INTERTAPE POLYMER GROUP INC
Form 6-K
August 13, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934
For the month of August, 2018
Commission File Number 1-10928

INTERTAPE POLYMER GROUP INC.

9999 Cavendish Blvd., Suite 200, Ville St. Laurent, Quebec, Canada, H4M 2X5

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:
Form 20-F x Form 40-F
Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):
Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERTAPE POLYMER GROUP INC.

Date: August 13, 2018 By: /s/ Jeffrey Crystal
Jeffrey Crystal, Chief Financial Officer

Intertape Polymer Group Inc.
Management's Discussion and Analysis
Consolidated Quarterly Statements of Earnings
Three month periods ended
(In thousands of US dollars, except per share amounts)
(Unaudited)

	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
	$	$	$	$
Revenue	249,072	237,229	237,404	243,444
Cost of sales	194,605	186,777	183,381	192,575
Gross profit	54,467	50,452	54,023	50,869
Gross margin	21.9 %	21.3 %	22.8 %	20.9 %
Selling, general and administrative expenses	27,626	29,123	34,125	18,776
Research expenses	3,233	3,221	2,889	3,091
	30,859	32,344	37,014	21,867
Operating profit before manufacturing facility closures, restructuring and other related (recoveries) charges	23,608	18,108	17,009	29,002
Manufacturing facility closures, restructuring and other related (recoveries) charges	(407)	107	466	216
Operating profit	24,015	18,001	16,543	28,786
Finance costs (income)				
Interest	3,945	2,462	2,525	2,290
Other expense (income), net	1,328	1,125	(4,693)	593
	5,273	3,587	(2,168)	2,883
Earnings before income tax expense (benefit)	18,742	14,414	18,711	25,903
Income tax expense (benefit)				
Current	765	988	(1,064)	2,253
Deferred	2,901	2,132	(1,405)	4,378
	3,666	3,120	(2,469)	6,631
Net earnings	15,076	11,294	21,180	19,272
Net earnings (loss) attributable to:				
Company shareholders ("IPG Net Earnings")	15,144	11,359	21,319	19,244
Non-controlling interests	(68)	(65)	(139)	28
	15,076	11,294	21,180	19,272
IPG Net Earnings per share				
Basic	0.26	0.19	0.36	0.33
Diluted	0.26	0.19	0.36	0.32
Weighted average number of common shares outstanding				
Basic	58,811,586	58,801,327	58,831,518	59,171,255
Diluted	59,103,899	59,146,693	59,154,509	59,527,823

Consolidated Quarterly Statements of Earnings
Three month periods ended
(In thousands of US dollars, except per share amounts)
(Unaudited)

	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
	$	$	$	$
Revenue	210,158	207,120	209,909	206,559
Cost of sales	162,783	157,980	156,174	161,705
Gross profit	47,375	49,140	53,735	44,854
Gross margin	22.5 %	23.7 %	25.6 %	21.7 %
Selling, general and administrative expenses	28,717	25,974	25,576	27,338
Research expenses	2,643	2,978	3,227	2,287
	31,360	28,952	28,803	29,625
Operating profit before manufacturing facility closures, restructuring and other related charges (recoveries)	16,015	20,188	24,932	15,229
Manufacturing facility closures, restructuring and other related charges (recoveries)	410	267	(7,744)	6,329
Operating profit	15,605	19,921	32,676	8,900
Finance costs				
Interest	1,283	1,148	1,236	1,158
Other expense, net	274	428	15	270
	1,557	1,576	1,251	1,428
Earnings before income tax expense	14,048	18,345	31,425	7,472
Income tax expense				
Current	2,753	2,693	3,454	30
Deferred	1,222	2,219	6,272	1,192
	3,975	4,912	9,726	1,222
Net earnings	10,073	13,433	21,699	6,250
IPG Net Earnings	10,199	13,462	21,682	6,250
Non-controlling interests	(126)	(29)	17	—
	10,073	13,433	21,699	6,250
IPG Net Earnings per share				
Basic	0.17	0.23	0.37	0.11
Diluted	0.17	0.22	0.36	0.10
Weighted average number of common shares outstanding				
Basic	59,153,920	59,134,017	58,899,366	58,696,647
Diluted	59,557,443	60,202,147	60,746,886	60,870,914

