INTERTAPE POLYMER GROUP INC
Form 6-K
August 11, 2016

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, 2016

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 11, 2016

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, 2016 $	March 31, 2016 $	December 31, 2015 $	September 30, 2015 $
Revenue	**201,517**	190,816	195,677	200,635
Cost of sales	**149,715**	149,720	149,885	157,838
Gross profit	**51,802**	41,096	45,792	42,797
Gross margin	**25.7%**	21.5%	23.4%	21.3%
Selling, general and administrative expenses	**26,282**	23,384	25,765	17,927
Research expenses	**2,734**	2,542	2,753	2,499
	29,016	25,926	28,518	20,426
Operating profit before manufacturing facility closures, restructuring and other related charges	**22,786**	15,170	17,274	22,371
Manufacturing facility closures, restructuring and other related charges	**2,090**	1,733	2,683	181
Operating profit	**20,696**	13,437	14,591	22,190
Finance costs				
Interest	**1,022**	982	1,036	919
Other expense (income), net	**411**	(91)	504	(651)
	1,433	892	1,540	268
Earnings before income tax expense (benefit)	**19,263**	12,545	13,051	21,922
Income tax expense (benefit)				
Current	**3,197**	2,076	2,592	3,281
Deferred	**2,408**	940	(7,033)	2,987

	5,605	3,016	(4,441)	6,268
Net earnings	**13,658**	9,530	17,492	15,654
Earnings per share				
Basic	**0.23**	0.16	0.30	0.26
Diluted	**0.22**	0.16	0.29	0.26
Weighted average number of common shares outstanding				
Basic	**58,657,691**	58,655,667	58,802,897	59,785,871
Diluted	**60,834,393**	60,035,667	60,316,201	60,879,777

Consolidated Quarterly Statements of Earnings

Three month periods ended

(In thousands of US dollars, except per share amounts)

(Unaudited)

	June 30, 2015 $	March 31, 2015 $	December 31, 2014 $	September 30, 2014 $
Revenue	196,586	189,009	200,750	209,109
Cost of sales	154,178	151,994	164,527	168,447
Gross profit	42,408	37,015	36,223	40,662
Gross margin	21.6%	19.6%	18.0%	19.4%
Selling, general and administrative expenses	22,253	18,127	23,261	23,153
Research expenses	2,141	2,066	2,354	1,778
	24,394	20,193	25,615	24,931
Operating profit before manufacturing facility closures, restructuring and other related charges	18,014	16,822	10,608	15,731
Manufacturing facility closures, restructuring and other related charges	142	660	963	1,560
Operating profit	17,872	16,162	9,645	14,171
Finance costs (income)				
Interest	982	616	2,069	867
Other expense (income), net	395	(641)	380	426
	1,377	(25)	2,449	1,293
Earnings before income tax expense (benefit)	16,495	16,187	7,196	12,878
Income tax expense (benefit)				
Current	1,249	1,063	(768)	2,914
Deferred	3,498	3,346	1,907	3,953
	4,747	4,409	1,139	6,867
Net earnings	11,748	11,778	6,057	6,011

Earnings per share				
Basic	0.20	0.19	0.10	0.10
Diluted	0.19	0.19	0.10	0.10
Weighted average number of common shares outstanding				
Basic	59,727,825	60,471,031	60,427,043	60,790,184
Diluted	61,739,717	62,198,126	62,307,696	62,457,931

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, 2016, 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, 2016 and 2015 (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: (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 a 2.5% increase in revenue for the second quarter of 2016 compared to the second quarter of 2015 and a 1.7% increase in revenue for the first six months of 2016 compared to the same period in 2015. The increase in revenue compared to the second quarter of 2015 was primarily due to additional revenue from the TaraTape acquisition, a decrease in the South Carolina Commissioning Revenue Reduction (defined later in this document) and increased sales volume, partially offset by a decrease in average selling price, including the impact of product mix. The increase in revenue for the first six months of 2016 compared to the same period in 2015 was primarily due to additional revenue from the Better Packages and TaraTape acquisitions (Acquisitions) and increased sales volume, partially offset by a decrease in average selling price, including the impact of product mix and an increase in the South Carolina Commissioning Revenue Reduction. Embedded in the changes in product mix and sales volume is an estimate of lost sales of masking tape and stencil products due to the impact of the South Carolina Flood (defined later in this document) totalling $5 million for the second quarter of 2016 and $11 million for the first six months of 2016.

