some very impressive volume growth this quarter, and I think someone else asked was there anything different about this quarter, and the answer seemed to be no. So do you have volume expectations by segments for the full year that you're willing to share?

Pat Dalton

If you look across the 4 percent volume, organic growth volume numbers, 9 percent was in Large Format Packaging, 15.7 percent was Consumer Packaging, and 19.3 percent in Returnable Packaging Solutions. So effectively, across all three divisions in terms of our overall organic growth numbers. We don't expect, I guess sitting here at this point in time, that there's nothing that we're looking at right now, doesn't say that our organic growth numbers won't continue.

Anojja Shah

Right. Okay. So those are probably good numbers for the full year also?

Pat Dalton

I think that has to be one for you to continue it on, but I think I would say we're pretty confident in terms of the customer arrangements that we have in place, and as Alan talked about, the background that is in place.

Anojja Shah

Right. Okay. And then last one for me, switching over to acquisitions. Can you talk about are you seeing a lot of targets right now in the market? What kinds of valuations? Is this something that you think you can execute on this year? Or is it more of a 2019 issue?

Pat Dalton

I think if I just maybe go back in history a little bit, Anojja, I mean we're very selective in terms of our approach to acquisitions. We're not an organization that applies a scattergun approach in terms of looking at opportunities; we're quite selective in terms of where we go. We have three divisions, and as we said during our IPO process, any acquisition that we look to do will fit within one of those three divisions. And there are opportunities across all three divisions at this point in time, and some particularly interesting opportunities that we're looking at at the moment. Whether they will materialize or not is the question, and whether they'll materialize this year or into 2019 is a question also that we can't answer at this point in time, but there are some pretty interesting opportunities there that are available to us at the moment. That we would not also, if I point out, be pursuing through competitive processes. They're more bilateral discussions.

Anojja Shah

Right. Okay. Thank you. That does it for me.

Operator

Thank you. Your next question is from Ben Jekic from GMP Securities. Ben, please go ahead.

Ben Jekic — GMP Securities

Yeah. Good morning, Alan and Pat. Just a quick question. Most of the questions have been asked but I do have a question on RPS segment and just the very impressive growth that you've seen. So saying that the competitor would be a wood box supplier, what do you view—and maybe you can remind us—what do you view as your competitive advantage and barrier to entry in that market, given that you have such a leadership, especially in North America? At what point do you see a potential customer might create a similar solution? Would it take a couple years? Or five years?

Alan Walsh

No, no. I think that—well, if I answer that, it may be in a little bit of a roundabout way, Ben. I think you've had the benefit of seeing one of your facilities in Kentucky and the size of the machines. The real—I suppose there's two barriers to entry in this segment as we see it. One is capital investment, and if you look at the tonnage off the machines involved, that we have six of the nine largest injection moulding machines in North America, I think that is a natural barrier to entry here in terms of the size of the machine, the lows, sort of through the capital investment decision.

We also have a lot of internal R&D expertise within that segment in terms of how we design the various the products as well. And obviously, we have a very strong level of customer relationships that have been built up over many years. So in terms of barriers to entry, we would say we're very well positioned, we see pretty high barriers to entry within that segment because of the capital investment and the level of R&D that goes into those products.

And then from more of a market perspective, and just so you're clear, I mean wooden boxes are cheaper than plastic boxes, but there's a number of what we would say functional benefits to plastic boxes over wooden boxes, one being the life span of a plastic box versus a wooden box. But certainly, I think what's becoming more relevant today and as we go forward is the inherent advantages that a plastic container has over a wooden one from a potential contamination perspective, and just also how some of these bigger food growers use these containers in their processes, where they put them through washing lines, and atmospherically controlled, store them in atmospherically controlled environments, et cetera, which plastic obviously has a far superior advantage to wood in those situations.

Ben Jekic

Oh, that's perfect. Thank you very much.

Alan Walsh

Thank you.

Operator

Thank you. Your next question is from Ace Mirali from CIBC. Ace, please go ahead.

Ace Mirali — CIBC

Hi. Thank you for taking my question. Are you seeing any opportunities in the RPS segment for new industry verticals leveraging the new position automotives? And just a follow-up question. Are you seeing any new IML opportunities within the US market? Thank you.

Alan Walsh

We are. I mean, okay, I suppose our focus in our automotive segment at the moment is around that new product that we've launched at the end of December that I mentioned earlier. And we have an order backlog with that product that will probably take us out at least the next two years. But not withstanding that, and as we increase our production capacity, we are looking at other potential uses for that product in other areas of the automotive sector, but also in other segments such as e-commerce, for example. So they are things we're looking out at the moment.

And to answer your question on IML, yes, we are seeing lots of opportunities in the conversion from other technologies to IML. That's been one of the key growth drivers in the CPS segment to date, and we anticipate that continuing going forward.

Ace Mirali

Thank you very much.

Operator

Thank you. There are no further questions at this time. Please proceed, Mr. Walsh.

Alan Walsh

Okay. Well, I just want to thank everybody for joining the call and participating, and we look forward to speaking to you again in November when we report our Q3 results. Thank you.

Operator

Ladies and gentlemen, this concludes your conference call today. We thank you for participating and ask that you please disconnect your lines.

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