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This Management's Discussion and Analysis ("MD&A") is intended to provide the reader with a better understanding of the business, strategy and performance of Intertape Polymer Group Inc. (the "Company"), as well as how it manages certain risks and capital resources. This MD&A, which has been prepared as of August 10, 2018, should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and notes thereto as of and for the three and six months ended June 30, 2018 and 2017 ("Financial Statements"). It should also be read together with the text below on forward-looking statements in the section entitled "Forward-Looking Statements".

For the purposes of preparing this MD&A, the Company considers the materiality of information. Information is considered material if the Company believes at the time of preparing this MD&A that: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of the common shares of the Company; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; and/or (iii) it would significantly alter the total mix of information available to investors. The Company evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

Except where otherwise indicated, all financial information presented in this MD&A, including tabular amounts, is prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS" or "GAAP") and is expressed in US dollars. Variance, ratio and percentage changes in this MD&A are based on unrounded numbers and therefore can give rise to rounding differences.

Overview

The Company reported an 18.5% increase in revenue for the second quarter of 2018 compared to the second quarter of 2017 and a 16.5% increase in revenue for the first six months of 2018 compared to the same period in 2017. The increase in revenue for both periods was primarily due to an increase in average selling price, including the impact of product mix, and additional revenue from the Cantech Acquisition[1] and the Airtrax Acquisition[2] (together the "Acquisitions").

Gross margin decreased to 21.9% in the second quarter of 2018 compared to 22.5% in the second quarter of 2017 primarily due to the Acquisitions, partially offset by an increase in spread between selling prices and combined raw material and freight costs. Gross margin decreased to 21.6% in the first six months of 2018 compared to 23.1% in the first six months of 2017 primarily due to the impact of the Acquisitions and the non-recurrence of insurance proceeds related to the South Carolina Flood ("Insurance Proceeds")[3] of $2.1 million.

Net earnings attributable to the Company's shareholders ("IPG Net Earnings") for the second quarter of 2018 increased to $15.1 million ($0.26 basic and diluted earnings per share) from $10.2 million for the second quarter of 2017 ($0.17 basic and diluted earnings per share). The increase was primarily due to an increase in gross profit and a decrease in selling, general and administrative expenses ("SG&A"), partially offset by an increase in finance costs. The decrease in SG&A is mainly due to a decrease in share-based compensation and a decrease in M&A Costs[4], partially offset by an increase in variable compensation, additional SG&A from the Cantech Acquisition, and an increase in employee related costs to support growth initiatives. The increase in finance costs is mainly due to interest expense resulting from both higher average debt outstanding and higher average cost of debt as well as debt issue costs written off as a result of the refinancing and replacement of the 2014 Revolving Credit Facility (defined later in this document).

IPG Net Earnings for the first six months of 2018 increased to $26.5 million ($0.45 basic and diluted earnings per share) from $23.7 million for the same period in 2017 ($0.40 basic and diluted earnings per share). The increase was primarily due to an increase in gross profit and a decrease in income tax expense, partially offset by an increase in finance costs and SG&A.

Adjusted EBITDA[5] for the second quarter of 2018 increased to $34.6 million from $31.1 million for the second quarter of 2017. The increase in adjusted EBITDA was primarily due to an increase in gross profit and adjusted

EBITDA contributed by Cantech, partially offset by an increase in SG&A.

Adjusted EBITDA for the first six months of 2018 increased to $64.8 million from $61.5 million for the same period in 2017. The increase in adjusted EBITDA was primarily due to an increase in gross profit and adjusted EBITDA contributed by Cantech, partially offset by an increase in SG&A and the non-recurrence of Insurance Proceeds of $2.1 million realized in the first quarter of 2017.