Gross margin increased to 25.7% in the second quarter of 2016 compared to 21.6% in the second quarter of 2015 primarily due to South Carolina Flood insurance claim settlement proceeds, the favourable impact of the Company s manufacturing cost reduction programs and an increase in the spread between selling prices and lower raw material costs. Gross margin increased to 23.7% in the first six months of 2016 compared to 20.6% for the same period in 2015. Gross margin increased primarily due to an increase in the spread between selling prices and lower raw material costs and the favourable impact of the Company s manufacturing cost reduction programs.

The Company estimates that the South Carolina Flood had a net positive impact on its gross profit of approximately $3 million in the second quarter of 2016 and did not significantly impact its gross profit in the first six months of 2016. The South Carolina Flood impacts are due to lost gross profit on the lost sales as well as incremental costs from alternative product sourcing net of insurance claim settlement proceeds.

Net earnings for the second quarter of 2016 increased to $13.7 million ($0.23 basic earnings per share and $0.22 diluted earnings per share) from $11.7 million for the second quarter of 2015 ($0.20 basic earnings per share and $0.19 diluted earnings per share). The increase was primarily due to an increase in gross profit and additional net earnings in 2016 derived from the Acquisitions. The favourable impacts on net earnings were partially offset by increases in (i) selling, general and administrative expenses (SG&A) mainly relating to variable compensation expense; and (ii) manufacturing facility closure charges relating to the South Carolina Flood.

Net earnings for the first six months of 2016 decreased to $23.2 million ($0.40 basic earnings per share and $0.38 diluted earnings per share) from $23.5 million for the same period in 2015 ($0.39 basic earnings per share and $0.38 diluted earnings per share). The decrease was primarily due to increases in (i) SG&A mainly relating to variable and stock-based compensation expenses, and employee related costs to support growth initiatives in the business; and (ii) manufacturing facility closure charges relating to the South Carolina Flood. These unfavourable impacts on net earnings were largely offset by an increase in gross profit and additional net earnings in 2016 derived from the Acquisitions.

Adjusted net earnings (a non-GAAP financial measure as defined and reconciled later in this document) for the second quarter of 2016 increased to $20.3 million ($0.35 basic adjusted earnings per share and $0.33 diluted adjusted earnings per share) from $14.1 million ($0.24 basic adjusted earnings per share and $0.23 diluted adjusted earnings per share) for the second quarter of 2015. Adjusted net earnings increased primarily due to an increase in gross profit and additional adjusted net earnings in 2016 derived from the Acquisitions, partially offset by an increase in SG&A mainly relating to variable compensation expenses and employee related costs to support growth initiatives in the business.

Adjusted net earnings for the first six months of 2016 increased to $34.3 million ($0.59 basic adjusted earnings per share and $0.57 diluted adjusted earnings per share) from $26.8 million ($0.45 basic adjusted earnings per share and $0.43 diluted adjusted earnings per share) for the same period in 2015. Adjusted net earnings increased primarily due to an increase in gross profit, a decrease in income tax expense and additional adjusted net earnings in 2016 derived from the Acquisitions. These favourable impacts on adjusted net earnings were partially offset by an increase in SG&A mainly relating to variable compensation expenses and employee related costs to support growth initiatives in the business.

Adjusted EBITDA (a non-GAAP financial measure as defined and reconciled later in this document) for the second quarter of 2016 increased to $33.0 million from $27.1 million for the second quarter of 2015. The increase in adjusted EBITDA was primarily due to an increase in gross profit, partially offset by an increase in SG&A mainly relating to variable compensation expenses and employee related costs to support growth initiatives in the business.

Adjusted EBITDA for the first six months of 2016 increased to $57.0 million from $50.6 million for the same period in 2015. The increase in adjusted EBITDA was primarily due to an increase in gross profit and additional adjusted EBITDA in 2016 derived from the Acquisitions, partially offset by an increase in SG&A mainly relating to variable compensation expenses and employee related costs to support growth initiatives in the business.

On August 10, 2016, the Board of Directors amended the Company s dividend policy to increase the annualized dividend from $0.52 to $0.56 per share. The Board s decision to increase the dividend was based on the Company s strong financial position and positive outlook. Since the dividend policy was reinstated in August 2012, the Company has paid an aggregate of $88.3 million in dividends.

On August 10, 2016, the Board of Directors declared a quarterly cash dividend of $0.14 per common share payable on September 30, 2016 to shareholders of record at the close of business on September 15, 2016.

Columbia, South Carolina Flood Update

On October 4, 2015, the Columbia, South Carolina manufacturing facility was damaged by significant rainfall and subsequent severe flooding (South Carolina Flood). The damages sustained were considerable and resulted in the facility being shut down permanently. Also as a result of the damage, production of masking tape was relocated to the Company s Blythewood, South Carolina facility and temporarily to the Marysville, Michigan facility.