(1) "Cantech Acquisition" or "Cantech"refers to the acquisition by the Company of substantially all of the assets of Canadian Technical Tape Ltd. (doing business as "Cantech"), which includes the shares of Cantech Industries Inc., Cantech's US subsidiary, on July 1, 2017.

(2) "Airtrax Acquisition" or "Airtrax" refers to the acquisition by the Company of substantially all of the assets and assumption of certain liabilities of Airtrax Polymers Private Limited (doing business as "Airtrax") on May 11, 2018. Refer to the section below entitled Capstone Partnership for more information regarding this transaction.

(3) "South Carolina Flood" refers to significant rainfall and subsequent severe flooding on October 4, 2015 that resulted in considerable damage to and the permanent closure of the Columbia, South Carolina manufacturing facility eight to nine months in advance of the planned shut down. "Insurance Proceeds" refers to insurance claim settlement proceeds totalling $29.5 million, net of a $0.5 million deductible, covering most of the claimed losses associated with the South Carolina Flood. The Company recorded proceeds as a benefit in manufacturing facility closures, restructuring and other related charges totalling $5.0 million, $0.5 million and $9.3 million in the fourth quarter of 2015, second and fourth quarters of 2016, respectively, and as a benefit in cost of sales totalling $4.5 million, $8.1 million, and $2.1 million in the second and fourth quarters of 2016 and the first quarter of 2017, respectively.

(4) "M&A Costs" refers to advisory fees and other costs associated with mergers and acquisitions activity, including due diligence, integration and certain non-cash purchase price accounting adjustments.

(5) Non-GAAP financial measure. For definitions and reconciliations of non-GAAP financial measures to their most directly comparable GAAP financial measures, see “Non-GAAP Financial Measures” below.

Other Highlights:

New Credit Facility

On June 14, 2018, the Company entered into a new five-year $600.0 million credit facility ("2018 Credit Facility") pursuant to a credit agreement with a syndicated lending group, refinancing and replacing the Company's previous $450.0 million credit facility that was due to mature in November 2019 ("2014 Revolving Credit Facility"). The 2018 Credit Facility consists of a $200.0 million term loan (“2018 Term Loan”) and a $400.0 million revolving credit facility (“2018 Revolving Credit Facility”) with the 2018 Term Loan amortizing 35% over five years. The 2018 Credit Facility also includes an incremental accordion feature of $200.0 million, which enables the Company to increase the limit of this facility (subject to the credit agreement's terms and lender approval) to $800.0 million if needed. The 2018 Credit Facility matures on June 14, 2023 and bears an interest rate based, at the Company’s option, on the London Inter-bank Offered Rate, the Federal Funds Rate, or Bank of America’s prime rate, plus a spread varying between 25 and 250 basis points depending on the debt instrument's benchmark interest rate and the consolidated secured net leverage ratio (weighted average of 200 basis points as of June 30, 2018). The 2018 Credit Facility provides a more favourable covenant structure and increased flexibility to the Company as compared to the previous credit facility. The 2018 Credit Facility refinanced a majority portion of the Company's existing debt and is expected to finance capital expenditures, business acquisitions, dividends, working capital, share repurchases and other general corporate activities.

Capstone Partnership

On May 11, 2018, the Company acquired substantially all of the assets and assumed certain liabilities of Airtrax as part of a larger transaction involving Capstone Polyweave Private Limited (doing business as “Capstone”) and its minority shareholders. Management is in the process of allocating the fair value of the opening balance sheet purchase price allocation and post-closing equity transactions which was not yet completed as of the end of the second quarter of 2018.

Airtrax manufactures and sells woven products used in various applications, including in the building and construction industry. Under the new arrangement, the Company now controls a fully-operative woven manufacturing facility in Chopanki, India and is continuing to partner with the minority shareholders of Capstone in serving the transferred Airtrax customers while realizing savings from a low-cost manufacturing facility that is expected to support future revenue growth in woven products.

As part of the agreement, the minority shareholders of Capstone have contributed in kind certain assets and liabilities valued at approximately $13 million and formerly attributed to Airtrax’s woven product manufacturing operations in exchange for newly-issued shares of Capstone. On August 10, 2018, the Company acquired additional shares of Capstone in exchange for approximately $3.6 million in cash as part of the same overall transaction. As a result of this purchase, the Company now has a controlling 55% ownership stake in Capstone with the minority shareholders of Capstone owning 45%.

Alongside the acquired operations of Airtrax, the new greenfield manufacturing facility in Karoli, India ("Capstone Greenfield Project") is expected to bring even further capacity to Capstone in its ability to produce woven products primarily for the Company’s global distribution. The Capstone Greenfield Project is progressing on time and on budget, with commercial operations still

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expected to commence in the first half of 2019. The Company continues to expect an after-tax internal rate of return of at least an after-tax hurdle rate of 15% on this project.

Polyair

On August 3, 2018, pursuant to a purchase agreement dated July 17, 2018, the Company acquired 100% of the outstanding equity value in Polyair Inter Pack Inc. ("Polyair") for a total cash consideration of approximately $146 million, subject to certain purchase price adjustments. The Company funded the acquisition with funds available under the Company's 2018 Credit Facility.

Polyair, a private company, is a significant industry player in the protective packaging business with seven manufacturing facilities and a distribution center in North America. Polyair's primary products consist of bubble cushioning, foam, mailers and air pillow systems, which are complementary to the Company's existing product offering. The acquisition will further strengthen the Company's product bundle and bring immediate and additional scale in protective packaging solutions. With the diverse set of customers between the Company and Polyair, this enhanced product bundle should facilitate significant cross-selling opportunities as both companies currently sell products through similar distribution and end user customer channels. Specifically, both companies have been focused on the e-commerce segment as a growth engine, which is expected to be leveraged even further with this combination. In addition to these revenue synergies, the Company expects to benefit from certain operational cost synergies at Polyair and upon closing, expects to have a comprehensive offering of packaging and protective solutions.

The Company estimates Polyair will generate approximately $133 million of revenue, approximately $14 million in adjusted EBITDA in the twelve months ending December 31, 2018 and will be accretive to the Company earnings in 2019, excluding M&A Costs. Deal and integration costs are expected to be approximately $2 million and $3 to $4 million, respectively, with the majority of integration costs expected to be recognized during 2019 and 2020. The Company estimates Polyair will generate approximately $20 to $22 million in adjusted EBITDA by 2021, which includes synergies and organic growth driven primarily by the e-commerce business channel. Based on the acquisition price and the expected synergies, the post-transaction valuation multiple is expected to be approximately seven times adjusted EBITDA.

Cantech Acquisition Synergies

In order to further expand on operational synergies gained from the Cantech Acquisition which was completed in July 2017, the Company has set out a plan to close its Johnson City, Tennessee manufacturing facility and transfer production to other existing manufacturing facilities. The Johnson City manufacturing facility, which primarily produces carton sealing tape, is expected to transfer substantially all current production by the end of 2018. The Company estimates these changes will generate additional annual cost savings of between $1.5 and $2.0 million by reducing its manufacturing overhead footprint while simultaneously improving machine utilization in its existing plants. As a result, total annual synergies gained from the Cantech Acquisition are now expected to be between $3.5 and $6.0 million by the end of 2019, an increase from the prior estimate of between $2.0 and $4.0 million.

As a result of the closure, an estimated one-time charge of approximately $6.0 million will be recorded upfront in the third quarter of 2018, primarily for non-cash impairments of property, plant and equipment and inventory. Total estimated cash costs of approximately $2.5 million are expected to be incurred over the course of the next two years as it relates to the plant closure.

Normal Course Issuer Bid ("NCIB")

The Company renewed its NCIB under which the Company is entitled to repurchase for cancellation up to 4,000,000 common shares of the Company at prevailing market prices over a twelve-month period starting on July 23, 2018. As of August 10, 2018, no shares have been repurchased under the NCIB.

Dividend Declaration

On August 10, 2018, the Board of Directors declared a quarterly cash dividend of $0.14 per common share payable on September 28, 2018 to shareholders of record at the close of business on September 14, 2018.