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The Company, along with its insurers and advisors, continues to assess the damage. The Company believes that it has sufficient property and business interruption insurance coverage, and expects that the losses exceeding the $0.5 million deductible will be substantially covered by those insurance policies. The Company has received a total of $10.0 million in insurance claim settlement proceeds to date of which $5.0 million was recorded in manufacturing facility closures, restructuring and other related charges in the fourth quarter of 2015 and $4.5 million and $0.5 million were recorded in cost of sales and manufacturing facility closures, restructuring and other related charges, respectively, in the second quarter of 2016.

The Company estimates that the South Carolina Flood had the following impacts on its results:

- Reductions in revenue of approximately $5 million and $11 million for the second quarter and first six months of 2016, respectively, related to lost sales of masking tape and stencil products;

- Improvement in gross profit and adjusted EBITDA of approximately $3 million for the second quarter of 2016 as a result of insurance claim settlement proceeds of $4.5 million included in cost of sales offsetting the negative impacts of the South Carolina Flood;

- Improvement in adjusted net earnings of approximately $2 million for the second quarter of 2016 as a result of insurance claim settlement proceeds of $4.5 million included in cost of sales offsetting the negative impacts of the South Carolina Flood;

- Gross profit, adjusted EBITDA and adjusted net earnings for the first six months of 2016 were not impacted as a result of insurance claims settlement proceeds of $4.5 million included in cost of sales offsetting the negative impacts of the South Carolina Flood; and

- Improvement in net earnings of approximately $1 million for the second quarter of 2016 and a reduction in net earnings of $2 million for the first six months of 2016, net of the benefit from insurance claim settlement proceeds totalling $5.0 million.

The impact on gross profit, net earnings, adjusted net earnings and adjusted EBITDA includes lost gross profit on lost sales as well as incremental costs from alternative product sourcing. Also included in the net earnings impact above is $1.4 million and $2.9 million of manufacturing facility closures, restructuring and other related charges for the second quarter and first six months of 2016, respectively, net of the benefit from insurance claim settlement proceeds within the same caption of $0.5 million. These charges related to damage to property as well as subsequent clean-up and insurance claim preparation costs.

Going forward, the Company still expects, but is currently unable to provide a reliable estimate for the amount and timing of, future: insurance recoveries, business interruption losses (including, but not limited to, lost sales and additional costs from temporary alternative sourcing of the Company s products), site clean-up and environmental remediation costs, and professional fee costs related to the insurance claim process.

South Carolina Project Update

The South Carolina Project refers to the previously announced relocation and modernization of the Company s Columbia, South Carolina manufacturing operation. This project primarily involves moving the Company s duct tape and masking tape production to a new state-of-the-art facility in Blythewood, South Carolina as well as moving flatback tape production to the Company s existing facility in Marysville, Michigan. South Carolina Duplicate Overhead Costs refers to temporary operating cost increases related to operating both plants in South Carolina simultaneously and performing planned actions to mitigate risk associated with new technology, including state-of-the-art equipment, to support the South Carolina Project. South Carolina Commissioning Revenue Reduction refers to the sales attributed to the commissioning efforts of the production lines that were accounted for as a reduction of revenue and a corresponding reduction of the cost of the South Carolina Project. In addition, unless otherwise noted, the impact of the South Carolina Commissioning Revenue Reduction on gross profit and capital expenditures is not significant due to the requirement to offset this revenue with the associated cost of sales in the reclassification of the related gross profit as a reduction of the capital expenditures.

The Blythewood, South Carolina facility s duct tape production is meeting targeted production levels and has contributed a net positive impact on gross profit and adjusted EBITDA in the second quarter and first six months of 2016. In regards to masking tape production, the Company has been working on optimizing the related production processes since that production was transferred to the Blythewood facility in the fourth quarter of 2015. Since that time the Company has made significant improvements in this objective. However, since the end of the second quarter of 2016, the Company has made significantly less progress than expected on reducing the inefficiencies in masking tape production as well as eliminating certain quality issues in relation to one of the masking tape products. These masking tape production inefficiencies largely offset the cost savings realized by the duct tape production resulting in a slightly positive impact to the results realized in the second quarter of 2016 as compared to the more significant positive impact of the project to the first quarter of 2016 results. The table below presents the impact of the South Carolina Project on gross profit and adjusted EBITDA:

	Three months ended			Six months ended	
	June 30, 2016	March 31, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
	$	$	$	**$**	$
Cost savings, net of production ramp-up inefficiencies	**0.2**	1.3	(1.3)	**1.6**	(1.3)
South Carolina Duplicate Overhead Costs			0.8		3.0
Impact on gross profit	**0.2**	1.3	(2.1)	**1.6**	(4.3)
Addback: Non-cash South Carolina Duplicate Overhead Costs			0.0		0.4
Impact on adjusted EBITDA	**0.2**	1.3	(2.1)	**1.6**	(3.9)

The Company recorded $4.3 million and $2.1 million in the first and second quarters of 2016, respectively, for the South Carolina Commissioning Revenue Reduction. As previously stated, the impact of the South Carolina Commissioning Revenue Reduction on gross profit is not significant due to the requirement to offset this revenue with the associated cost of sales in the reclassification of the related gross profit as a reduction of the capital expenditures.