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Blythewood, South Carolina Update

As of August 10, 2018, the Company successfully completed customer trials and validation procedures with regard to the one remaining post-South Carolina Flood masking tape product. As such, the Company has begun efforts to recapture lost sales in that product line and continues to work on recapturing sales of its other masking tape and stencil products. While the timing and extent of these recoveries are uncertain, the Company does expect incremental improvement over time.

As previously communicated, since the South Carolina Flood in October 2015, the Company has worked to restore production capabilities and commercialize its suite of masking tape and stencil product offerings produced in the Blythewood, South Carolina manufacturing facility. While navigating the challenges of doing so, the Company lost most of its sales in those product lines and experienced significant delays in commercializing them in the new facility. Prior to June 30, 2018, the Company had commercialized its stencil products and all but one of its masking tape products.

Outlook

The Company's expectations for the fiscal year have been updated to include the impact of the Polyair Acquisition and are as follows:

- Revenue growth in 2018 is expected to be between 16% and 18%, excluding any significant fluctuations in selling prices caused by unforeseen variations in raw material prices.
- Adjusted EBITDA for 2018 is expected to be between $140 and $150 million.
- Total capital expenditures for 2018 are still expected to be between $80 and $90 million.
- The Company still expects an 18% to 23% effective tax rate for 2018 and cash taxes paid in 2018 to be less than one third of the income tax expense in 2018. These expectations exclude the potential impact of changes in the mix of earnings between jurisdictions and any new guidance or legislative revisions made with respect to the Tax Cuts and Jobs Act ("TCJA") enacted into law in the United States on December 22, 2017.

The Company's expectations for the third quarter of 2018 are as follows:

- Revenue and adjusted EBITDA in the third quarter of 2018 are expected to be greater than in the third quarter of 2017.

Results of Operations

Revenue

Revenue for the second quarter of 2018 totalled $249.1 million, a $38.9 million or 18.5% increase from $210.2 million for the second quarter of 2017, primarily due to:

- An increase in average selling price, including the impact of product mix, of approximately 8.3% which had a favourable impact of approximately $17.5 million primarily due to:
  - a favourable product mix variance primarily in certain tape and film product categories; and
  - price increases mainly to mitigate input cost increases in certain tape, film, and woven products; and
- Additional revenue of $17.4 million from the Acquisitions.

Revenue for the second quarter of 2018 totalled $249.1 million, an $11.8 million or 5.0% increase from $237.2 million for the first quarter of 2018, primarily due to:

- An increase in average selling price, including the impact of product mix, of approximately 5.7% which had a favourable impact of approximately $13.6 million primarily due to:
  - a favourable product mix variance primarily in certain tape product categories; and
  - price increases mainly to mitigate input cost increases in certain tape and film product categories.

Revenue for the first six months of 2018 totalled $486.3 million, a $69.0 million or 16.5% increase from $417.3 million for the same period in 2017, primarily due to:

- Additional revenue of $33.5 million from the Acquisitions; and
- An increase in average selling price, including the impact of product mix, of approximately 8.0% which had a favourable impact of approximately $33.3 million primarily due to:
  - a favourable product mix primarily in certain tape and film product categories; and
  - price increases mainly to mitigate input cost increases in certain tape, film, and woven product categories.

Gross Profit and Gross Margin

Gross profit totalled $54.5 million for the second quarter of 2018, a $7.1 million or 15% increase from $47.4 million for the second quarter of 2017. Gross margin was 21.9% in the second quarter of 2018 and 22.5% in the second quarter of 2017.

- Gross profit increased primarily due to additional gross profit from the Acquisitions, a favourable product mix variance, an increase in spread between selling prices and combined raw material and freight costs, and an increase in sales volume.
- Gross margin decreased primarily due to the Acquisitions, partially offset by an increase in spread between selling prices and combined raw material and freight costs.

Gross profit totalled $54.5 million for the second quarter of 2018, a $4.0 million or 8% increase from $50.5 million for the first quarter of 2018. Gross margin was 21.9% in the second quarter of 2018 and 21.3% in the first quarter of 2018.

- Gross profit increased primarily due to an increase in spread between selling prices and combined raw material and freight costs, and a favorable product mix variance, partially offset by an increase in plant-related operating costs.
- Gross margin increased primarily due to an increase in spread between selling prices and combined raw material and freight costs, partially offset by an increase in plant-related operating costs.

Gross profit totalled $104.9 million for the first six months of 2018, an $8.4 million or 8.7% increase from $96.5 million for the same period in 2017. Gross margin was 21.6% in the first six months of 2018 and 23.1% in the same period in 2017.

- Gross profit increased primarily due to additional gross profit from the Acquisitions, an increase in spread between selling prices and combined raw material and freight costs, a favourable product mix, and an increase in sales volume. These favourable items were partially offset by the non-recurrence of Insurance Proceeds of $2.1 million.
- Gross margin decreased primarily due to the Acquisitions and the non-recurrence of Insurance Proceeds of $2.1 million.

Selling, General and Administrative Expenses

SG&A for the second quarter of 2018 totalled $27.6 million, a $1.1 million or 3.8% decrease from $28.7 million for the second quarter of 2017. The decrease was primarily due to a decrease in share-based compensation of $4.7 million driven primarily by the decrease in fair value of cash-settled awards, and a decrease in M&A Costs. These decreases were partially offset by (i) an increase in variable compensation, (ii) additional SG&A from the Cantech Acquisition and (iii) an increase in employee related costs to support growth initiatives.

SG&A for the second quarter of 2018 decreased $1.5 million or 5.1% from $29.1 million in the first quarter of 2018. The decrease was primarily due to a decrease in share-based compensation of $1.1 million driven primarily by the decrease in fair value of cash-settled awards.

SG&A for the first six months of 2018 totalled $56.7 million, a $2.1 million or 3.8% increase from $54.7 million in the same period in 2017. The increase was primarily due to (i) additional SG&A from the Cantech Acquisition, (ii) an increase in employee related costs to support growth initiatives and (iii) an increase in variable compensation, partially offset by a decrease in share-based compensation of $5.5 million driven primarily by the decrease in fair value of cash-settled awards.

The following table presents M&A Costs included in SG&A:

	Three months ended			Six months ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	$	$	$	$	$
M&A Costs included in SG&A	1.3	1.5	2.6	2.8	3.2

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Finance Costs

Finance costs for the second quarter of 2018 totalled $5.3 million, a $3.7 million increase from $1.6 million in the second quarter of 2017, primarily due to an increase in interest expense resulting from (i) higher average debt outstanding, (ii) higher average cost of debt and (iii) debt issue costs written off as a result of the refinance and replacement of the 2014 Revolving Credit Facility, and an increase in foreign exchange losses.

Finance costs increased $1.7 million for the second quarter of 2018 from $3.6 million in the first quarter of 2018, primarily due to an increase in interest expense resulting mainly from debt issue costs written off as a result of the refinancing and replacement of the 2014 Revolving Credit Facility.

Finance costs for the first six months of 2018 totalled $8.9 million, a $5.7 million increase from $3.1 million in the same period in 2017, primarily due to an increase in interest expense resulting from (i) higher average debt outstanding, (ii) higher average cost of debt and (iii) debt issue costs written off as a result of the refinancing and replacement of the 2014 Revolving Credit Facility, and an increase in foreign exchange losses.

Income Taxes

The Company is subject to income taxation in multiple tax jurisdictions around the world. Accordingly, the Company's effective tax rate fluctuates depending on the geographic source of its earnings. The Company's effective tax rate is also impacted by tax planning strategies that the Company implements. Income tax expense is recognized in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

The table below reflects the calculation of the Company's effective tax rate (in millions of US dollars):

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	$	$	$	$
Income tax expense	3.7	4.0	6.8	8.9
Earnings before income tax expense	18.7	14.0	33.2	32.4
Effective tax rate	19.6%	28.3%	20.5%	27.4%

The decrease in the effective tax rate in the three and six months ended June 30, 2018 as compared to the same periods in 2017 was primarily due to the reduction in the US statutory corporate tax rate as a result of the TCJA, partially offset by an unfavourable change in the mix of earnings between jurisdictions and the elimination and limitation of certain deductions in the US as a result of the TCJA.

IPG Net Earnings

IPG Net Earnings for the second quarter of 2018 totalled $15.1 million, a $4.9 million increase from $10.2 million for the second quarter of 2017, primarily due to an increase in gross profit and a decrease in SG&A, partially offset by an increase in finance costs.

IPG Net Earnings for the second quarter of 2018 increased $3.8 million from $11.4 million for the first quarter of 2018, primarily due to an increase in gross profit.

IPG Net Earnings for the first six months of 2018 totalled $26.5 million, a $2.8 million increase from $23.7 million for the same period in 2017, primarily due to an increase in gross profit and a decrease in income tax expense, partially offset by an increase in finance costs and SG&A.

Non-GAAP Financial Measures

This MD&A contains certain non-GAAP financial measures as defined under applicable securities legislation, including EBITDA, adjusted EBITDA and free cash flows (please see the "EBITDA and Adjusted EBITDA" section below for a description and reconciliation of EBITDA and adjusted EBITDA and the "Cash Flows" section below for a

description and reconciliation of free

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cash flows). In determining these measures, the Company excludes certain items which are otherwise included in determining the comparable GAAP financial measures. The Company believes such non-GAAP financial measures improve the period-to-period comparability of the Company’s results and provide investors with more insight into, and an additional tool to understand and assess, the performance of the Company's ongoing core business operations. As required by applicable securities legislation, the Company has provided definitions of those measures and reconciliations of those measures to the most directly comparable GAAP financial measures. Investors and other readers are encouraged to review the related GAAP financial measures and the reconciliation of non-GAAP financial measures to their most directly comparable GAAP financial measures set forth below and should consider non-GAAP financial measures only as a supplement to, and not as a substitute for or as a superior measure to, measures of financial performance prepared in accordance with GAAP.

EBITDA and Adjusted EBITDA

A reconciliation of the Company’s EBITDA, a non-GAAP financial measure, to net earnings (loss), the most directly comparable GAAP financial measure, is set out in the EBITDA reconciliation table below. EBITDA should not be construed as earnings (loss) before income taxes, net earnings (loss) or cash flows from operating activities as determined by GAAP. The Company defines EBITDA as net earnings (loss) before (i) interest and other finance costs (income); (ii) income tax expense (benefit); (iii) amortization of intangible assets; and (iv) depreciation of property, plant and equipment. The Company defines adjusted EBITDA as EBITDA before (i) manufacturing facility closures, restructuring and other related charges (recoveries); (ii) advisory fees and other costs associated with mergers and acquisitions activity, including due diligence, integration and certain non-cash purchase price accounting adjustments ("M&A Costs"); (iii) share-based compensation expense (benefit); (iv) impairment of goodwill; (v) impairment (reversal of impairment) of long-lived assets and other assets; (vi) write-down on assets classified as held-for-sale; (vii) loss (gain) on disposal of property, plant and equipment; and (viii) other discrete items as shown in the table below. The terms "EBITDA" and "adjusted EBITDA" do not have any standardized meanings prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. EBITDA and adjusted EBITDA are not measurements of financial performance under GAAP and should not be considered as alternatives to cash flows from operating activities or as alternatives to net earnings (loss) as indicators of the Company’s operating performance or any other measures of performance derived in accordance with GAAP. The Company has included these non-GAAP financial measures because it believes that they allow investors to make a more meaningful comparison between periods of the Company’s performance, underlying business trends and the Company’s ongoing operations. The Company further believes these measures may be useful in comparing its operating performance with the performance of other companies that may have different financing and capital structures, and tax rates. Adjusted EBITDA excludes costs that are not considered by management to be representative of the Company’s underlying core operating performance, including certain non-operating expenses, non-cash expenses and non-recurring expenses. In addition, EBITDA and adjusted EBITDA are used by management to set targets and are metrics that, among others, can be used by the Company’s Human Resources and Compensation Committee to establish performance bonus metrics and payout, and by the Company’s lenders and investors to evaluate the Company’s performance and ability to service its debt, finance capital expenditures and acquisitions, and provide for the payment of dividends to shareholders. The Company experiences normal business seasonality that typically results in adjusted EBITDA that is proportionately higher in the second, third and fourth quarters of the year relative to the first quarter.

EBITDA and Adjusted EBITDA Reconciliation to Net Earnings
(In millions of US dollars)
(Unaudited)

	Three months ended			Six months ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	$	$	$	$	$
Net earnings	15.1	11.3	10.1	26.4	23.5
Interest and other finance costs	5.3	3.6	1.6	8.8	3.1
Income tax expense	3.7	3.1	4.0	6.8	8.9
Depreciation and amortization	9.9	10.1	8.4	20.0	16.6
EBITDA	34.0	28.1	24.0	62.0	52.2
Manufacturing facility closures, restructuring and other related (recoveries) charges	(0.4)	0.1	0.4	(0.3)	0.7
M&A Costs	1.7	1.5	2.6	3.2	3.4
Share-based compensation (benefit) expense	(0.7)	0.4	4.0	(0.3)	5.2
Impairment of long-lived assets and other assets	—	0.0	0.0	0.0	—
Loss on disposal of property, plant and equipment	0.1	0.1	0.1	0.2	0.1
Adjusted EBITDA	34.6	30.2	31.1	64.8	61.5

Adjusted EBITDA totalled $34.6 million for the second quarter of 2018, a $3.5 million or 11.3% increase from $31.1 million for the second quarter of 2017, primarily due to an increase in gross profit and adjusted EBITDA contributed by Cantech, partially offset by an increase in SG&A.
Adjusted EBITDA for the second quarter of 2018 increased $4.4 million or 14.6% from $30.2 million for the first quarter of 2018, primarily due to an increase in gross profit.
Adjusted EBITDA totalled $64.8 million for the first six months of 2018, a $3.3 million or 5.4% increase from $61.5 million for the same period in 2017, primarily due to an increase in gross profit and adjusted EBITDA contributed by Cantech, partially offset by an increase in SG&A and the non-recurrence of Insurance Proceeds of $2.1 million realized in the first quarter of 2017.

Off-Balance Sheet Arrangements
There have been no material changes with respect to off-balance sheet arrangements since December 31, 2017 outside of the Company's ordinary course of business. Reference is made to the section entitled "Off-Balance Sheet Arrangements" in the Company's MD&A as of and for the year ended December 31, 2017 ("2017 MD&A").
Working Capital

The Company experiences some business seasonality that results in the Company's efforts to effectively manage its working capital resources. Typically, a larger investment in working capital is required in quarters during which accounts receivable increase due to higher actual sales and inventory increases due to higher anticipated future sales. Such quarters with higher actual sales and higher anticipated sales typically occur in the second, third, and fourth quarters. Furthermore, certain liabilities are accrued for throughout the year and are paid only during the first quarter of the following year.

The Company uses Days Inventory to measure inventory performance. Days Inventory increased to 70 for the second quarter of 2018 from 64 for the second quarter of 2017 and 67 for the first quarter of 2018. Days Inventory was 64 for the six months ended June 30, 2018 and 2017. Inventories increased $23.0 million to $151.2 million as of June 30, 2018 from $128.2 million as of December 31, 2017, primarily due to an increase in production, including the utilization of completed capacity expansion projects, as part of a planned inventory build in anticipation of higher

expected sales volume and annual maintenance shutdowns of certain facilities in the third quarter of 2018, as well as an increase in raw material costs. The calculations are shown in the following table:

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	Three months ended			Six months ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Cost of sales [(1)]	$194.6	$186.8	$162.8	$381.4	$320.8
Days in period	91	90	91	181	181
Cost of sales per day [(1)]	$2.14	$2.08	$1.79	$2.11	$