As of June 30, 2016, capital expenditures for the South Carolina Project since inception totalled $59.8 million. South Carolina Project capital expenditures recorded were $0.7 million and $2.8 million for the second quarter and first six months of 2016, respectively. Total capital expenditures for the South Carolina Project from inception to the completion of the project are expected to remain at approximately $60 million.

The Company still expects the cost savings from the South Carolina Project to have a significant net positive impact on gross profit and adjusted EBITDA in 2016 as compared to 2015, given the success of duct tape production and the expected improvements to masking tape production. The Company continues to work aggressively on optimizing the masking tape production process mainly through minimization of production waste and machine downtime as well as achieving target quality levels on one of the masking tape products. However, as a result of the current production issues in regard to masking tape production, the Company now believes there is a possibility of not realizing all of our target annual cost savings of $13 million by the beginning of 2017 and will provide further guidance towards the end of the year.

Outlook

The Company expects gross margin for 2016 to be between 23% and 24%.

Adjusted EBITDA for 2016 is expected to be $117 to $123 million, excluding the impact of the South Carolina Flood. While South Carolina Flood costs and lost sales are expected to be substantially offset by insurance claim settlement proceeds, the timing of the insurance claim settlement proceeds is uncertain.

Manufacturing cost reductions for 2016 are expected to be between $8 and $11 million, excluding any cost savings related to the South Carolina Project.

Total capital expenditures for 2016 are expected to be between $55 and $65 million.

The Company expects a 25% to 30% effective tax rate for 2016. Cash taxes paid in 2016 are expected to be approximately half of the income tax expense in 2016.

The Company expects revenue, gross margin and adjusted EBITDA, excluding the impact of the South Carolina Flood, to be greater in the third quarter of 2016 than in the third quarter of 2015.

Results of Operations

Revenue

Revenue for the second quarter of 2016 totalled $201.5 million, a $4.9 million or 2.5% increase from $196.6 million for the second quarter of 2015 primarily due to:

- Additional revenue of $4.8 million due to the TaraTape acquisition;
- A decrease in the South Carolina Commissioning Revenue Reduction of $2.8 million to $2.1 million in the second quarter of 2016 from $4.9 million in the second quarter of 2015;
- An increase in sales volume, excluding Acquisitions, of approximately 0.8% or $1.6 million due to an increase in demand for woven products. The Company believes that the increased sales volume was primarily due to growth in the building and construction market;

Partially offset by:

- A decrease in average selling price, including the impact of product mix, of approximately 2.1% which had an unfavourable impact of approximately $4.3 million primarily due to:
  - an unfavourable product mix in the tape and woven product categories; and
  - lower average selling prices primarily driven by lower petroleum-based raw material costs.

Embedded in the changes in product mix and sales volume in the second quarter of 2016 is an estimate of $5 million of lost sales due to the impact of the South Carolina Flood.

Revenue for the second quarter of 2016 totalled $201.5 million, a $10.7 million or 5.6% increase from $190.8 million for the first quarter of 2016 primarily due to:

- An increase in sales volume of approximately 3.2% or $6.3 million due to an increase in demand for certain tape and woven products. The Company believes that the increased sales volume was primarily due to:
  - growth in demand for certain industrial tape product offerings; and
  - growth in the building and construction market;

- An increase in average selling price, including the impact of product mix, of approximately 1.2% or $2.3 million due to:
  - a favourable impact of foreign exchange (FX) of approximately $0.9 million due to a weakening of the US dollar compared to the Canadian dollar and Euro;
  - higher average selling price primarily due to announced price increases in the first quarter of 2016; and
  - a favourable product mix primarily in certain tape and film product categories;
- A decrease in the South Carolina Commissioning Revenue Reduction of $2.2 million to $2.1 million in the second quarter of 2016 from $4.3 million in the first quarter of 2016.

Embedded in the changes in product mix and sales volume in each of the first and second quarters of 2016 is an estimate of $5 million of lost sales from the impact of the South Carolina Flood.

Revenue for the first six months of 2016 totalled $392.3 million, a $6.7 million or 1.7% increase from $385.6 million for the same period in 2015 primarily due to: